

2007 FEDERAL BUDGET COMMENTARY

PERSONAL TAX MEASURES

Lifetime Capital Gains Exemption

The lifetime capital gains exemption will be increased from \$500,000 to \$750,000 for gains realized on dispositions after March 18, 2007 of qualified farm and fishing property and qualified small business corporation shares, subject to transitional rules for 2007. This proposal can benefit individuals who own qualifying property, whether or not they have previously utilized any of the \$500,000 exemption.

Age Limit for Maturing RPPs and RRSPs

The Budget proposes to increase the age at which Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) mature from the end of the year in which the RRSP annuitant or RPP member turns 69 to 71. This proposal will benefit individuals who turn 69, 70 or 71 in 2007 or subsequent years in that they will be able to make contributions in 2007 and 2008 where contribution room is available.

The minimum annual withdrawal from a Registered Retirement Income Fund (RRIF) will be waived for 2007 and 2008 for annuitants who turn 70 in 2007 and for 2007 for annuitants who turn 71 in 2007. A RRIF annuitant who is 71 or younger at the end of 2007 will be able to reconvert the RRIF to an RRSP, as long as this RRSP is converted back into a RRIF before the end of the year in which the annuitant turns 71.

Existing registered plan annuities will be permitted to be amended to reflect the later conversion age. Employers will also be allowed to amend their RPPs to allow benefits to accrue and contributions to be made in respect of employees who are 71 or younger at the end of 2007.

Phased Retirement

The Income Tax Regulations will be amended to allow an employee to receive pension benefits from a defined benefit RPP, of up to 60% of their accrued defined benefit pension, while accruing additional pension benefits on a current service basis in respect of their employment after their pension has commenced. Qualifying employees must be at least 55 years old and eligible to receive a pension without incurring an early retirement reduction.

Employment after the commencement of the pension can be either full- or part-time. This approach will give employers a great deal of flexibility in designing older-worker retention programs. The prohibition on accruing additional benefits while receiving a pension will still apply to designated plans as well as to persons who are “connected” with their employer, as would generally be the case with an Individual Pension Plan (IPP).

It is proposed that this measure be effective for 2008 and subsequent taxation years.

RRSP Qualified Investments

The list of qualified investments for RRSPs and other registered plans will be broadened after March 18, 2007 to include any debt obligation that has an investment grade rating and that is part of a minimum \$25 million issuance as well as any security, other than a futures contract, which is listed on a designated stock exchange. These changes will provide greater investment choice and diversification opportunities by removing impediments to investing in foreign-listed trust and partnership units and Canadian dollar bonds issued by foreign entities.

Registered Education Savings Plans (RESPs)

The Budget proposes to eliminate the maximum annual contribution and increase the lifetime limit from \$42,000 to \$50,000. In addition, the maximum annual RESP contribution qualifying for the 20% Canada Education Savings Grant (CESG) will be increased from \$2,000 to \$2,500 for 2007 and subsequent years. Consequently, the annual CESG will be increased from \$400 to \$500 for each qualifying child. However, the lifetime CESG limit of \$7,200 will not be increased.

The RESP rules will be expanded for 2007 and subsequent years to allow qualifying part-time programs which do not meet the current 10 hour per week requirement, to allow Educational Assistance Payments (EAPs) from the RESP where the program requires at least 12 hours per month of courses. Under this proposal, students 16 or over will be able to receive up to \$2,500 of EAPs for each 13-week semester of part-time study.

Registered Disability Savings Plan (RDSP)

The Budget proposes a new RDSP, generally based on the existing Registered Education Savings Plan (RESP), combined with a Canada Disability Savings Grant (CDSG) program and a Canada Disability Savings Bond (CDSB) program. The Government will work with financial institutions to put the necessary administrative mechanisms in place to allow RDSPs to be offered commencing in 2008.

Working Income Tax Benefit

Commencing in 2007, a new refundable credit will be available to low-income persons with either employment or business income. The credit will be 20% of earned income in excess of \$3,000 to a maximum of \$500 (\$1,000 for couples and single parents). The credit will be reduced by 15% of net family income in excess of \$9,500 (\$14,500 for couples and single parents).

An additional credit will be allowed, for a person with a disability, of 20% of earned income in excess of \$1,750 to a maximum of \$250.

Scholarships

In 2006, scholarships and bursaries received by students qualifying for the education credit were fully exempted from tax. Generally, these were students in post-secondary programs. This Budget extends the exemption to students in elementary and secondary schools.

Non-Refundable Credits

Commencing in 2007, a new credit may be claimed for children under the age of 18. The credit is based on \$2,000 and will result in a reduction in income tax payable of \$310 per child in 2007.

The base for the credit which may be claimed for a spouse or wholly-dependent person will be increased by \$1,348 to the same amount as the basic personal credit. However, the amount the spouse may earn without reducing the credit will be eliminated. This amount is currently \$759. The previously announced increases to the basic personal credit will also apply to this credit.

Public Transit Tax Credit

Effective January 1, 2007, the public transit tax credit will be extended to cost-per-trip electronic payment cards if the cards are used for at least 32 one-way trips in a 31-day period. To be eligible, the transit authority must record the usage, the cost of the trips and provide receipts to the individual with this information.

To alleviate the cash-flow impediment of purchasing monthly passes, four consecutive weekly passes will qualify for the credit. The weekly passes must provide for unlimited transit use for a period of 5 to 7 days.

Trust T3 Income Tax Returns

Many taxpayers and tax professionals have concerns about the existing due-date for T3 slips. The Government is proposing to develop a process that will have commercial trusts, including income trusts, prepare their T3 returns in sufficient time for taxpayers to prepare their tax returns.

BUSINESS TAX MEASURES

Capital Cost Allowance (CCA)

The following CCA rate changes will be made:

	From	To
Manufacturing and processing (M&P) machinery and equipment	30%	50%
Buildings used for M&P	4%	10%
Other non-residential buildings	4%	6%
Computer equipment	45%	55%
Natural gas distribution lines	4%	6%
Liquefied natural gas facilities	4%	8%

INSTALMENTS

Personal

The threshold requiring an individual to make quarterly instalments will be increased from \$2,000 to \$3,000 for the 2008 taxation year. For residents of Quebec the threshold will be increased to \$1,800.

Corporations

The instalment threshold for corporations will be increased from \$1,000 to \$3,000 for taxation years commencing after 2007.

Certain Canadian-controlled private corporations will be allowed to make quarterly instalments instead of monthly instalments. To qualify for this measure the company must be entitled to the small business deduction, the taxable income of the associated group must not exceed \$400,000 and the taxable capital of the associated group must not exceed \$10 million, all in either the current or previous year. In addition, within the past 12 months, the company must have had no compliance irregularities under the *Income Tax Act* or GST portions of the *Excise Tax Act*. This measure will apply to taxation years commencing after 2007.

The quarterly instalments can be either 1/4 of the estimated tax payable for the current year, 1/4 of the tax payable for the preceding year or one payment of 1/4 of the tax for the second preceding year together with three quarterly payments of 1/3 of the tax for the preceding year less the first payment.

Payroll

Employers with annual source deduction remittances of less than \$1,000 and a perfect compliance history can remit source deductions on a quarterly basis. Commencing in 2008, the threshold will increase to \$3,000. The CRA will advise an employer if they are eligible for quarterly remittances.

DONATIONS

Private Foundations

The zero capital gain for donations of qualifying publicly-listed marketable securities will be extended to donations after March 18, 2007 to private foundations. In addition, the employment benefit associated with the exercise of stock options of a publicly-listed company by an arm's length employee may now also not be taxable where the related securities are donated, within 30 days of exercise, to a private foundation. Private foundations will be subject to special excess business holdings rules which can limit the foundation's holdings of shares, including unlisted shares. Such rules will take into account the holdings of persons not dealing at arm's length with the foundation.

SALES, EXCISE TAX AND OTHER MEASURES

48 Hour Travelers' Exemption

Travelers returning to Canada after March 19, 2007 will be allowed to bring back goods valued at up to \$400 (previously \$200) without having to pay duties or taxes, including customs duty, GST/HST and federal excise tax, provided they have been out of Canada for 48 hours or more.

The dollar limits that apply to 24-hour and 7-day travel remain unchanged, as do the limits on alcohol and tobacco.

Green Levy on “Gas Guzzlers”

A tax on fuel inefficient vehicles is being introduced for new vehicles delivered to dealers or imported after March 19, 2007. The Green Levy will apply to new automobiles designed primarily to carry passengers including station wagons, vans and SUVs, but not pick-up trucks.

The levy will be based on the vehicle’s weighted average fuel consumption as follows:

- at least 13 but less than 14 litres consumed per 100 kilometres, \$1,000;
- at least 14 but less than 15 litres consumed per 100 kilometres, \$2,000;
- at least 15 but less than 16 litres consumed per 100 kilometres, \$3,000; and
- 16 or more litres consumed per 100 kilometres \$4,000.

The Green Levy will be imposed under the *Excise Tax Act* and will be payable by the manufacturer or importer at the time the vehicles are delivered to a purchaser (usually a dealer) or imported. The levy also applies to imported used vehicles put into service after March 19, 2007.

The levy will not apply to vehicles that are manufactured in Canada for export, or to vehicles that are imported and subsequently exported. The levy also will not apply to vehicles in dealer inventory on March 19, 2007, or where a sales agreement with the final consumer is entered into before March 20, 2007 calling for delivery before July 2007.

Rebate for Fuel Efficient Vehicles

The government is introducing a program to provide rebates on the purchase of fuel efficient vehicles. The basic rebate amount of \$1,000 to a maximum of \$2,000 is applicable for vehicle purchases or leases (minimum 12 months) after March 19, 2007.

The vehicles eligible for rebate will be listed on Transport Canada’s website (www.tc.gc.ca). The payment of rebates is expected to begin in the fall of 2007 once administration and delivery systems have been put in place.

Removal of Excise Tax Exemption on Renewable Fuels

The government has recently introduced a number of measures to encourage the use and production of renewable fuels. The government has indicated that these measures provide a more comprehensive framework and eliminate the need for the excise tax exemption on renewable fuels. Effective with fuel delivered on or after April 1, 2008 the excise taxes of 10 cents per litre on gasoline and 4 cents per litre on diesel fuel will also apply to renewable fuels used as motive fuels including biodiesel and alcohol-based fuels.

Exports of Intangible Personal Property (IPP)

Technological advancements have greatly increased the use of products, such as computer software, that can be supplied in intangible form.

Effective March 20, 2007 certain supplies of IPP made to non-residents who are not GST/HST registrants will be zero rated for GST/HST purposes.

GST/HST Annual Filing and Annual Remittance Thresholds

For fiscal years that begin after 2007, the taxable supplies threshold at or below which registrants can file a GST/HST return annually is increased from \$500,000 to \$1,500,000, and the net tax threshold before being required to make quarterly instalments of GST/HST is increased from \$1,500 to \$3,000.