

On March 19, 2007, the Honourable *Jim Flaherty*, Minister of Finance, presented his second Budget to the House of Commons.

The Minister projects an estimated surplus of **\$3.3 billion** for fiscal period 2007/2008.

This results from revenues of **\$236.7 billion** and spending of **\$233.4 billion**. **\$3.0 billion** of this net surplus is to be used for **debt reduction**.



The **Budget**:

- (i) provides for a Working Families Tax Plan, which includes a new **\$2000 per-child tax credit** and broader **registered education savings plans**,
- (ii) raises the **age limit** for registered pension plans and registered retirement savings plans to **71 from 69 years**,
- (iii) provides \$550 million per year for the **Working Income Tax Benefit**
- (iv) provides \$140 million over two years to establish a **Registered Disability Savings Plan**,
- (v) provides rebates up to \$2,000 on **fuel-efficient vehicles** (6.5 litres or less/100kilometers, see [1Hwww.tc.gc.ca](http://www.tc.gc.ca)) while a **Green Levy** of up to \$4,000 will be applied to inefficient vehicles (13 litres or more/100 kilometres) at the manufacturer or importer level,
- (vi) provides \$1 billion for improvements to national **farm income** including \$600 million for **producer savings accounts** and payments of **\$400 million** to producers to address **high production costs**,
- (vii) provides **\$600 million** to provinces to comply with **medical treatment** acceptable **wait times**,
- (viii) provides soldiers working in “difficult and hazardous” conditions with an allowance of at least **\$285 per month** (\$1 million is also to be spent to help military families),

There were **no**:

- (i) major corporate tax cuts,
- (ii) provisions to defer capital gains,
- (iii) GST/HST rate reductions, or
- (iv) income splitting proposals

as had been **rumoured previously**.

For details on **tax measures** - see following.

HIGHLIGHTS

- A. Personal Income Tax
- B. Business Income Tax
- C. Sales And Excise Tax
- D. Other Measures
- E. Previously Announced Measures

A. PERSONAL INCOME TAX

1. Working Income Tax Benefit (WITB)

The **WITB** will provide a refundable **tax credit** equal to **20 %** of earned income in excess of \$3,000 to a maximum credit of \$500 for single individuals (at least **19 years old**) and \$1,000 for families.

The credit will be reduced by 15 % of net income in excess of \$9,500 for single individuals and \$14,500 for families.

An additional 20% **disability supplement** (maximum \$250) is available.

The **WITB** and the **disability supplement** will be effective in the **2007 taxation year**.

A **prepayment mechanism** will be put in place beginning in 2008.

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2. Registered Disability Savings Plan

A Registered Disability Savings Plan (**RDSP**), with a Canada Disability Savings Grant (**CDSG**) and a Canada Disability Savings Bond (**CDSB**), is proposed for 2008.

Eligibility

Any person eligible for the *disability tax credit* (DTC), or their parent or legal representative, will be eligible to *establish an RDSP*. The Social Insurance Number will be required.

Tax Treatment

Contributions to an **RDSP** will *not* be *deductible*. The investment income on contributions, CDSGs and CDSBs will accrue *tax-free*. *Contributions will not* be included in *income* for tax purposes when *paid out* of an RDSP. CDSGs, CDSBs, and investment income earned in the plan will be in the *beneficiary's income* when paid out.

Contributions

Contributions to a RDSP are limited to a lifetime maximum of **\$200,000** in respect of the beneficiary, with *no annual limit*. There will be no restriction on who can contribute. Contributions will be permitted until the end of the year in which the beneficiary attains **59 years of age**.

Canada Disability Savings Grants (CDSGs)

RDSP contributions will qualify for **CDSGs** at matching rates of 100%, 200% or 300%, depending on family net income and the amount contributed.

There will be a *lifetime limit* of **\$70,000** on CDSGs. An RDSP will be eligible to receive CDSGs until the end of the year in which the beneficiary attains **49 years of age**.

Canada Disability Savings Bonds (CDSBs)

CDSBs of up to **\$1,000** will be paid *annually* to the RDSPs of low and modest-income beneficiaries and families.

The maximum \$1,000 CDSB will be paid to an RDSP where income does not exceed \$20,883. The CDSB will be phased out gradually for family net incomes between \$20,883 and \$37,178.

There will be a *lifetime limit* of **\$20,000**. An RDSP will be eligible to receive CDSBs until the end of the year in which the beneficiary attains **49 years of age**.

Payments

Payments from an RDSP will be required to *commence* by the end of the year in which the beneficiary attains **60 years of age** and will be subject to a maximum annual limit.

The beneficiary of an RDSP will be permitted to *encroach on the capital and income* of the plan.

Only the beneficiary will be permitted to receive payments from the RDSP.

Repayments of CDSGs and CDSBs

There will be a requirement for an RDSP to *repay* to the government all CDSGs and CDSBs (and associated investment income) paid to the plan in the ten years preceding a payment from the plan, upon the *cessation* of the *beneficiary's eligibility* for the DTC or the *death* of the beneficiary.

Treatment of the RDSP for Means-Tested Benefits

Amounts paid out of an RDSP will *not* be taken into account for the purposes of calculating *income-tested benefits*. For example, RDSP payments will *not*

reduce Old Age Security or Employment Insurance benefits.

Also RDSP assets should *not disqualify* a plan beneficiary from receiving *provincial or territorial income support*.

3. Private Foundations

Budget 2007 proposes to *eliminate* the taxation of *capital gains* on donations of *publicly-listed securities* to *private foundations*.

In addition, when an *arm's length employee* acquires a publicly-listed security under an *option* granted by the employer and donates the security to a public charity within 30 days, the employee may be eligible for a *special deduction* to exempt the associated employment benefit from tax. Budget 2007 extends this to qualifying donations to *private foundations*.

This applies to gifts made on or after **March 19, 2007**.

The Budget also proposes an *excess business holdings regime* for private foundations.

4. Registered Education Savings Plans (RESP)

Changing the Contribution and Canada Education Savings Grant (CESG) Limits

The **\$4,000** annual RESP *contribution* limit will be *eliminated* and the *lifetime* RESP contribution limit will be increased to **\$50,000** from \$42,000.

The maximum annual RESP contribution qualifying for the **20 % CESG** will be increased to \$2,500 from \$2,000. Therefore the maximum CESG per beneficiary for 2007 and subsequent years increases to \$500 from \$400. The maximum CESG for a year will increase

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to \$1,000 from \$800 if there is unused grant room because of contributions of less than the maximum CESG-eligible contributions for previous years. The \$7,200 lifetime CESG limit will be unaffected by this change.

These changes apply to contributions made *after 2006*.

Extending RESP Eligibility to More Part-Time Studies

Budget 2007 proposes to relax the Education Assistance Payments (*EAPs*) eligibility requirement to accommodate *qualifying part-time programs* that *do not meet the 10 hours per week requirement*, but require at least 12 hours per month to be spent on courses. This applies to the *2007* and subsequent taxation years.

5. Elementary and Secondary School Scholarships

Budget 2007 proposes to *fully exempt scholarships and bursaries* provided to attend *elementary* and *secondary schools*.

6. New Child Tax Credit

Budget 2007 proposes to introduce a new \$2,000 *non-refundable child tax credit* for parents for each child under the age of 18 years at the end of a taxation year. The tax credit will be calculated at the lowest personal income tax rate for the taxation year (i.e. 15.5 % in 2007). This will take effect in 2007.

For the year of the birth, adoption or death of a child, the full credit will be claimable.

7. Spousal and Other Amounts

Budget 2007 proposes to increase the *spouse or common-law partner* and

wholly dependent relative credit by \$1,348—thus matching the *basic personal amount*, commencing in *2007*.

8. Public Transit Tax Credit

Budget 2006 proposed a non-refundable *public transit tax credit* for *monthly* public transit passes starting July 1, 2006.

Budget 2007 extends the eligibility to *electronic payment cards* issued *after 2006*.

The Budget also accommodates *weekly passes* where an individual purchases at least four consecutive weekly passes. This applies to weekly passes valid for use after 2006.

9. Lifetime Capital Gains Exemption (LCGE)

Budget 2007 proposes to *increase* the \$500,000 *LCGE* (qualified small business corporation shares and qualified farm property) up to *\$750,000*. This applies to dispositions on or after March 19, 2007.

10. Meal Expenses of Truck Drivers

Budget 2007 proposes to increase to *80 %* the deductible portion of the cost of food and beverages consumed by *long-haul truck drivers* during eligible periods of travel (away for at least 24 continuous hours and 160 kilometres from the residential or business location) *over five years*.

The deductible portion will be increased to 60 % for expenses incurred on or after March 19, 2007 and before January 1, 2008, and to 65%, 70%, 75% and 80% for expenditures incurred during 2008, 2009, 2010, and later.

11. Phased Retirement

To provide more flexibility to employers to offer *phased in retirement programs*, and to increase the reward to older workers from full-time work, Budget 2007 proposes to allow an employee to *receive pension benefits* from a defined benefit RPP and simultaneously accrue further benefits for work performed with the same employer after *full or partial retirement*.

Qualifying employees must be at least *55 years of age*.

It is proposed that *2008* be the first year of service in respect of which an employee will be permitted to accrue benefits under a defined benefit RPP while in receipt of a partial pension.

12. Age Limit for Maturing RPPs, RRSPs and DPSPs

Budget 2007 proposes to increase, for the *2007* and subsequent calendar years, the *conversion age* for these plans to *71 years of age* from 69 years of age.

In addition, the requirement that a specified *minimum amount* be withdrawn from a *RRIF* each year will be *waived* for 2007 and 2008 in the case of *RRIF* annuitants who turn 70 years of age in 2007, and for 2007 in the case of *RRIF* annuitants who turn 71 years of age in 2007.

A *RRIF* annuitant who is 71 years of age or younger at the end of 2007 will be able to *reconvert the RRIF to an RRSP*.

13. RRSP Qualified Investments

Budget 2007 proposes to include:

- any debt obligation that has an *investment grade rating* and that is part of a minimum \$25 million issuance; and

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- any *security* (other than a futures contract) that is listed on a designated stock exchange.

This removes impediments to investing in foreign-listed trust and partnership units and Canadian dollar bonds issued by foreign entities.

These changes are effective after *March 18, 2007*.

14. Northern Residents Deduction

Budget 2007 proposes to include the *District Municipality of Mackenzie*, in British Columbia, in the *Intermediate Zone* for the 2007 and subsequent taxation years.

15. The 2010 Olympic Games in Vancouver

Budget 2007 proposes to *waive non-resident withholding tax liability of the IOC and IPC*, ensure that non-resident athletes are *not taxed* as a direct result of their *participation* in the 2010 Games and remit *customs duties, excise taxes and GST/HST* on certain goods imported into Canada in connection with the 2010 Games.

16. Mineral Exploration Tax Credit

Budget 2007 proposes to extend the *mineral exploration tax credit* to flow-through share agreements entered into on or before March 31, 2008.

Funds raised in 2008 can be spent on eligible exploration up to the end of 2009.

B. BUSINESS INCOME TAX

1. Aligning Capital Cost Allowance Rules with Useful Life

Proposed Increases to CCA Rates

Asset	Current Rate	New Rate
Buildings used for manufacturing or processing	4%	10%
Other non-residential buildings	4%	6%
Computer equipment	45%	55%
Natural gas distribution lines	4%	6%
Liquefied natural gas facilities	4%	8%

These rates will be available for assets acquired on or after *March 19, 2007*.

2. Accelerated Capital Cost Allowance for Oil Sands

Budget 2007 proposes to *phase out the accelerated CCA for oil sands projects*—both mining and *in-situ*. The regular 25-% CCA rate will remain in place.

The accelerated CCA will continue for assets acquired *before March 19, 2007*. It will also be available for assets acquired *before 2012* that are *required to complete* a project phase on which major construction began before March 19, 2007.

3. Accelerated Capital Cost Allowance for Clean Energy Generation

A 50 % accelerated CCA is provided under *Class 43.2* for specified energy generation equipment.

Budget 2007 proposes to *extend eligibility* to an emerging source of renewable energy—*wave and tidal energy*—and to a broader range of applications involving active solar heating, photovoltaics, stationary fuel cells, production of biogas from organic waste, and pulp and paper waste fuels.

4. Temporary Incentive for Manufacturing and Processing Machinery and Equipment

Budget 2007 proposes to *temporarily increase the CCA rate for manufacturing and processing* machinery and equipment, that would otherwise be included in Class 43, to a 50% straight-line rate.

This applies to equipment acquired on or after *March 19, 2007* and *before 2009*.

5. Donation of Medicines for the Developing World

Budget 2007 proposes to allow corporations that make *donations of medicines* from their *inventory* to claim a *special additional deduction*.

6. International Taxation

- Canada-U.S. Tax Treaty: Elimination of Withholding Tax on Interest
An *exemption* from *withholding tax* on both arm's length and non-arm's length *interest* is to be implemented in the *Canada-U.S. Tax Treaty*. It is also proposed that

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withholding tax be eliminated on interest paid to *all arm's length non-residents*, regardless of their country of residence.

This applies to interest paid on or after the date on which the withholding tax exemption in the proposed *Canada-U.S. Tax Treaty* comes into effect.

(ii) International Tax Fairness Initiative

Budget 2007 proposes an *International Tax Fairness Initiative* by:

- *restricting* the deductibility of *interest paid* on debt used to invest in foreign affiliates;
- enhancing Canada's ability to *collect tax information* from other jurisdictions;
- modifying the *exemption* from Canadian tax for foreign-source active business income, which is currently limited to income earned in countries with which Canada has a *tax treaty*, to also include income earned in a *non-treaty jurisdiction* which has signed a tax information exchange agreement with Canada; and
- providing additional funding for *auditing and enforcement* by the Canada Revenue Agency.

7. Prescribed Stock Exchanges

Budget 2007 proposes to update the concept of "*prescribed stock exchange*" with a new 3-tier system:

- i) Designated Stock Exchange
- ii) Recognized Stock Exchange
- iii) Stock Exchange

8. Investment Tax Credit for Child Care Spaces

Budget 2007 proposes to provide eligible taxpayers with a **25 % non-refundable investment tax credit** on eligible expenditures, to a maximum credit of **\$10,000** per child care space created.

The provision of child care spaces must be *ancillary* to one or more businesses of the taxpayer that do *not include* the provision of such spaces.

Eligible expenditures include depreciable property (other than specified property) and specified *start-up costs*, acquired or incurred solely for the purpose of the creation of the new child care space at a licensed child care facility.

9. Remittance and Filing Thresholds

- i) Budget 2007 proposes to triple to **\$3,000** from \$1,000 the *threshold* amount above which *corporations* are required to pay corporate income tax instalments. This applies in respect of corporate taxation years that begin *after 2007*.
- ii) Budget 2007 proposes that, for small Canadian-controlled private corporations (*CCPCs*) required to pay tax instalments, the *frequency* of instalment payments be reduced from monthly to *quarterly* if:
 - the *taxable income* of the *CCPC* for either the current or previous year does not exceed **\$400,000**;
 - the *CCPC* qualified for the *small business deduction* for either the current or previous year;
 - the *taxable capital* employed in Canada of the *CCPC* does not exceed **\$10 million** in ei-

ther the current or previous year; and

- the *CCPC* has *no compliance irregularities*.

This applies for taxation years that begin *after 2007*.

- iii) Budget 2007 proposes to increase the *personal* income tax *instalment threshold* to **\$3,000** (\$1,800 for individuals resident in Quebec). This will also apply to *self-employed individuals* whose chief source of income is from *farming or fishing*.

These changes apply to the **2008** and subsequent taxation years.

- iv) Budget 2007 proposes to triple the *quarterly instalment remittance threshold* for *source deductions* to **\$3,000** if the employer has perfect compliance history (has remitted taxes payable and filed all of the required returns on time, under both the Income Tax Act and Part IX (GST/HST portion) of the Excise Tax Act, during the preceding 12 months).

These changes apply to calendar years beginning with **2008**.

- v) Budget 2007 proposes to:
 - triple the *GST/HST* taxable supplies *threshold*, at or below which registrants can file a GST/HST return *annually*, to **\$1,500,000** from \$500,000; and
 - double the net tax threshold, below which *annual GST/HST filers* can make one tax remittance, to **\$3,000** from \$1,500.

These measures apply to fiscal years that begin *after 2007*.

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C. SALES AND EXCISE TAX MEASURES

1. Foreign Convention and Tour Incentive Program

Budget 2007 proposes a new *Incentive Program* to replace the Visitor Rebate Program. This Program will provide GST/HST relief in respect of certain property and services used in the course of *conventions* held in Canada and the accommodation portion of tour packages for *non-residents*.

2. 48-Hour Travellers' Exemption

Budget 2007 proposes to increase the *travellers' exemption* to \$400 from \$200 for returning Canadian residents who are out of the country for *48 hours or more*.

3. Exports of Intangible Personal Property (IPP)

Budget 2007 proposes that all supplies of *IPP* made to *non-residents* who are not registered for GST/HST purposes be *zero-rated* with certain *exceptions*.

This applies to supplies made *after March 19, 2007* and supplies made on or before March 19, 2007 if GST/HST was neither charged nor collected in respect of the supply.

4. GST/HST Remission—Certain School Authorities

Budget 2007 proposes to *remit GST/HST* paid in respect of *student transportation services* to certain school authorities that were reassessed pursuant to a measure that was announced in 2001 and enacted in 2003, despite the fact that the Tax Court of Canada had rendered decisions in the taxpayers' favour.

5. Removal of Excise Tax Exemption for Renewable Fuels

Budget 2007 proposes that the *Excise Tax Act (ETA)* be amended to *repeal* the excise tax *exemptions* for *renewable fuels* delivered on or after *April 1, 2008*.

6. Rebate/Green Levy - Vehicles

Introduces a vehicle efficiency incentive *rebate* for highly *fuel-efficient vehicles* (www.tc.gc.ca) and a new *Green Levy* on *fuel-inefficient vehicles*.

The *rebate* applies to eligible new vehicle *purchases or leases* after *March 19, 2007*.

The *Green Levy* will apply to new vehicles delivered or imported after *March 19, 2007*.

7. Excise Tax on Diesel Fuel—End-User Refunds

For *end-user refund claims* filed *after March 19, 2007*, proposed amendments to the ETA will clarify that, where diesel fuel has been sold on a tax-paid basis for use as heating oil or to generate electricity, only the end-user will be entitled to claim a refund of excise tax.

D. OTHER MEASURES

1. Aboriginal Tax Policy Measures

The federal government reiterates its willingness to discuss and put into effect *direct taxation arrangements* with interested *Aboriginal* governments.

2. Single Administration of Ontario Corporate Tax

On October 6, 2006, the governments of

Canada and Ontario signed a Memorandum of Agreement regarding the *collection and administration*, by the *Government of Canada*, of Ontario's *corporate tax* for taxation years that *end after 2008*.

Budget 2007 proposes to provide *payments to Ontario* totalling \$400 million.

3. Payment of Provincial Sales Taxes by Federal Crown Corporations

Federal and provincial governments have entered into *Reciprocal Taxation Agreements (RTAs)* under which they agree to pay certain *consumption taxes and fees* imposed by each other.

4. Provincial Capital Taxes

To help provinces eliminate their *capital taxes* as soon as possible, Budget 2007 proposes a temporary *financial incentive* for provincial governments to *eliminate their capital taxes*.

5. Trust T3 Information Returns

A number of taxpayers and tax professionals have *expressed concern* with the existing *due-date* for the issuance of *Trust T3 information slips*. It is expected that draft regulations for a *more efficient process for 2007 T3 slips* will be released in the near future.

E. PREVIOUSLY ANNOUNCED MEASURES

Budget 2007 confirms the Government's intention to proceed with the following previously announced *tax measures*:

- Functional *currency reporting* referenced in Budget 2006;

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- The *Tax Fairness Plan* announced on October 31, 2006 (new Income Trust rules, \$1,000 increase to age credit and pension splitting in 2007);
- Enhancements to the *Child Fitness Tax Credit* for children with disabilities, announced on December 19, 2006;
- GST/HST exemption for *midwifery services*, announced on December 28, 2006;
- Improvements to the taxation of *financial institutions*, announced on December 28, 2006; and
- Improvements to the application of the GST/HST to the *financial services sector*, announced on January 26, 2007.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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