



Tax Alert **Federal budget 2009**

After its near-death experience in December, the Conservative government has reversed course from its previous focus on fiscal restraint and has brought in a budget containing a significant amount of stimulus in the form of government spending

combined with some moderate and targeted tax reductions. The government was hoping to obtain opposition support with its wide-ranging spending initiatives and tax reductions that provide some benefit to almost everyone.

Individuals

TAX CREDITS FOR HOME BUYERS AND HOME OWNERS

The budget included three incentives for home buyers and home owners.

First-time home buyers' credit

First-time home buyers who acquire a qualifying home after January 27, 2009 are eligible to claim a new non-refundable tax credit of \$750.

An individual will be considered a first-time home buyer if neither the individual nor her spouse or common-law partner has owned and lived in another home in the calendar year of the new home purchase or in any of the four preceding calendar years. The credit must be shared by the purchaser and his spouse or common-law partner.

A home acquired by or for the benefit of an individual who is eligible for the disability tax

credit will qualify without meeting the prior-year ownership test.

Home Buyers' Plan threshold increased

The budget increases the amount that first-time home buyers can withdraw from a Registered Retirement Savings Plan to purchase or build a new home to \$25,000 from the previous \$20,000.

Home renovation tax credit

The budget proposes a new temporary renovation tax credit for existing home owners. Individuals will be able to claim a 15 % non-refundable tax credit against eligible expenditures of \$1,000 to \$10,000, with a maximum credit of \$1,350 (\$9,000 × 15%). The credit is available for eligible costs incurred before February 1, 2010.

Individuals can claim this credit (including *(Continued on page 2)*)

Tax rate	Tax brackets		
	2008	2009 pre-budget	2009 budget
0%	Up to \$9,600	Up to \$10,100	Up to \$10,320
15%	\$37,885	\$38,832	\$40,726
22%	\$75,769	\$77,664	\$81,452
26%	\$123,184	\$126,264	\$126,264
29%	excess	excess	excess

PERSONAL INCOME TAX RELIEF

The budget proposes to increase the basic personal amount and the top of the two lowest personal income tax brackets as shown on the accompanying chart.

The maximum savings, compared to already-legislated brackets, for an individual earning \$81,452 or more, are \$317.

Tax Alert

Federal budget 2009

Individuals

(Continued from page 1)

January 2010 expenditures) on their 2009 tax returns.

Family members are subject to a single limit based on their pooled expenditures. For this purpose, a family will generally consist of spouses or common-law partners and their children under 18.

AGE CREDIT AMOUNT

The budget proposes to increase the Age Credit amount by \$1,000 to \$6,408 for 2009, resulting in tax savings of up to \$150.

RRSP AND RRIF LOSSES AFTER DEATH

The budget proposes to allow decreases in the value of the RRSP or RRIF in the year after death to be carried back and deducted against the year-of-death income tax return of the deceased. This should be very helpful for estates where the individual died

prior to the stock market declines in the latter half of 2008.

NATIONAL CHILD BENEFIT SUPPLEMENT AND CANADA CHILD TAX BENEFIT

The budget proposes to increase the income level at which the National Child Benefit supplement and the Canada Child Tax Benefit are phased out by \$1,894 to \$40,726, resulting in additional benefits of up to \$436 for a low-income family with two children.

WORKING INCOME TAX BENEFIT

The budget proposes to enhance the tax relief provided by the WITB by \$580 million for 2009 and subsequent years, effectively doubling total tax relief through the WITB. Provinces have until Spring 2009 to propose program design changes. The final program design will be announced following these consultations.

Business

MANDATORY ELECTRONIC FILING

For taxation years ending after 2009, most corporations with annual gross revenues in excess of \$1 million will be required to file their corporate income tax returns electronically. Penalties will be put in place for failing to file in the required electronic format. The penalties will escalate from \$250 for 2011 to \$1,000 after 2012.

Information returns

Until now, companies filing less than 500 information returns, such as T4 slips, could file in paper format. After 2009, only those filing less than 50 returns will be able to do so in paper format. All other employers will be required to file electronically.

There will be a variety of penalties put in place for failure to file other information returns electronically.

CORPORATE TAX RATES

The 2009 budget did not cut the general tax

rate for corporate taxpayers, nor did it accelerate the tax rate reductions that were previously announced. The corporate tax rate will be reduced from 19.5% in 2009 to 15% in 2012.

SMALL BUSINESS LIMIT

Canadian-Controlled Private Corporations ("CCPCs") will benefit from the increased level of earnings taxed at the 11% small business federal rate. Commencing in 2009, the amount of active business income eligible will increase to \$500,000, compared to the current \$400,000 level.

For larger CCPCs, taxable capital employed in Canada continues to reduce income eligible for the low tax rate. Income subject to the low rate is reduced for companies with over \$10 million of taxable capital employed in Canada and eliminated for those with \$15 million.

CCPCs with income eligible for the low rate have three months from their year end to

Tax Alert

Federal budget 2009

Business

pay any outstanding tax balance, one month later than for other corporations.

Companies with income less than \$500,000 can also benefit from making quarterly tax instalments instead of monthly instalments.

CCA ON M&P EQUIPMENT

Manufacturing and processing ("M&P") equipment is generally in class 43, with a 30% capital cost allowance ("CCA") rate. Recent budgets allowed M&P equipment to be classified as a Class 29 asset, eligible for 50% straight line amortization. The favourable 50% straight line amortization rate was to expire on assets purchased after 2009. The budget extends the Class 29 50% straight line amortization to M&P equipment purchased in 2010 and 2011.

CCA ON COMPUTERS

Eligible computers and software purchased after January 27, 2009 and before February 2011 will be eligible for a 100% CCA deduction. The deduction will not be limited by the general rule that only one half of CCA can be claimed in the first year.

TIME OF ACQUISITION OF CONTROL

As a result of the Federal Court of Appeal 2006 decision in *La Survivance*, when a company is acquired, the general rule is that the change of control takes place at the beginning of the day. In certain transactions, although change of control occurs at the beginning of the day, share ownership could be transferred later in the day. In some cases, this caused abnormalities regarding the status of the shares and eligibility for the capital gains exemption. Legislation will be introduced to ensure that an acquisition of control does not affect a company's status as a Canadian-Controlled Private Corporation ("CCPC") at the time of transfer.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT INVESTMENT TAX CREDITS

A CCPC can claim a 35% refundable investment tax credit on scientific research and

experimental development expenditures of up to \$3 million. The \$3 million level is reduced based on taxable income of the company. The increase in the small business deduction limit means that the \$3 million level is reduced at taxable incomes over \$500,000, and not at \$400,000. The benefit of the refundable credit is now eliminated at a taxable income of \$800,000, instead of at \$700,000.

MINERAL EXPLORATION TAX CREDIT

The 15% mineral exploration tax credit helps companies raise capital for mining exploration by providing an incentive to individuals who invest in flow-through shares issued to finance exploration. The credit was scheduled to expire on March 31, 2009. The budget proposes to extend the mineral exploration tax credit for an additional year, until March 31, 2010.

INTERNATIONAL TAX

Interest deductibility

The government had previously scheduled for 2012 certain restrictions constraining interest deductibility for Canadian companies borrowing to finance foreign affiliates. There were significant concerns that this would affect the international competitiveness of Canadian companies.

Corporations with international operations will welcome the repeal of proposed tax rules that were intended to limit the interest deductibility on loans used to finance foreign operations.

Non-resident trusts, foreign investment entities, and foreign affiliates

The government will not issue final legislation for non-resident trusts and foreign investment entities until it has completed its review of submissions made by interested parties. The government will also examine additional comments on its previously announced foreign affiliate rules.

Some of these proposals have been awaiting enactment since 1999.

Tax Alert

Federal budget 2009

Spending

The budget is aimed at providing both short term economic stimulus to Canadian families and businesses to deal with immediate economic challenges caused by the recession and also to build on the nation's long term economic capacity. The budget will inject almost \$40 billion in the economy over the next two years, of which \$22 billion will be spent in the coming fiscal year. The funding is expected to rise to a total of over \$51 billion if provinces and municipalities join with the federal government in contributing matching public funds.

Some of the highlights :

- \$ 12 billion over two years in infrastructure stimulus funding for public sector construction projects including roads, bridges, broadband internet access, electronic health records, laboratories and border crossings across the country. This spending is conditional on related provinces and municipalities contributing matching funding of over \$9 billion before the projects can be started.
- \$2 billion in loans to cities for undertaking housing-related projects.
- \$400 million for new home construction for low-income seniors, \$400 million in first nations reserve housing and \$200 million for building northern residences.

- \$1.5 billion for a training fund for laid off workers, both those who qualify for Employment Insurance and those who do not.
- \$570 million for security projects, including \$296 million for improved air passenger security and \$175 million for new coast guard vessels.
- \$500 million to build and renovate recreational facilities such as hockey arenas, ice rinks and pools.
- Over \$335 million for arts and cultural programs, including \$200 million over two years for the Canadian Television Fund, \$60 million over two years for community theatres, libraries and museums and \$30 million over two years for magazines and community newspapers
- \$1 billion over five years for the creation of a new Southern Ontario Economic Development Project.
- \$2 billion for post-secondary educational institutions.
- \$12 billion credit facility to support vehicle and equipment financing.

The government expects the public spending to create or maintain up to 190,000 jobs over the next two years.



The Madison Centre
4950 Yonge Street, 4th Floor
Toronto, Ontario M2N 6K1



Visit our websites:

www.sfgroup.ca
www.ustax.ca

Comments? Contact us:
Phone: 416-250-1212 Fax: 416-250-1225
E-mail: info@sfgroup.ca
Editor: Kevyn Nightingale (knight@sfgroup.ca)
Articles contributed by the SF tax team

All rights reserved. Permission to reproduce or copy in any form or means is prohibited without the express written consent of SF Partnership, LLP. All information contained in this publication is general in nature, and should not be construed as professional advice. Readers are urged to consult their professional advisors before taking any action based on this publication.