The 9 Changes HR Needs to Know About

Reading the federal budget from end to end can destroy even the strongest retinas. The good news is that you'll fall asleep before you get to that point. But if you manage HR or payroll for a living, you don't have the luxury of *ignoring* the budget. That's because lurking somewhere in those hundreds of pages of technical gobbledy-gook may be significant changes that directly affect how you do your job. This year's version of the budget, which was tabled on April 21, is no exception. The changes affecting HR and payroll are set out in the summary of tax changes in Annex 5.1 of the budget documents. Here are the 9 changes in the 2015 federal budget that HR managers need to know about.

1. **Lower EI Premiums**

EI surpluses will soon be a thing in the past. Starting in 2017, the government will implement a system to ensure that EI premiums generate only enough money to pay for the EI program over time. Specifically, the government will use a 7-year break-even mechanism under which cumulative surpluses in the EI Operating Account over time will be returned to employers and employees in the form of reduced premiums. Under current estimates, EI premiums are expected to drop from $1.88 in 2016 to $1.49 in 2017.

2. **Extension of EI Benefits for Care of Gravely Ill Family Members**

The new budget also proposes to extend EI Compassionate Care Benefits to care for gravely ill and dying family members from 6 weeks to 6 months, effective Jan. 1, 2016. However, the proposal does not affect the maximum number of weeks of unpaid leave an employee can take to care for such family members under provincial/territorial employment standards laws—although some jurisdictions may decide to extend the leave period to since up with the new EI benefits rules.

Extension of EI Working on Claim Project

The third proposed EI change in the 2015 budget is the extension of the current Working While on Claim pilot project to August 2016. The pilot allows claimants to keep 50% of their EI benefits for each dollar they earn, up to a maximum of 90% of the weekly insurable earnings used to calculate their EI benefit amount.

4. **Quarterly CRA Remittance for New Employers**

Under current rules, new employers must remit tax withholding to the CRA every month for at least one year. But starting in 2016, new employers may be able to reduce their remittance obligations from a monthly to quarterly basis. To qualify for

quarterly remittance, new employers must have monthly withholding of less than $1,000; thereafter, employers must maintain perfect compliance records to remain eligible for quarterly remittances. The CRA will also classify employers a more frequent remitter if their withholding's rise above the $1,000 threshold. The change affects only the timing and not the amount of remittances.

5. **Simpler Withholding Requirements for Non-Resident Employers**

Current Rules: Employers that use non-resident employees to perform employment duties in Canada must follow the same payroll withholding requirements as those that employ Canadian resident employees. This is true even if the non-resident employee is exempt from Canadian tax under an income tax treaty.

Change: The budget proposes new rules that would cut employers some slack on non-resident with holdings. Effective Jan. 1, 2016, amounts paid by a "qualifying non-resident employer" to a "qualifying non-resident employee" would be exempt from current withholding requirements.

How It Works: To qualify as a non-resident employer, an employer must:

- Be a resident of a country that has a tax treaty with Canada;
- Not carry on business through a permanent establishment in Canada; **and**
- Be certified as a non-resident employer by the CRA.

To qualify as a non-resident employee, an employee must:

- Be a resident of a country that has a tax treaty with Canada;
- Be exempt from Canadian income tax under a tax treaty; and
- Not be present in Canada for 90 days or more in any 12-month period that includes the time of payment.

For as long as the exemption applies, qualifying non-resident employers are exempt from withholding and remittance requirements but must still file an annual T4 and meet other reporting requirements. Employers remain on the hook for any withholding that apply to non-resident employees who don't meet all of the above conditions—but won't be subject to penalties if they can show that, "after reasonable inquiry," they had no reason to know that the employee didn't meet those conditions.

6. **Changes to TFSA Contribution Limits**

The annual contribution limit for Tax-Free Savings Accounts is increasing from $5,500 to $10,000, starting in the 2015 tax year. Going forward, the annual TFSA contribution limit will no longer be indexed to inflation and tax payers will be allowed to carry forward unused contribution amounts to subsequent years.

7. **Adjustment of RRIF Mandatory Withdrawal Amounts**

The budget proposes to reduce the minimum annual amount that individuals aged 71 to 94 must withdraw from their Registered Retirement Income Funds., starting in the 2015 tax year. Accordingly, the RRIF minimum withdrawal amount for a 71-year-old would decrease from 7.38% to 5.28% and for a 94-year-old from 20% to 18.79%. A transitional measure would allow individuals to re-contribute 2015 withdrawals in excess of the new proposed withdrawal amount. In addition, parallel changes would apply to mandatory minimum withdrawal amounts for Registered Pension Plans and Pooled Registered Pension Plans.

8. **Slight Increase to Deduction Limit on Tax-Exempt Allowance on Employee Use of Personal Vehicles for Business**

Confirming a change proposed in December, the budget increases the 2015 limit on the deduction of tax-exempt allowances paid by employers to employees that use their personal vehicle for business purposes by 1¢ to 55¢ per km for the first 5,000 km and 49¢ for each additional km thereafter.

9. **Easing of Penalties for Failures to Report Income**

Starting with the 2015 tax year, the penalty for repeatedly failing to report taxable income would apply only to taxpayers that fail to report at least $500 of income in the current year and any of the three years preceding it. The penalty amount would be the lesser of 10% of the unreported income and 50% of the difference between resulting understatement of tax (or overstatement of credits) and the amount of tax paid with respect to the unreported amount.

Making Electronic T4 Standard: The Change that Didn’t Make the Cut

No budget analysis would be complete without a discussion of changes that were considered but didn’t make the cut. Key changes left out of this year’s budget are proposed measures enabling employers to issue electronic T4s as the standard process. The Canadian Payroll Association, which recommended the change, criticized its omission as a lost environmental opportunity that, at no cost to the government, would have save thousands of trees and $100 million in employer costs by eliminating the need to distribute and store paper T4 slips.