



March 22, 2011 Federal Budget Highlights

Federal Finance Minister Jim Flaherty tabled his sixth Budget in the House of Commons on Tuesday, March 22 in a political atmosphere that was perhaps more tense and confrontational than at any time in recent Canadian history.

As expected based on pre-Budget statements, immediately following the Minister's speech both Liberal leader Michael Ignatieff and Bloc Quebecois leader Gilles Duceppe said their parties would reject the proposed Budget in Parliament. Somewhat less expected was that NDP leader Jack Layton also said his party would not support the Budget "as presented." Failing some compromise, Prime Minister Stephen Harper will likely be obliged to call a federal election, perhaps as early as within the next few days, in which case the Budget's proposals will not be enacted into law.

The Budget does not propose any new taxes for individuals, and it reflects the government's continuing commitment to previously announced corporate tax reductions. Proposed benefits for individuals under the Budget include an enhancement of the Guaranteed Income Supplement (GIS) for low-income seniors; a new Family Caregiver Tax Credit; a new Children's Art Tax Credit; a new Volunteer Firefighters Tax Credit; and a one-year extension of the ecoEnergy Retrofit—Homes Program. Also, doctors and nurses who practice in rural areas will be forgiven substantial student loans.

Significant tax-related and other proposals are discussed below.

CHILDREN'S ARTS TAX CREDIT

For 2011 and subsequent taxation years, a Children's Arts Tax Credit was introduced to provide a 15% non-refundable credit, based on an amount of up to \$500 of eligible expenses per child paid in a year. An eligible expense includes artistic, cultural, recreational or development activities. This is similar to the Ontario Children's Activity Tax Credit that is new for your 2010 tax returns. In order to avoid duplication of claims, expenses which are eligible for purposes of the Child Care Expense Deduction, the Children's Fitness Tax Credit or the Medical Expense Tax Credit will not be eligible for this tax credit. In addition, registration or membership fees will not be eligible to the extent that they are paid for the rental or purchase of equipment for exclusive personal use, or for travel, meals and accommodation.

The credit will be available for the enrolment of a child, who is under 16 years of age at the beginning of the year, in an eligible program. An additional \$500 disability supplement credit will also be available for a child who is eligible for the Disability Tax Credit and who is under 18 years of age.

An eligible program will be either a weekly program lasting a minimum of eight consecutive weeks or, in the case of children's camps, a program lasting a minimum of five consecutive days. The credit can be claimed by either parent, or can be shared between the parents.

VOLUNTEER FIREFIGHTERS TAX CREDIT

For 2011 and subsequent taxation years, a Volunteer Firefighters Tax Credit was introduced to provide a 15% non-refundable credit based on a flat amount of \$3,000. A volunteer firefighter will qualify for this credit if they perform at least 200 hours of volunteer firefighting services in a taxation year for one or more fire departments. Eligible volunteer firefighting services consist primarily of responding to and being on call for firefighting, attending meetings held by the fire department and participating in required training. However, such eligible services do not include firefighting services provided to the fire department otherwise than as a volunteer.

In order to claim this credit, written certification must be obtained from the chief or delegated official of the fire department in order to confirm the number of eligible volunteer firefighting hours. This written certification must be provided to CRA when requested.

A volunteer firefighter who claims this credit will not be eligible for the existing tax exemption of up to \$1,000 for honoraria paid by a government, municipality or public authority in respect of firefighting duties. In addition, such payments must be reported to the CRA as part of the annual reporting of remuneration paid.

FAMILY CAREGIVER TAX CREDIT

For 2012 and subsequent taxation years, a Family Caregiver Tax Credit was introduced to provide a 15% non-refundable credit, based on a flat amount of \$2,000. This credit will assist caregivers of dependants with a mental or physical infirmity, including spouses, common-law partners and minor children. Caregivers will be able to claim an enhanced amount for an infirm dependant under one of the existing dependency-related credits. Consequently, this enhancement would apply to one of the following credits: Spousal or Common-Law Partner Credit, Child Tax Credit, Eligible Dependant Credit, Caregiver Credit or Infirm Dependant Credit.

A dependant who is a minor will be considered to be infirm only if he or she is likely to be dependant on others for significantly more assistance when compared generally to persons of the same age for a long a continuous period of indefinite duration. This test will apply to dependants who are under age 18 at the end of the year and who are claimed for purposes of the Child Tax Credit or the Eligible Dependant Credit.

The threshold at which the Infirm Dependant Credit begins to be phased out will be increased so that the enhanced amount is fully phased out at the same income level as the 2012 enhanced Spousal or Common-Law Partner Credit. The \$2,000 Family Caregiver Tax Credit amount will be indexed for 2013 and subsequent taxation years to account for inflation.

MEDICAL EXPENSE TAX CREDIT FOR OTHER DEPENDANTS

Individuals may generally claim a Medical Expense Tax Credit in respect of eligible expenses paid for themselves, their spouse or common-law partner or their children under age 18. Caregivers may also claim this credit for a dependant relative if the caregiver pays their medical or disability-related expenses. A dependant for this purpose includes a child under age 18 or older, a grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew who is dependent on the individual for support

Currently, the maximum claim by a caregiver for such a dependant is limited to \$10,000 for a year. The Budget proposes to remove this \$10,000 maximum for 2011 and subsequent taxation years.

CHILD TAX CREDIT ELIGIBILITY

The annual claim for the Child Tax Credit is currently limited to one individual in respect of the same domestic establishment. Consequently, where two or more families share a home, only one individual is entitled to claim the Child Tax Credit. The Budget proposes to eliminate this restriction for 2011 and subsequent taxation years. Consequently, the sharing of a home would no longer restrict otherwise eligible parents from claiming this credit.

TUITION TAX CREDIT— EXAMINATION FEES

For 2011 and subsequent taxation years, amounts eligible for the Tuition Tax Credit will include fees paid to an educational institution, professional association or provincial ministry to take an examination that is required to obtain a professional status or to be licensed or certified in order to practice a profession or trade in Canada. Ancillary fees and charges, such as examination material used during the examination and certain prerequisite study materials, will also be eligible for the credit. However, eligible ancillary fees and charges will not include the cost for travel, parking or equipment. Also, fees in respect of examinations taken in order to begin study in a profession or field, such as a medical college admission test, will not qualify.

The total of tuition and examination fees paid to the institution or association must exceed \$100 to be eligible.

EDUCATION STUDY ABROAD TAX MEASURES

A Tuition Tax Credit is currently available to a Canadian student in full-time attendance at a university outside Canada to the extent that the tuition fees are paid in respect of a course of at least 13 consecutive weeks. The Education Tax Credit and the Textbook Tax Credit are also subject to this rule. In addition, a Canadian student can currently receive educational assistance payments ("EAPs") from an RESP for enrolment in such a program. The Budget proposes to reduce the minimum course duration requirement to three consecutive weeks, from 13 consecutive weeks, for purposes of claiming the Tuition, Education and Textbook credits. In addition, for EAP purposes, the minimum course duration is proposed to be reduced to three consecutive weeks when the student is enrolled at a university in a full-time course.

RESPs — ASSET SHARING AMONG SIBLINGS

For 2011 and subsequent taxation years, the Budget proposes to allow for transfers between individual RESPs for siblings, without tax penalties and without triggering the repayment of Canada Education Savings Grants, provided the beneficiary of the plan receiving the transfer of assets had not attained age 21 when the plan was opened. This Budget proposal will provide subscribers of separate individual plans with the same flexibility to allocate assets among siblings as currently exists for subscribers of family plans.

REGISTERED DISABILITY SAVINGS PLANS (RDSPs) — SHORTENED LIFE EXPECTANCY

The current RDSP tax rules require the repayment of all Canada Disability Savings Grants and Canada Disability Savings Bonds received in the 10 years prior to a withdrawal or termination of the plan. However, subject to specified limits and certain conditions, the Budget proposes to allow RDSP beneficiaries with a life expectancy of five years or less to withdraw more of their RDSP savings by permitting annual withdrawals without triggering the 10 year repayment rule.

In order to utilize this proposal, the holder of the RDSP must elect in prescribed form and submit the election with the medical certification completed by the medical doctor to the RDSP issuer. A plan holder will also be permitted to reverse this election in the future.

INDIVIDUAL PENSION PLANS (IPPs)

The Budget has proposed two new measures with respect to IPPs. The first proposal will require annual minimum withdrawal amounts, similar to the current rules for RRIFs, once a plan member reaches age 72. In addition, contributions to an IPP which relate to past years of employment will have to be funded first out of a plan member's existing RRSP assets or by reducing the individual's accumulated RRSP contribution room before new deductible contributions for past service may be made.

CANADA CHILD TAX BENEFIT (CCTB)

The CCTB is a non-taxable amount paid monthly to assist eligible families with the cost of raising children under age 18. Under the existing rules, an individual is not required to notify the Minister of National Revenue of a change in marital status. The Budget proposes to require an individual who receives the CCTB to notify the Minister of National Revenue of a change in marital status before the end of the month following the month in which the change in status occurs. Any applicable revised entitlement will be effective in the first month following the month of the change of status.

CORPORATE PARTNERSHIPS

Partnerships with less than six partners were previously not required to file Partnership Information Returns (T5013 Returns). Partnerships that exceed certain asset or revenue and expense thresholds, have one partner that is a corporation, or have a partnership as a partner, must now file T5013 Returns.

Corporations that are members of partnerships can gain up to a one year deferral in reporting income by choosing a year end that ends after the fiscal year end of the partnership. Subject to some transitional rules described below, the Budget will require an additional income inclusion for the portion of income deferred.

ACCELERATED CAPITAL COST ALLOWANCE (CCA)

Manufacturing and processing (M&P) equipment acquired before 2012 is eligible for a 50% straight-line CCA rate. The Budget has extended this rate to eligible M&P equipment acquired before 2014. Eligible M&P equipment acquired after 2013 will be subject to a 30% declining balance CCA rate.

Eligible clean energy generation and conservation equipment is subject to a 50% declining balance CCA rate. The Budget expands Class 43.2 to include equipment that generates or conserves energy by using a renewable energy source (such as wind or solar), using fuels from waste, or making efficient use of fossil fuels.

DONATIONS OF PUBLICLY LISTED FLOW-THROUGH SHARES

The current legislation provides that when a taxpayer makes a gift of publicly listed shares, the taxpayer will receive a donation receipt equal to the value of the shares and will not be required to include any resultant capital gain in the computation of income. In the case of a donation of publicly traded flow-through shares, the tax cost of the shares is often reduced to nil by virtue of the flow-through of deductions and credits. Therefore, the resultant capital gain, which is equal to the value of the share, is not taxed under the existing rules. The combination of the flow-through deduction and the elimination of the capital gain significantly reduce the after-tax cost of the donation. The Budget proposes that only the capital gain in excess of the original cost of the flow-through share will be exempt from tax.