INTERNATIONAL

Offshore Income from Insuring Canadian Risks

The ITA contains rules (the FAPI rules) that are intended to tax investment income earned by a "controlled foreign affiliate" of a Canadian taxpayer when it is earned, rather than when it is repatriated to Canada.

The FAPI rules deem certain types of business income to be investment income so that it is taxed in Canada immediately, as if it were investment income. Among these rules is one that deems income earned from the insurance and reinsurance of Canadian-source risks by a foreign affiliate (generally a corporation) of a Canadian-resident taxpayer, to be investment income. However, these rules do not apply to similar types of income earned by a foreign branch of a Canadian life insurer.

The Budget introduces rules similar to the FAPI rules to tax such branch income of Canadian life insurers as it is earned, where it comprises 10 per cent or more of all branch income.

Also, the Budget introduces specific anti-avoidance provisions to prevent the circumvention of both the existing FAPI rules and the new branch provisions.

Lastly, provisions will be introduced to prevent avoiding the rules described above by entering into arrangements that attempt to substitute income from insuring foreign-source risks for income from insuring Canadian-source risks.

These changes will be effective for taxation years commencing on or after March 22, 2017.

Base Erosion and Profit Shifting (BEPS)

The 2016 Budget indicated the government's desire to prevent the erosion of the Canadian tax base by shifting income offshore. In this regard, the Budget indicates that, in addition to the insurance provisions described above, the government will continue to pursue various initiatives, such as the modification of existing tax treaties to further this end.

SALES TAX, EXCISE TAX AND OTHER MEASURES

Opioid Overdose Treatment Drug — Naloxone

When Health Canada began allowing Naloxone to be dispensed without a prescription, the drug's historical GST/HST exemption was technically lost. The Budget proposes to include Naloxone on the list of GST/HST-free non-prescription drugs to restore its GST/HST-free status.

Taxi and Ride-Sharing Services

To ensure that the GST/HST applies consistently to taxi services and ride-sharing services, effective July 1, 2017, the definition of a taxi business will be amended to require providers of ride-sharing services to register for the GST/HST and charge tax on their fares in the same manner as taxi operators.

Elimination of Non-Resident GST/HST Rebate for Tour Package Accommodations

The GST/HST rebate available to non-resident individuals and tour operators in respect of the accommodation portion of eligible tour packages will be repealed effective March 23, 2017, subject to a transitional exemption in respect of eligible tour packages supplied and paid for prior to January 1, 2018.

Tobacco and Alcohol Taxation

Effective March 23, 2017, the Budget proposes to repeal the 10.5 per cent surtax on manufacturers of tobacco products with a coordinated increase to the excise duty rates on tobacco.

Excise duties on alcohol products are proposed to be increased by two per cent, effective March 23, 2017, with annual indexing of rates thereafter.

Custom Tariff and Special Import Measures

The Budget proposes a number of amendments to the Special Import Measures Act and related regulations which are intended to strengthen Canada's trade remedy system and ensure that it is aligned with Canada's obligations under World Trade Organization rules.