

Budget Bulletin 2009

What You Should Know January 27, 2009 Federal Budget Canada's Economic Action Plan

On January 27, 2009, the Federal Government tabled the 2009 Budget. With the economy in a recession and the political platform uncertain, many are calling this the most important budget since the deficit-fighting budgets of the mid-1990s. The focus of this budget is to provide a potent economic stimulus to encourage spending and restore confidence in a weak economy, and to do so in a timely, targeted and temporary manner. Reducing taxes helps to achieve these goals. Budget 2009 provides a number of tax measures that will impact the tax and estate planning needs of many Canadian investors. Please note that these measures are not yet law, and may undergo revisions before receiving Royal Assent. A summary of these measures follows.

- **Changes to rules for personal taxation**
- **Changes to rules for corporate taxation**
- **Other measures of note**

Changes to Personal Taxation

1) Increase to Basic Personal Amount and Lowest Income Tax Brackets

Budget 2009 proposes to increase the basic personal amount and the two lowest personal tax brackets by 7.5% above their 2008 levels, effective January 1, 2009. These measures are designed to provide immediate tax relief, particularly for low- to middle-income Canadians. The basic personal amount represents the amount Canadians can earn without federal tax and the bracket thresholds represent income taxed at graduated tax rates.

The increases can be summarized as follows:

| | 2008 | 2009 |
|--|----------|----------|
| Basic Personal Amount | \$9,600 | \$10,320 |
| 1st tax bracket - Upper limit (15% tax rate) | \$37,885 | \$40,726 |
| 2nd tax bracket - Upper limit (22% tax rate) | \$75,769 | \$81,452 |

These amounts will be indexed for inflation for 2010 and subsequent years.

2) Increase to Age Credit

The federal government proposes to increase the Age Credit, a non-refundable tax credit for Canadians age 65 or older. The credit is targeted to those seniors that need it most – low- and middle-income earners. Once net income reaches \$32,312, the credit is phased out at a rate of 15% and is fully eliminated once net income reaches \$68,365. Budget 2009 proposes to increase the amount on which the credit is calculated by \$1,000 to \$6,408 effective January 1, 2009.

With the \$1,000 enhancement to the credit, the income level at which the Age Credit is fully phased out will increase by over \$6,600 to \$75,032. This provides up to \$150 in additional federal tax savings each year. The credit will be indexed for inflation annually.

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3) Enhanced Working Income Tax Benefit (WITB)

The Working Income Tax Benefit (WITB) was introduced in the 2007 Federal Budget to help ensure low-income Canadians are better off financially by obtaining employment. For low-income Canadians, working can often mean paying higher taxes and receiving less income support.

Budget 2009 proposes to enhance tax relief under the WITB for 2009 and subsequent years. It is expected that the enhancement will result in a doubling of total tax relief under the WITB. The federal government will work with the provinces and territories to design final parameters of the enhanced WITB with a view towards announcing the enhancements later in 2009. The enhancements should be available for the 2009 tax filing.

4) Increase to Home Buyers' Plan Withdrawal Limit

To help stimulate growth in the housing sector, the Home Buyers' Plan (HBP) withdrawal limit (which allows tax-free withdrawals from an RRSP subject to a 15-year repayment period) is proposed to increase to \$25,000 from \$20,000. This change will apply to 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009.

5) New First-Time Home Buyers' Tax Credit

Budget 2009 proposes to introduce a new non-refundable tax credit for first-time home buyers. The credit will be calculated based on an amount of \$5,000 and will provide tax savings of up to \$750 to reduce the costs of first home purchases completed after January 27, 2009.

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. A qualifying home will be one that is currently eligible for the Home Buyers' Plan which the individual or a spouse or common-law partner intends to occupy as a principal place of residence. The credit will also be available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the disability tax credit.

Any unused portion of an individual's First-Time Home Buyers' Tax Credit can be claimed by the individual's spouse or common-law partner, but the total amount claimed cannot be more than the maximum amount that would be claimable for the year by any one of those individuals.

6) New Home Renovation Tax Credit

To stimulate economic growth and encourage Canadians to invest in improvements to their homes, Budget 2009 proposes to introduce a temporary Home Renovation Tax Credit (HRTC). The non-refundable tax credit will be for eligible expenditures made in respect of eligible dwellings. The credit will apply to expenditures in excess of \$1,000, but not more than \$10,000. This results in a maximum credit of \$1,350 (\$9,000 x 15%).

The credit will apply only to the 2009 taxation year; that is, expenditures for work performed, or goods acquired, after January 27, 2009 and before February 1, 2010. The credit will not be available in respect of expenditures made in that period if the expenditure is made pursuant to an agreement entered into before January 28, 2009. Eligibility will be family-based, which will generally consist of an individual, a spouse or common-law partner (where applicable) and children under the age of 18 throughout 2009. Any unused credit can be shared amongst family members, but cannot exceed the maximum amount for the family.

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Eligible dwellings will generally include a house, cottage or condominium if it is used for personal purposes. Eligible expenditures are renovations or alterations of an eligible dwelling provided the renovation or alteration is of an enduring nature. Routine repairs and maintenance will not qualify. Eligible expenditures include:

- Renovating a kitchen, bathroom, or basement
- New carpet or hardwood floors
- Building an addition, deck, fence or retaining wall
- A new furnace or water heater
- Painting the interior or exterior of a house
- Resurfacing a driveway
- Laying new sod

Ineligible expenditures include:

- Furniture and appliances (refrigerator, stove, couch)
- Purchase of tools
- Carpet cleaning
- Maintenance contracts (furnace cleaning, snow removal, lawn care, pool cleaning, etc.)

7) RRSP/RRIF Losses After Death

The fair market value of investments held in an RRSP/RRIF at the time of the annuitant's death is generally included in the income of the deceased for the year of death. An increase in the value of the RRSP/RRIF assets after death is generally included in the income of beneficiaries on distribution of the RRSP/RRIF. There is, however, no existing provision to recognize a decrease in the value of RRSP/RRIF assets that occurs after the annuitant's death and before those assets are distributed to beneficiaries.

Budget 2009 proposes to allow the amount of post-death decreases in RRSPs/RRIFs to be carried back and deducted against the year-of-death RRSP/RRIF income included in the deceased's final return. The amount that can be carried back will generally be the difference between the deceased annuitant's required RRSP/RRIF income inclusion as a result of death, and the total of all amounts paid out of the RRSP/RRIF after death of the annuitant.

This measure will apply in respect of deceased annuitants' RRSPs/RRIFs where the final distribution from the RRSP/RRIF occurs after 2008.

8) Mineral Exploration Tax Credit Extended

Flow-through shares allow companies to pass eligible expenses to investors who can deduct them on their personal tax returns. This facilitates the raising of funds for exploration activities in Canada. The mineral exploration tax credit (METC) is an additional temporary benefit that provides a 15% credit to investors for specified mineral exploration expenses incurred by the company.

The availability of the credit is set to expire at the end of March 2009. Budget 2009 proposes to extend this credit for one year to flow-through share investments entered into on or before March 31, 2010.

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9) Increase to the National Child Benefit Supplement and Canada Child Tax Benefit

The National Child Benefit Supplement (NCB) and Canada Child Tax Benefit (CCTB) are income-sensitive benefits generally paid to lower income families. Once family income reaches a certain amount, the benefits are generally phased out. Budget 2009 proposes to increase the income level at which the CCTB begins to phase out to \$40,726. The income level at which the NCB begins to phase out will increase by \$1,894 such that it is completely phased out by \$40,726 for the majority of families.

Changes to Corporate Taxation

1) Small Business Limit

The small business deduction currently reduces the federal corporate income tax rate applied on the first \$400,000 of active business income for CCPCs (Canadian-controlled private corporations) to 11%. In order to provide additional tax relief to small businesses, Budget 2009 proposes to increase the small business limit (the annual amount of active business income eligible for the reduced tax rate) to \$500,000, retroactive to January 1, 2009. Corporations with a non-calendar year-end will be entitled to a pro-rated amount of the new, higher small business limit.

Small businesses that have incomes less than the small business limit receive additional benefits. Thus, this proposed increase to the small business limit would allow more small businesses to take advantage of these benefits. These benefits include:

- Eligibility to make quarterly tax installments as opposed to monthly
- Pay corporate taxes by the end of the third month after the end of their taxation year, as opposed to two months
- The \$3M SR&ED (Scientific Research and Experimental Development) expenditure limit will begin to be clawed back at \$500,000 and fully phased out at \$800,000, as opposed to \$400,000 and \$700,000

2) Acceleration of Capital Cost Allowance (CCA)

Capital cost allowance (CCA) is a business expense that is used to reduce business income over time. It represents the cost of depreciating property that cannot be written off all in one year.

a) Manufacturing & Processing

In Budget 2007, proposals were made to increase the CCA rate to 50% (from 30%) for investments in machinery and equipment acquired on or after March 19, 2007 and before 2009 that was used primarily in manufacturing or processing activity. Budget 2008 then extended the accelerated CCA treatment for investment in the manufacturing and processing sector for three additional years. This included a one-year extension of the 50% straight-line accelerated rate for eligible assets acquired after March 18, 2007 and before 2010 (instead of before 2009), followed by accelerated CCA treatment for assets acquired in 2010 and 2011 on a declining basis. Budget 2009 proposes to replace the accelerated CCA treatment for assets acquired in 2010 and 2011 on a declining basis with the 50% CCA rate on a straight-line basis. This results in depreciating these eligible assets at a quicker rate. The half-year rule, which restricts the CCA deduction to one-half the normal CCA rate in the year the assets is first available, will apply to this measure.

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b) Computers

Computers acquired after March 18, 2007 are eligible for a 55% CCA rate on a declining balance. Budget 2009 proposes a temporary 100% CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011. The 100% CCA rate will not be subject to the half-year rule. As a result, business owners will be entitled to deduct the full cost of computers and software purchases between January 27, 2009 and February 2011.

Other Measures of Note

1) Acquisition of Control of a Corporation – Time of Acquisition

The Income Tax Act provides for various tax consequences in circumstances where control of a corporation has been acquired. As a result of a 2006 Federal Court of Appeal decision, control of a corporation is generally deemed to have been acquired at the beginning of the day on which control of the corporation was acquired, instead of at the particular time of that day at which the transaction that caused the acquisition of control occurs. This difference in timing of acquisition of control can produce anomalies in relation to the sellers entitlement to various tax benefits (such as the \$750K capital gains exemption), that depend on who has control of the corporation at the time of the transfer.

Budget 2009 proposes to amend the deeming rule regarding the timing of an acquisition of control of a corporation to ensure that it does not affect the status of a corporation as a CCPC at the time of the transaction that caused the change of control.

2) Electronic Filing Requirements & Penalties

Budget 2008 introduced the Canada Revenue Agency's (CRA) commitment to create cost savings through increased efficiencies in the implementation of its programs. As part of its continued commitment to these goals, Budget 2009 will require mandatory electronic filing for corporations that have annual gross revenues in excess of \$1 million for a taxation year. This measure will apply in respect of corporate income tax returns for taxation years that end after 2009. In addition, the number of information tax returns that can be filed by a taxpayer will be reduced to 50 from 500. This will, in practice, apply to T4 information returns for employment income. This measure will also apply in respect of information returns required to be filed after 2009.

With respect to penalties relating to these new electronic filing requirements, Budget 2009 proposes to introduce a penalty for filing a corporate income tax return in an incorrect format, and to reduce the penalties applicable for late filed or incorrectly filed information returns.

3) Previously Announced Measures

Budget 2009 confirms the Government's intention to proceed with a number of previously announced tax measures, such as

- Measures included in the Notice of Ways and Means Motion tabled by the Government in Parliament on November 28, 2008, including the reduced 2008 minimum withdrawal amounts in respect of Registered Retirement Income Funds
- Extension of the 2008 deadline for Registered Disability Savings Plan contributions, announced on December 23, 2008

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This Budget Summary is prepared for information only and is not intended to address the circumstances of any particular individual or entity. We invite you to contact our Tax & Estate Planning team by email at taxandestate@mackenziefinancial.com or your Mackenzie Sales Representative to discuss any questions you may have regarding the changes proposed in this budget.