

BUDGET BULLETIN

Wednesday, February 23, 2005

Finance Minister Ralph Goodale tabled the Federal Budget today, re-channeling the \$11 billion current surplus into a number of spending and tax reduction initiatives.

Some of the key changes are listed below. A more complete Budget Analysis will be posted on our website tomorrow – Thursday, February 24, 2005 by 12 noon. You can access our website at www.cafinancialgroup.com or call our office to receive a copy.

BUSINESS TAX INITIATIVES

- **CORPORATE SURTAX** eliminated for taxation years that end after December 31, 2007 – with a pro-rated reduction for taxation years that include December 31, 2007.

IMPACT TO BUSINESS CORPORATIONS

Federal corporate tax rate will be reduced by 1.12%

- **CORPORATE TAX RATE REDUCTION**

The general corporate tax rate will be reduced from 21% to 19% by 2010 for corporations with income in excess of \$300,000.

IMPACT TO BUSINESS CORPORATIONS

Effective federal rates for “high rate” corporate income will be as follows:

2008 – 20.5%

2009 – 20.0%

2010 – 19.0%

- **EI PREMIUMS**

- EI rate will be set to break-even
- EI commission to set the EI rates annually
- EI premium can not change by more than \$0.15 (per\$100 of insurable earnings) from previous year
- The employee rate will remain at 1.95% for the next two years

<p>IMPACT TO BUSINESS OWNERS Modest savings in employee benefit costs</p>
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PERSONAL TAX INITIATIVES

- **RRSP DEDUCTION LIMITS** increased from a maximum of \$16,500 for 2005 to \$22,000 for 2010, phased in as follows:

2005	-	\$ 16,500
2006	-	18,000
2007	-	19,000
2008	-	20,000
2009	-	21,000
2010	-	22,000

The RRSP limits will be indexed to average wage growth, starting in 2011.

<p>IMPACT High income earners and owners of privately owned corporations (who can structure their own remuneration) will now be able to fund enhanced contributions to their RRSPs.</p>
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- **FOREIGN PROPERTY RESTRICTIONS** in respect of property held by RRSPs and other deferred plans will be eliminated immediately.

IMPACT

Investors should be reviewing their RRSP and RRIF portfolios to determine whether they have the appropriate diversification and international exposure, since there are no longer restrictions on where funds can be invested.

- **BASIC PERSONAL AMOUNT** to be increased from \$8,148 in 2005 to at least \$10,000 in 2009, on a phased-in basis.

IMPACT

Reasonable salaries paid to children and other family members who work in the business will become an attractive strategy for structuring remuneration from a family owned business.

- **OTHER PERSONAL CREDIT**

A variety of minor tax changes have been proposed for 2005 and subsequent taxation years which will enhance the following credits:

- Personal credit for dependent spouse or common-law partner;
- Medical expense tax credit for caregiver;
- Adoption expense tax credit; and
- Refundable medical expense supplement.

IMPACT

Taxpayers should review their personal tax situation for 2005 to determine if they qualify for the enhanced credits.