

Tax **Bulletin**

The Wilkinson Tax Group

FEDERAL BUDGET

March 19, 2007

The Federal Budget delivered by Mr. Jim Flaherty today focused on a wide range of equalization payments and government initiatives. We have summarized below those provisions of the budget dealing with personal and business taxation matters that we believe are most relevant to our clients.

Personal Income Tax Measures

- The current lifetime capital gains exemption of \$500,000 on the disposition of qualified farm property and fishing property or qualified small business corporation shares is proposed to increase to \$750,000 for dispositions occurring on or after March 19, 2007.
- The budget proposes for 2007, and subsequent calendar years, that the age at which an individual must convert RPP's and RRSP's into a Registered Retirement Income Fund (RRIF) to be increased from 69 years of age to 71 years of age. These proposed amendments will also provide relief to those who turn 70 or 71 years of age in 2007 by allowing these individuals to waive the withdrawal minimums as well as allow for the ability to make RRSP contributions if there is contribution room available.
- The budget proposes to introduce a new non-refundable child tax credit for parents based on an amount of \$2,000 (indexed) for each child under the age of 18 years at the end of a taxation year. This new tax credit will take effect beginning in 2007, and will provide personal income tax relief of up to \$310 per child.
- The budget proposes to increase the spouse or common-law partner credit and the wholly dependent relative from its current level for 2007 of \$7,581 to \$8,929 to match the basic personal amount. However, the budget also proposes to eliminate the \$759 income threshold test resulting in a dollar for dollar reduction in these credits by the amount of income earned by your spouse or dependent.
- Several measures are being proposed to provide flexibility to families who save through Registered Education Savings Plans (RESP) including eliminating the \$4,000 annual RESP contribution limit and increasing the lifetime RESP contribution limit to \$50,000 from \$42,000. The maximum annual RESP contribution qualifying for the 20% Canada Education Savings Grant (CESG) will be increased to \$2,500 from \$2,000 thus increasing the maximum CESG per beneficiary for 2007 and subsequent years to \$500 from \$400. The \$7,200 lifetime CESG limit will remain the same.

- The government is proposing to introduce the new Registered Disability Savings Plan (RDSP) along with a Canada Disability Savings Grant (CDSG) program and Canada Disability Savings Bond (CDSB) program to assist parents and others to save for the long-term financial security of a child with severe disability. This program will be modeled after the RESP program where contributions are not tax deductible, however, investment income earned in the plan will accrue tax-free. Lifetime contributions will be limited to \$200,000. Generally, any person eligible for the disability tax credit or their parent will be eligible to establish an RDSP.
- The budget proposes to expand the eligibility of payments for the Public Transit Tax Credit to include Electronic Payment cards and weekly passes.
- The budget proposes to increase from 50% to 80% over five years the deductible portion of the cost of food and beverages consumed by long-haul truck drivers during eligible periods of travel.
- The budget proposes to change certain regulations that would allow for what is known as phased retirement, a program that allows employees to receive pension entitlements while still working and still accruing further pension benefits.
- The budget proposes a new Working Income Tax Benefit (WITB) for low-income families of a maximum amount of \$500 for an individual and \$1,000 for families (couples and single parents). The WITB is phased out for individuals who have income in excess of \$12,833 and the family income threshold is \$21,167.
- It's proposed for 2007 and subsequent taxation years that elementary and secondary school scholarships will be fully exempt from taxation.
- The 2007 budget proposes to expand the exemption from taxation on the donation of publicly-listed securities to now include donations to private charitable foundations.
- Currently, individuals are required to make quarterly instalment payments based on an instalment threshold of \$2,000. The instalment threshold is being increased to \$3,000 for 2008 and subsequent taxation years.

Business Income Tax Measures

Capital Cost Allowance (CCA) Rates

Budget 2007 proposes several adjustments to improve the CCA system, including the amounts set out in the table below:

Asset	Current Rate	New Rate
Buildings used for manufacturing or processing	4%	10%
Other non-residential buildings	4%	6%
Computer equipment	45%	55%
Manufacturing and processing equipment	30% DB	50% SL

Capital cost allowance rate increases outlined above will generally be effective for acquisitions made after March 18, 2007. The change in the CCA for manufacturing and processing equipment from a 30% declining balance base to a 50% straight-line rate for acquisitions after March 18, 2007 and before 2009. Accelerated capital cost allowance rates are also being proposed for various clean energy generation equipment.

Remittance and Filing Thresholds (Corporations/Businesses)

Effective for taxation years beginning after 2007, corporations will only need to make instalment payments if their taxes owing amount exceeds \$3,000, an increase from the current \$1,000 threshold amount. In addition, it is proposed that Canadian-controlled private corporations with taxable income less than \$400,000 (and other conditions) will be eligible to move from the current monthly instalment requirement to a quarterly instalment program. Balance due dates for any remaining tax liabilities will remain unchanged.

Currently, certain employers with average monthly withholding amounts (CPP, EI and income taxes) of less than \$1,000 are able to remit these amounts by quarterly instalment. The budget proposed to triple this threshold amount to \$3,000 for calendar years beginning in 2008.

Small and medium size businesses with taxable supplies for GST purposes less than \$500,000 may file an annual return and make quarterly instalments. This current threshold requirement is being raised from \$500,000 to \$1,500,000 for fiscal years that begin after 2007.

Single Administration of Ontario Corporate Tax

On October 6, 2006, the governments of Canada and Ontario signed a memorandum of Agreement regarding the joint collection and administration of Ontario's corporate tax for taxation years that end after 2008. The budget affirms this target date and also provides financial incentives to the Province of Ontario to accelerate their planned elimination of Ontario capital taxes before 2011.

This information is based upon the Federal Budget. Actual legislation may vary when enacted. Our comments are meant to be general in nature and we will be pleased to provide you with any further specific information you may require.



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