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BUDGET BULLETIN
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Finance Minister James M. Flaherty tabled the Federal Budget today, targeting a "whopping" $19.7 Billion of spending over the next three years. Of this amount, roughly $5.7 Billion is directed at tax cuts, with the remaining $14.0 Billion in new spending.

A summary of the key proposals are listed below:

CANADIAN BUSINESS

Corporate Tax Rates

There were no new reductions in corporate tax rates. However, the Minister confirmed the timeline for previously announced general corporate tax rate reductions, as follows:

January 1, 2008	20.5%
January 1, 2009	20.0%
January 1, 2010	19.0%
January 1, 2011	18.5%

The corporate surtax of 4% will also be eliminated for all corporations effective January 1, 2008.

This will bring the general corporate tax rate earned on active business income in Manitoba down to 31.5% effective January 1, 2011. The decision to tax corporate profits in excess of the Small Business Deduction Limit within the corporation (as opposed to a bonus to the shareholder) would mean an immediate 14.8% deferral of tax!

Capital Cost Allowance (CCA)

New measures have been proposed to increase CCA rates for various classes of business use property in respect of assets acquired after March 19, 2007.

Asset	Current CCA rate	Proposed CCA rate
– Buildings used for manufacturing or processing	4%	10%
– Other non-residential buildings (rental properties)	4%	6%
– Computer equipment	45%	55%
* Half-rate rule still applies for year of acquisition		
* Building must be placed in a separate CCA class		

Temporary Incentive for M&P Machinery & Equipment

CCA rate is temporarily increased from 30% to 50% straight-line basis, in respect of eligible machinery and equipment acquired on or after March 19, 2007 and before 2009 which would normally be included in Class 43. The effective deduction translates to a deduction rate of up to 25% in the first year, up to 75% for the second year and 100% for the third and subsequent years.

Investment Tax Credit for Child Care Spaces

Budget 2007 proposes to introduce a new tax credit to encourage employers which carry on a business in Canada to establish licensed child care spaces for the children of their employees. The tax credit is a non-refundable investment tax credit equal to 25% of eligible expenditures to a maximum credit of $10,000 per child care space created.

Certain restrictions will apply as to "eligible expenditures". The tax credit will be available for eligible expenditures incurred on or after March 19, 2007.

Remittance and Filing Thresholds

The Budget proposes to increase the minimum threshold for which a corporation is required to make tax instalments, from $1,000 to $3,000 of taxes owing, commencing for taxation years that begin after 2007.

Also, the requirement to make such instalments for Canadian-controlled private corporations (CCPC) including all associated corporations within the group will be reduced to a quarterly basis (as opposed to the current monthly requirement) provided that:

(i) the taxable income of the corporation for either the current or previous year does not exceed $400,000;
(ii) the corporation qualified for the small business deduction for either the current or prior year;
(iii) the taxable capital employed in Canada for the corporation did not exceed $10 million in either the current or prior taxation year; and
(iv) the corporation has no compliance irregularities under either the Income Tax Act or the GST Act of the preceding 12 months.

Quarterly instalments will be available for eligible CCPCs in respect of corporate taxation years commencing after 2007. The instalment will be due on the last day of each quarter of the corporation's taxation year. CRA will continue to notify corporations that are required to make instalments based on tax information available to the CRA.

The three methods for computing instalment requirements will continue to apply.

GST/HST Annual filing and remittance thresholds

Budget 2007 proposes to triple the taxable supplies threshold at or below which registrants can elect to file a GST/HST return annually. For fiscal years commencing after 2007, the $500,000 threshold is increased to $1,500,000. The net tax threshold below which annual GST/HST filers can make only one remittance is doubled from $1,500 to $3,000.

Private Foundations

Budget 2007 proposes to eliminate the taxation of capital gains arising from donations of publicly-listed securities to private foundations, in respect of gifts made on or after March 19, 2007. This measure places gifts of such securities to private foundations on the same footing as the zero-inclusion rate for gifts made to public foundations.

Lifetime Capital Gains Exemption (LCGE)

Budget 2007 proposes to increase the LCGE from $500,000 to $750,000 in respect of capital gains realized on the disposition of qualified farm and fishing property and qualified small business corporation shares.

This measure will apply to dispositions of property that occur on or after March 19, 2007, with certain transitional provisions applying for dispositions which occur in 2007.

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__INTERNATIONAL__

Interest Deduction on Investment in Foreign Affiliates

The Budget proposals include new provisions that would disallow the deduction of interest on borrowed money used to make investments in foreign affiliates, except to the extent that taxable income is generated by the affiliate. The provision will be effective in respect of existing unrelated debt for interest paid after 2009.

The proposals extend these rules to both interest and "other borrowing costs", the latter of which was not specifically defined. Rules have also been introduced to catch "indirect borrowings" and specific anti-avoidance provisions will net arrangements involving a series of transactions.

These proposals were not expected and will have far-reaching implications for clients who undertake international business transactions and structure their corporate holdings on a global basis.

Canada – US Tax Protocol

The Minister announced that Canada and the US have agreed in principle to amend the Canada-US Income Tax Treaty to eliminate withholding tax on interest paid between persons in Canada and the US. This change will apply equally to arm's length and non-arm's length parties. For non-arm's length parties, the elimination of the withholding taxes will be phased in over a 3-year period commencing in the first calendar year following the entry into force of these treaty changes. In the latter instance, the change will take place on the same date on which the withholding tax exemption comes into effect in the amended Canada-US Treaty.

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PERSONAL

Pensioners

Age Credit

- The age credit amount will be increased by $1,000 to $5,000, with a maximum tax savings of $155 ($1,000 x 15.5% - lowest personal tax rate).

Age Limit for Maturing RPP's and RRSP's

- The Budget proposes to increase, for 2007 and subsequent years, the mandatory age limit for conversion of RPP's and RRSP's to a Registered Retirement income Fund (RRIF) from 69 to 71 years of age.
- The taxpayer will be able to contribute to such plans until December 31 of the year in which they attain the age of 71.

Pension Income Splitting

- Budget 2007 proposes to enact the Tax Fairness Plan introduced October 31, 2006 to allow pension income splitting between married or common-law partners to maximize access to the Pension Tax Credit
- An individual will be allowed to allocate to their spouse or common law partner up to one half of the individual's pension income that qualifies for the pension tax credit.

Family and Employees

Tax Rates / Brackets

- Budget 2007 proposes no changes to personal income tax rates, and no changes to the personal income tax brackets.

Child Tax Credit

- A non-refundable tax credit will be introduced in 2007 based on an amount of $2,000 for each child under the age of 18 at the end of the taxation year. The credit provides a reduction in income taxes of $310 for each child under 18 ($2,000 times 15.5% - lowest personal tax rate).

- Either parent can claim the credit; unused amounts can be claimed by the spouse or common law partner.

Spousal and Other Amounts

- Budget 2007 proposes to increase the maximum spousal or common law partner amount and the equivalent amount for a wholly dependant relative to $8,929 from $7,581.
- This amount equates to the personal tax credit.
- This change results in a maximum tax reduction of $209.

Working Income Tax Benefit – WITB

- Budget 2007 provides for a new refundable tax credit equal to 20% of earned income in excess of $3,000 to a maximum of $500 for single taxpayers (without dependants) and $1,000 for families (married and common law partners).
- This credit is income tested, and is reduced by 15% of net family income in excess of $9,500 for single taxpayers and $14,500 for families.
- Net family income is determined on the same basis as is used in determining the GST credit and the Canada Child Tax Benefit.

RESPs

- The annual $4,000 RESP contribution limit has been eliminated and the lifetime RESP contribution limit has been increased form $42,000 to $50,000.

- The Maximum annual RESP contribution eligible for the Canada Education Savings Grant (CESG) has been increased to $2,500 from $2,000, increasing the maximum CESG to $500 from $400 per beneficiary commencing in 2007. The maximum CESG for the year increased to $1,000 from $800. Also, the budget extends RESP eligibility to include part time studies.

Elementary and Secondary School Scholarships

– The 2007 Budget proposes to exempt from taxation, all scholarships and bursaries provided to attend elementary and secondary schools commencing in 2007.

Personal Tax Instalments

– The 2007 Budget proposes that the instalment thresholds (amount where quarterly tax instalments are required) will be increased from $2,000 to $3,000.

Registered Disability Savings Plan (RDSP)

– The Budget 2007 introduced a new plan, similar in concept to the RESP. The RDSP is a federally-assisted plan designed to provide funding to enable long term care for disabled persons.
– Any resident person eligible for the disability tax credit or their representative, will be eligible to establish a RDSP.

Features of the RDSP include:

- Contribution to a RDSP are not tax deductible
- Contributions to a RDSP are limited to $200,000 lifetime limit, with no annual limits
- RDSP contributions made in the year will qualify for Canada Disability Savings Grants (CDSGs) at matching rates, depending on family net income and contributed amounts as follows:

Family Net Income (indexed for inflation)	
Up to $74,357	300% of first $500.00
	200% of next $1,000.00
Over $74,357	100% of first $1,000.00

- Lifetime limit of $70,000 on CDSGs paid to an RDSP beneficiary.
- Canada Disability Savings Bonds (CDSBs) of up to $1,000 will be paid annually to the RDSP.
- CDSBs amount phased out between family income between $20,883 to $37,178.
- Lifetime limit of $20,000 on CDSBs paid to beneficiary.
- Investment income, CDSGs and CDSBs will accue in the plan until paid out of the RDSPs and included in the income of the plan beneficiary.
- Amounts paid out of RDSP will not be taken into account for calculating income-tested benefits.
- For instance, RDSP payments will not reduce OAS, EI or GST benefits.

Vehicles – Environmental Rebate and Levy

- The Budget proposes to offer taxpayers a rebate of up to $2,000 for the purchase of a new fuel-efficient or efficient alternative fuel vehicle.
- The Budget also proposes a Green levy for "gas guzzlers" to dissuade taxpayers from acquiring these vehicles.