

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 [www.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

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### 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](http://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.

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## D. OTHER MEASURES

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### 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.

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## E. PREVIOUSLY ANNOUNCED MEASURES

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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.

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