

Staying the course

Tax bulletin

Federal budget March 22, 2011

Canadian Finance Minister, James M. Flaherty, gave his sixth budget speech today entitled *A Low-Tax Plan for Jobs and Growth*.

The deficit in 2010-11 is projected to be more than 25% lower than it was in 2009-10, and it is projected to shrink more than 25% again in 2011-12. The deficit is projected to continue to decline to \$0.3 billion in 2014-15. It is expected that there will be a surplus of \$4.2 billion in 2015-16.

While the Minister confirmed the corporate tax reduction, he did not announce lower rates for individuals or the goods and services tax.

The government is banking on extending or expanding previously announced measures, such as the accelerated capital cost allowance for manufacturing and processing machinery and equipment, and for clean energy generation equipment.

Tax credits for caregivers, parents and children have been introduced or improved and, additionally, the rules on certain pension plans have been tightened.

Now we just have to wait and see if the government will get the opportunity to implement the proposed measures.



Businesses			
	Current	Proposed	+/-
Intangible capital expenses in oil sands projects			
Cost of oil sands leases and resource properties	<ul style="list-style-type: none"> Canadian Development Expense (CDE) deductible at 30% declining balance CCA rate. 	<ul style="list-style-type: none"> Canadian Oil and Gas Property Expense (COGPE) deductible at 10% declining balance CCA rate. Special rules will apply regarding proceeds of disposition. Applies for acquisitions on or after March 22, 2011. 	-
Pre-production development expenses of oil sands mines	<ul style="list-style-type: none"> Canadian Exploration Expense (CEE), deductible in full in year incurred. 	<ul style="list-style-type: none"> Development costs using wells (rather than mining) treated as CDE deductible at 30% declining balance. Applies for costs incurred on or after March 22, 2011 except for expenses incurred before 2015 for new mines on which major construction began before March 22, 2011. Other expenses: Transitional rules as follows: <ul style="list-style-type: none"> CEE: from 100% to 0% in 2016 CDE: from 0% to 100% in 2016 	-
Loss on the redemption of shares			
Restricted loss rules	<ul style="list-style-type: none"> Current exemption to stop-loss rule where share is held for 365 days or more, and the shareholder and non-arm's length persons together own 5% or less of the class of shares on which the dividend is received. 	<ul style="list-style-type: none"> Deemed dividend received on the redemption of shares held by a corporation (directly or indirectly through a partnership or trust) will be included in the computation of the restricted loss regardless of the percentage of share ownership or time held: <ul style="list-style-type: none"> Applies to any deemed dividend received on the redemption of shares held by a corporation on or after March 22, 2011 Current exemption from the stop-loss rule will continue to apply where dividend is received by a private corporation that is not a financial institution and the payor is a private corporation 	-

Manufacturing and processing sector: Accelerated Capital Cost Allowance (CCA)			
Manufacturing or processing equipment	<ul style="list-style-type: none"> • Manufacturing or processing equipment primarily for use in Canada acquired after March 18, 2007 and before 2012: <ul style="list-style-type: none"> – Included in class 29 – Temporary CCA of 50% straight line balance • Subject to half-year rule. 	<ul style="list-style-type: none"> • Class 29 treatment extended by two years to eligible manufacturing or processing equipment acquired in 2012 and 2013. • After 2013, such equipment included in Class 43, subject to 30% declining balance CCA. 	+
Clean energy generation equipment: Accelerated CCA			
Clean energy generation equipment	<ul style="list-style-type: none"> • Eligible equipment that generates or conserves energy by: <ul style="list-style-type: none"> – Using a renewable energy – Using fuels from waste – Making efficient use of fossil fuels 	<p>Class 43.2 expanded to include:</p> <ul style="list-style-type: none"> • Equipment that generates electrical energy in which all or substantially all of the energy input is from waste heat. • Applies to eligible assets acquired on or after March 22, 2011 that have not been used or acquired for use before that date. 	
Qualifying Environmental Trusts (QET)			
QET	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • QET rules modified to: <ul style="list-style-type: none"> – include pipeline trusts – modify the tax rate, and – expand the list of qualifying investments 	+
Measures to support small businesses			
Temporary hiring credit for small business	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Credit up to \$1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010. • Applies to employers whose total employment insurance premiums did not exceed \$10,000 in 2010. 	+

Partnerships

Deferral of Corporate Tax

- None

Introduction of rules limiting deferral opportunities for corporations with significant interests in partnerships:

- Applies to corporations:
 - Entitled to more than 10% of the partnership's income
 - Whose fiscal period ends after the partnership's fiscal period
- Deferral mechanism:
 - Inclusion of a pro-rated amount of the partner's income from the partnership for the fiscal period of the partnership ending in the taxation year of the partner (stub period accrual)
 - Alternative method is also available (Formula vs. Designation Approach)
 - Deduction of stub period accrual for the corporate partner's previous taxation year
- Certain rules will apply when the stub period accrual is less than the actual pro-rata income of the corporate partner.
- Election to change the partnership's fiscal period under certain conditions.
- Transitional relief is available to recognize the additional amount gradually over the five taxation years that follow the first taxation year, under certain conditions.
- Partnerships that are part of tiered partnership structure will be required to adopt a common fiscal period.

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Personal measures			
	Current	Proposed	+/-
Child tax credit			
Child tax credit	<ul style="list-style-type: none"> • 15% non-refundable credit for each child under the age of 18 years at the end of the year. • Must be claimed by one individual per domestic establishment. 	<ul style="list-style-type: none"> • Rule that limits the number of credit claimants to one per domestic establishment is repealed. 	+
Mineral exploration tax credit			
Mineral exploration tax credit	<ul style="list-style-type: none"> • A 15% tax credit for mineral exploration expenses renounced pursuant to a flow-through share agreement entered into on or before the end of March 2011. 	<ul style="list-style-type: none"> • Credit eligibility period extended for flow-through share agreements made before April 1, 2012 and eligible expenses incurred until the end of 2013. 	+
Tuition tax credit for examination fees			
Tuition tax credit	<ul style="list-style-type: none"> • Tuition for full- or part-time studies that exceeds \$100 per establishment. 	<p>Eligible fees expanded to include:</p> <ul style="list-style-type: none"> • Fees for an examination required to obtain a professional status paid to: <ul style="list-style-type: none"> – An education institution – A professional association – A provincial ministry or similar institution • Also extended to some ancillary fees paid in respect of occupational, trade or professional examination. 	+
Volunteer firefighters			
Non-refundable tax credit	<ul style="list-style-type: none"> • None 	<p>15% non-refundable tax credit:</p> <ul style="list-style-type: none"> • Based on an amount of \$3,000. • Volunteer firefighter who performs at least 200 hours of volunteer firefighting services in a taxation year. • Cannot be combined with tax exemption of up to \$1,000 for honoraria paid in respect of firefighting duties. • Applies to 2011 and subsequent years. 	+
AgriInvest program			
Farm assistance program	<ul style="list-style-type: none"> • Government contributions received and accrued interest are only taxable when withdrawn from the account. 	<ul style="list-style-type: none"> • Government contributions to Agri-Québec program are accorded the same tax treatment that is currently provided to the AgriInvest program. • Applies to 2011 and subsequent years. 	+

Children's arts tax credit			
Children's arts tax credit	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Non-refundable credit: <ul style="list-style-type: none"> – 15% of up to a maximum amount of \$500 in eligible expenses – For the registration of a child under the age of 16 in an eligible artistic activities program • Credit increased for registration of a child under the age of 18 who is eligible for the Disability Tax Credit. 	+
Tuition, education and text book tax credits			
Education tax measures – study abroad	<ul style="list-style-type: none"> • Courses of at least 13 consecutive weeks' duration qualify for credit. 	<ul style="list-style-type: none"> • Minimum duration reduced to three consecutive weeks. • Same criteria also used for educational assistance payments made out of a registered education savings plan. 	+
Family caregiver tax credit			
Improved tax assistance for caregivers of dependants	<ul style="list-style-type: none"> • 15% tax credit calculated on following eligible amounts: <ul style="list-style-type: none"> – Tax credit for spouse or common-law partner: \$10,780 – Child tax credit: \$2,182 – Tax credit for eligible dependant: \$10,780 – Caregiver tax credit: \$4,385 – Tax credit for disabled dependant: \$4,385 	<ul style="list-style-type: none"> • New non-refundable tax credit for caregivers of dependants with a mental or physical infirmity: <ul style="list-style-type: none"> – 15% of \$2,000 – applies as of 2012 	+
Medical expense tax credit for other dependants			
Medical expense tax credit for other dependants	<ul style="list-style-type: none"> • Caregivers may claim a medical expense tax credit for dependants. • Maximum of \$10,000 of eligible expenses in excess of: <ul style="list-style-type: none"> – The lesser of 3% of dependant's net income and \$2,052 	<ul style="list-style-type: none"> • \$10,000 ceiling abolished. • Applies to 2011 and subsequent years. 	+

Tax on split income (minor children)			
Application	<ul style="list-style-type: none"> • Tax on split income (29% marginal rate): <ul style="list-style-type: none"> – Applies to taxable dividends on unlisted shares of Canadian and foreign corporations – Does not apply to capital gains 	<ul style="list-style-type: none"> • Applies to capital gains realized by a minor or included in the minor's income: <ul style="list-style-type: none"> – On the disposition of shares of a corporation to a person who does not deal at arm's length with the minor if the taxable dividends on the shares would have been subject to the tax on split income – Such capital gains would be treated as dividends and not benefit from: <ul style="list-style-type: none"> • the capital gains inclusion rates • the cumulative capital gains exemption • Applies to capital gains realized on or after March 22, 2011. 	-
Registered Education Savings Plan (RESP)			
Asset sharing among siblings	<ul style="list-style-type: none"> • Individuals who are not connected to the beneficiary of an RESP by blood or adoption (e.g., aunts, uncles) can only use individual plans. • Tax penalties and repayment of Canadian Education Savings Grants (CESGs) may apply to transfers between individual plans. 	<ul style="list-style-type: none"> • Assets may be transferred between individual plans for siblings without tax penalty or requirement to repay CESGs if: <ul style="list-style-type: none"> – Plan beneficiary was not yet 21 years of age when the plan was started • Applies to assets transferred after 2010. 	+

Individual Pension Plans (IPP)			
Minimum withdrawals applicable to surpluses	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Minimum withdrawals from IPP once plan member attains the age of 72. Withdrawals subject to Registered Retirement Income Fund (RRIF) minimum withdrawal tables. • Applies to 2012 and subsequent taxation years. 	-
Past service contributions	<ul style="list-style-type: none"> • Past service contributions could be financed by a corporation. 	<ul style="list-style-type: none"> • Contributions must first be financed: <ul style="list-style-type: none"> – From assets in the participant's Registered Retirement Savings Plan (RRSP) or defined benefit Registered Pension Plan (RPP) – By reducing the individual's cumulative RRSP contribution entitlement • Applies to past service contributions to an IPP on or after March 22, 2011. 	-
Registered Disability Savings Plan (RDSP)			
Shortened life expectancy	<ul style="list-style-type: none"> • Beneficiaries with shortened life expectancies may be subject to the 10-year repayment rule. 	<ul style="list-style-type: none"> • Withdrawals following an election will not trigger any repayment of government grants or bonds provided certain conditions are met. • Applies after 2010 to withdrawals made after Royal Assent. 	+
RRSP anti-avoidance rules			
Advantage rules	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Adoption of the advantage rules from Tax-free Savings Accounts (TFSA) including: <ul style="list-style-type: none"> – Certain transactions undertaken to benefit from the tax attributes of RRSPs – Payments to RRSPs (payment for services and investment income) – Benefits derived from asset purchase and sale transactions (swap transactions) – Benefits from RRSP strip transactions • Income taxes equal to the value of the advantage. 	-
Prohibited investments	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Adoption of the TFSA prohibited investment rules, including: <ul style="list-style-type: none"> – Investment in entities in which 	-

		<p>the TFSA holder or a non-arm's length person owns 10% or more</p> <ul style="list-style-type: none"> – Income tax equal to 50% of the value of the prohibited investment – Income derived from the prohibited investment will be subject to the advantage rules 	
Non-qualified investments	<ul style="list-style-type: none"> • Special tax of 1% per month of the value of the non-qualified investment. 	<ul style="list-style-type: none"> • Special tax equal to 50% of the value of the non-qualified investment, subject to certain relief. • Generally applicable to transactions occurring and investments acquired on or after March 22, 2011. 	-

Other measures			
	Current	Proposed	+/-
Not-for-profit organizations			
Regulatory regime for qualified donees	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Qualified donees to be registered and included on an official list. • CRA could suspend the authority of the association to issue an official receipt, or its status as a qualified donee, for failure to issue an official donation receipt. • All recognized donees required to maintain records and books of account. • Applies as of January 1, 2012 or on the date of Royal Assent to the enacting legislation. 	-
Regulations regarding Registered Canadian Amateur Athletic Association (RCAAA)	<ul style="list-style-type: none"> • Primary purpose and primary function is the promotion of amateur athletics in Canada on a nation-wide basis. • None • None 	<ul style="list-style-type: none"> • Exclusive purpose and exclusive function must be the promotion of amateur athletics in Canada on a nation-wide basis. • Subject to undue benefit rules. • CRA to make available to the public certain information and documents about RCAAAs. • Applies as of January 1, 2012 or on the date of Royal Assent to the enacting legislation. 	-
Safeguard charitable assets through good governance	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • New discretionary power to refuse to register a registered charity or RCAA for a criminal offence by individuals. • Applies as of January 1, 2012 or on the date of Royal Assent to the enacting legislation. 	-
Recover tax assistance for returned gifts	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Possible reassessment when property is returned to the donor. • Revised receipt sent to CRA if change greater than \$50. • Applies to gifts or property returned on or after March 22, 2010. 	-
Gifts of non-qualifying securities	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Benefit from a gift of a non-qualifying security deferred until donee disposes of security (maximum of five years). • Applies to gifts of securities on or 	-

		after March 22, 2010.	
Granting of options to qualified donees	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Benefit on donation deferred until the donee acquires the option property. • Clarification regarding amount of official donation receipt. • Applies to options granted on or after March 22, 2010. 	-
Donations of publicly listed flow-through shares	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Exemption threshold on calculation of capital gains exemption on donation of flow-through shares. • Applies to flow-through share purchase agreements concluded on or after March 22, 2010. 	-

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