

Growth, job creation, and deficit reduction: an ambitious budget

Tax bulletin

Federal budget, March 4, 2010

Canadian Finance Minister, James M. Flaherty gave his fifth budget speech today, entitled “Leading the Way on Jobs and Growth”.

The budget provides for \$19 billion in new spending to create and protect jobs. Additionally, targeted initiatives are intended to build jobs and growth for the economy of tomorrow and make Canada a destination of choice for new business investment. Finally, the deficit should gradually be reduced from \$27.6 billion in 2011-2012, to \$17.5 billion in 2012-2013 and to \$1.8 billion in 2014-2015.

The Minister confirmed existing measures to reduce the general corporate income tax rate. In addition, new measures will simplify the calculation of disbursement quotas for charities and impact on the taxation of stock option plans for employees. In terms of international tax, there are proposals to amend the definition of “taxable Canadian property” and revised proposals have been presented with respect to foreign investment entities and non-resident trusts.

Moreover, the government announced that it will examine the possibility of introducing a formal system of loss transfers or consolidated reporting for corporations. Before introducing any potential changes, the government plans to solicit comments from the tax community.

Finally, similar to the Québec government, the federal government announced that it will undertake a consultation process with a view to implementing a reporting regime for aggressive tax avoidance transactions.

Businesses

	Current measures	Proposed measures	
Clean energy generation			
Capital cost allowance	<ul style="list-style-type: none"> ▪ Specified clean energy generation and conservation equipment: <ul style="list-style-type: none"> – 50% diminishing balance rate on property acquired after February 22, 2005 and before 2010 (Class 43.2), and – 30% diminishing balance rate on property acquired before February 23, 2005 or property not eligible for Class 43.2 (Class 43.1) 	<ul style="list-style-type: none"> ▪ Eligibility to Class 43.2 expanded to include <ul style="list-style-type: none"> – a broader range of heat recovery equipment, and – distribution equipment that is part of a district energy system ▪ Applicable to property acquired on or after March 4, 2010 	+
Canadian renewable and conservation expenses (flow-through shares)			
Definition of “Principal-Business Corporation”	<ul style="list-style-type: none"> ▪ Definition includes a corporation whose principal business is the generation of energy using Class 43.2 property or the development of Class 43.2 projects 	<ul style="list-style-type: none"> ▪ Definition is amended to include corporations the principal business of which is <ul style="list-style-type: none"> ▪ Producing fuel; or ▪ Distributing energy 	+
Television set-top boxes			
Capital cost allowance	<ul style="list-style-type: none"> ▪ Declining balance rate of 20% for satellite set-top boxes ▪ Declining balance rate of 30% for cable set-top boxes 	<ul style="list-style-type: none"> ▪ Declining balance rate of 40% for satellite and cable set-top boxes ▪ Applicable to set-top boxes acquired on or after March 4, 2010 	+
Certain income trusts and partnerships (“SIFTs”)			
Acquisition-of-control rules	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Acquisition-of-control rules will apply to impose restrictions on the use of losses in situations where units of a SIFT trust or partnership are exchanged for shares of a corporation ▪ Applicable to transactions undertaken after 4:00 p.m. EST on March 4, 2010 (other than existing agreements) 	–

Individuals

	Current measures	Proposed measures	
Employee stock options			
Stock option cash outs	<ul style="list-style-type: none"> ▪ If an employee disposes of (“cashes out”) stock option rights for a cash payment: <ul style="list-style-type: none"> – The employee is eligible for the stock option deduction (50% of taxable benefit), and – The cash payment is fully deductible by the employer 	<ul style="list-style-type: none"> ▪ If an employee disposes of (“cashes out”) stock option rights for a cash payment: <ul style="list-style-type: none"> – The employee gets the deduction only if the employer makes an election to forgo the deduction for the cash payment ▪ This measure applies to dispositions of employee stock options after 4:00 p.m. EST on March 4, 2010 	–
Tax deferral elections	<ul style="list-style-type: none"> ▪ An employee of a public corporation can elect to defer the inclusion of a stock option benefit up to \$100,000 in a year 	<ul style="list-style-type: none"> ▪ Deferral election abolished ▪ Applies to employee stock options exercised after 4:00 p.m. EST on March 4, 2010 	–
Special relief for tax deferred election	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ A special elective treatment will ensure that the tax liability on a deferred stock option benefit does not exceed the proceeds of disposition for the optioned securities (2/3 of such proceeds for residents of Quebec) ▪ Individuals who disposed of optioned securities before 2010 will have to make the election for this treatment on or before their filing due date for 2010 ▪ Individuals who have not disposed of their optioned securities before 2010 must make the election before 2015 	+
Withholding requirements		<ul style="list-style-type: none"> ▪ For benefits arising after 2010, withholding requirements will be clarified to ensure that tax on the value of the employment benefit is remitted to the government by the employer 	–
Registered Disability Savings Plan (RDSP)			
Rollover of RRSP proceeds to an RDSP	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Allow the rollover of a deceased individual’s RRSP proceeds to the RDSP of a financially dependent infirm child or grandchild ▪ The amount of RRSP proceeds rolled over into an RDSP will not be permitted to exceed the beneficiary’s available RDSP contribution room. The rollover amount will reduce the beneficiary’s RDSP contribution room but will not attract Canada Disability Savings Grants (“CDSG”) ▪ Applicable for deaths occurring on or after March 4, 2010 ▪ Transitional rules for deaths occurring after 2007 and before 2011 	+

Individuals

	Current measures	Proposed measures	
Carry forward of RDSP grants and bonds	<ul style="list-style-type: none"> ▪ Beneficiaries are currently unable to carry forward unused CDSG and Canada Disability Savings Bond (“CDSB”) entitlements to future years 	<ul style="list-style-type: none"> ▪ Allow for a 10-year carry forward of CDSG and CDSB entitlements. CDSGs will be paid on unused entitlements, up to an annual maximum of \$10,500 ▪ Applicable as of 2011 	+
Benefits entitlement – shared custody			
	<ul style="list-style-type: none"> ▪ Only one individual can receive: <ul style="list-style-type: none"> – The Canada Child Tax Benefit (CCTB), and – The Universal Child Care Benefit (UCCB) ▪ Only one individual can receive the child component of the GST/HST credit 	<ul style="list-style-type: none"> ▪ Two individuals can share the CCTB and the UCCB each month ▪ Two individuals can share the GST/HST credit each quarter ▪ Applicable as of July 2011 	+
Universal Child Care Benefit (“UCCB”) for single parents			
	<ul style="list-style-type: none"> ▪ The benefit is taxable in the single parent’s income 	<ul style="list-style-type: none"> ▪ Option to have the benefit included in the income of the child for whom an Eligible Dependant Credit is claimed or, subject to certain conditions, in the income of one of the children for whom the UCCB is paid ▪ Applicable to 2010 and subsequent taxation years 	+
Medical expense tax credit			
	<ul style="list-style-type: none"> ▪ Expenses incurred for purely cosmetic procedures may be eligible for the medical expense tax credit 	<ul style="list-style-type: none"> ▪ Expenses incurred for purely cosmetic procedures (including related services and other expenses such as travel) will not be eligible for the medical expense tax credit unless they are required for medical or reconstructive purposes ▪ Applicable to expenses incurred after March 4, 2010 	–
Scholarship exemption and education tax credit			
Scholarships	<ul style="list-style-type: none"> ▪ 100% tax exemption for educational program that entitles the student to claim an Education Tax Credit 	<ul style="list-style-type: none"> ▪ A post-secondary program that consists principally of research will be eligible for the Education Tax Credit and the scholarship exemption, only if it leads to a college or CEGEP diploma, or a bachelor, masters or doctoral degree (or an equivalent degree). Accordingly, post-doctoral fellowships will generally be taxable ▪ Applicable as of 2010 	–

Individuals

	Current measures	Proposed measures	
Social security			
U.S. social security benefits	<ul style="list-style-type: none"> ▪ Taxable portion: 85% 	<ul style="list-style-type: none"> ▪ Taxable portion: 50% for individuals who have been receiving U.S. social security benefits since before January 1, 1996 ▪ Applicable to benefits received on or after January 1, 2010 	+
Mining exploration			
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 March 31, 2010 	<ul style="list-style-type: none"> ▪ Extended by one year to agreements entered into on or before March 31, 2011 	+

International tax measures

	Current measures	Proposed measures	
International			
Taxable Canadian property	<ul style="list-style-type: none"> ▪ The sale by a non-resident of “taxable Canadian property” is subject to a withholding tax under Section 116 	<ul style="list-style-type: none"> ▪ The definition of “taxable Canadian property” is amended to exclude shares of corporations (and certain other interests) that do not derive their value principally from real or immovable property situated in Canada, Canadian resource property or timber resource property ▪ This measure applies after March 4, 2010 in determining whether a property is taxable Canadian property 	+
Foreign tax credit generators	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ The new measures will deny claims for foreign tax credits or deductions to corporations engaged in schemes designed to artificially increase foreign tax credits or deductions in order to offset Canadian tax otherwise payable ▪ Effective for foreign taxes incurred for taxation years that end after March 4, 2010 ▪ The government will be accepting comments on this measure up until May 3, 2010 	-
Foreign investment entities and non-resident trusts	<ul style="list-style-type: none"> ▪ Outstanding proposals to counter the use of aggressive tax planning strategies using foreign entities 	<ul style="list-style-type: none"> ▪ Revised proposals that are subject to a consultation process. The public is invited to submit comments before May 4, 2010 	+

Other measures		
	Current measures	Proposed measures
Online notices		
Electronic issuance of notices		<ul style="list-style-type: none"> ▪ Legislation will be amended to allow for the electronic issuance of notices that can currently be sent by ordinary mail ▪ Applicable when implementing legislation receives Royal Assent

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