NEW TAX CHANGES FOR 2016!

Changes to the eligibility for the principal residence exemption

In October 2016, the federal government introduced legislation intended to curtail certain perceived abuses of the principal residence exemption (PRE). The PRE is a special exemption which reduces or eliminates the capital gain realized on the disposition of real property that constitutes a "principal residence", thereby reducing income tax. These amendments included several changes that impact the reporting of, and computation of, the PRE in respect of dispositions of principal residence properties occurring on or after January 1, 2016. In particular, the PRE will be denied unless information is reported on your tax return. Additionally, an important change that could impact certain trusts holding a principal residence property was also announced. All of the changes announced to the PRE are discussed in further detail in our Tax Alert titled "Changes to the Principal Residence Exemption Announced'. In respect of the new changes impacting trusts, these amendments added new criteria to the eligibility requirements in respect of what types of trusts may be entitled to designate a property as a principal residence. These new eligibility requirements apply to a trust's disposition of a principal residence occurring in a trust's taxation year commencing on or after January 1, 2017. Specifically, for years after 2016, only a spousal or common-law partner trust, an alter ego trust (or a similar trust established for the exclusive benefit of the settlor during their lifetime), a qualifying disability trust, or a trust for the benefit of a minor child of deceased parents will be allowed to designate a property as a principal residence for the purpose of the PRE. Consequently, any gains accruing after 2016 on real property held by non-qualifying trusts will be taxable and will not be sheltered by the PRE. Considering that it is quite common for a trust to hold real property that could be considered a principal residence, such as a vacation property, these changes could have a far-reaching impact. If you have a personal trust that holds personal-use real property, speak to your BDO advisor to discuss how these changes might affect that trust's eligibility to claim the PRE.

Elimination of the federal educational and textbook tax credits

The federal education and textbook tax credits are non-refundable tax credits that allow a student to claim a monthly amount in respect of each month that he or she is enrolled in a qualifying educational program at a designated educational institution. The monthly amount will vary, depending on whether the student is enrolled on a full-time or part-time basis. For 2016, the combined monthly amount that could be claimed in respect of these tax credits was $465 per month of enrollment for full-time students and $140 per month for part-time students. Unused credits could be transferred to a student's parent (or grandparent) or to a spouse (or common-law partner), or could be carried forward to a future year. Effective January 1, 2017, these two credits have been eliminated. However, any remaining unused education and textbook credits carrying forward from taxation years prior to 2017 can still be claimed in 2017 or in a subsequent tax year.

Elimination of the federal children's fitness and arts tax credits

For parents who registered their, or their common-law partner's, child in a prescribed program of either physical activity or of artistic, cultural, recreational, or developmental activity, an amount in respect of the fees related to these activities could be claimed using the federal children's fitness and arts tax credits. For years prior to 2016, the maximum eligible amount per child was $1,000 for the children's fitness tax credit and $500 for the children's arts tax credit Additional amounts were available for children who qualified for the disability tax credit. In 2016, the federal government introduced changes that saw the eligible amounts in respect of both the federal children's fitness tax credit and arts tax credit reduced by half (to $500 for the children's fitness tax credit and $250 for the children's arts tax credit) for the 2016 taxation year, and then completely eliminated effective on January 1, 2017.