



## FEDERAL BUDGET



The Minister of Finance, James M. Flaherty, presented the 2007 budget in the House of Commons this afternoon, the third successive budget presented by a minority government in Canada.

The following is a summary of the highlights proposed in the budget.

### INDIVIDUALS

#### NEW \$2,000 CHILD TAX CREDIT

Effective January 1, 2007, families will be able to claim a new tax credit for each child under age 18.

The tax credit will be calculated as \$2,000 per child multiplied by the lowest personal income tax rate (15.5 per cent), resulting in a credit of \$310 per child under 18.

#### FAIRNESS FOR SINGLE-EARNER FAMILIES

Currently, taxpayers who have low-income spouses, or single taxpayers who support dependants such as a child or elderly parent, receive a tax-free amount of up to \$7,581 in 2007.

The tax relief for the supporting person is reduced as the spouse's or dependant's net income increases, and is fully phased out once it reaches \$8,340.

### BUSINESS

#### ASSISTING CANADA'S MANUFACTURERS

Budget 2007 proposes a special temporary measure to allow investments by manufacturers and processing firms in machinery and equipment to be written off straight line over a two-year period. The proposed rate will allow these investments to be written off over a two-year period on average, after taking into account the half-year rule, which treats assets as if they had been purchased in the middle of the year.

#### RRSP AGE LIMIT EXTENDED

The budget proposes to increase the age limit from 69 to 71 for converting a registered retirement savings plan (RRSP)  
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## INDIVIDUALS

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Budget 2007 proposes to increase the credits for low-income spouses and dependants of single individuals by raising the amounts to the same level as the basic personal amount (\$8,929) from their current level (\$7,581), effective January 1, 2007.

These amounts will grow with currently legislated future increases in the basic personal amount, meaning that they will reach at least \$10,000 by 2009, \$1,500 higher than previously legislated.

### CHANGES AFFECTING CAPITAL GAINS EXEMPTION

Budget 2007 proposes to increase the current tax exemption on capital gains realized on the disposition of qualified farm and fishing property or qualified small business corporation shares to \$750,000 from the current level of \$500,000.

This new limit will apply to eligible dispositions on or after March 19, 2007.

In addition, Budget 2007 proposes to eliminate the taxation of capital gains arising from donations of publicly listed securities to private foundations.

### INCREASING TAX FAIRNESS

Budget 2007 proposes measures to ensure that those who have not been paying their fair share of taxes begin to do so.

They include providing new resources to the Canada Revenue Agency to detect and close down tax avoidance through offshore tax havens.

Budget 2006 announced that the general corporate income tax rate would be reduced from 21% to 19% by 2010.

Budget 2007 proposes to further reduce the rate to 18.5% beginning in 2011.

### EXPANDED TRANSIT PASS TAX CREDIT PROGRAM

Budget 2006 introduced the public transit tax credit by providing a credit for the purchase cost of monthly public transit passes, or passes of a longer duration.

Some transit authorities are planning to replace their monthly passes with cost-per-trip fare products. Budget 2007 proposes to extend the public transit tax credit to include electronic fare cards that are used for at least 32 one-way trips in a monthly period. Transit authorities will need to track and certify usage and cost.

Further, the public transit tax credit will be provided where four weekly passes are purchased consecutively. These changes will be effective for the 2007 tax year.

### INCREASING THE AGE LIMIT FOR MATURING RPPS AND RRSPS

The Income Tax Act currently requires that an individual's registered retirement savings plan (RRSP) be converted to a registered retirement income fund (RRIF), or be used to acquire a qualifying annuity, by the end of the year in which the individual turns 69 years of age. Similarly, registered pension plan (RPP) payments must generally begin by the end of the year in which the pension plan member turns 69 years of age.

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Budget 2007 proposes to increase the RRSP/RPP maturation age limit to 71 years of age, effective for the 2007 and subsequent taxation years. RRIF owners must withdraw a specified minimum amount each year following the year in which the

RRIF is established. This requirement will be waived for 2007, for those RRIF owners who turn 71 years of age in 2007, and for 2007 and 2008, for those RRIF owners who turn 70 years of age in 2007.

### **REGISTERED EDUCATION SAVINGS PLANS (RESPS)**

Budget 2007 proposes the following enhancements to the current RESP program:

- Eliminating the \$4,000 limit on annual contributions.
- Increasing the lifetime RESP contribution limit from 42,000 to \$50,000.
- Increasing the maximum Canada Education Savings Grant annual amount from \$400 to \$500.

### **PHASED RETIREMENT**

The Income Tax Regulations currently prohibit phased retirement arrangements by preventing employees from accruing pension benefits under a defined benefit registered pension plan if they receive a pension from the plan of the same or a related employer.

The Government of Quebec has proposed changes to accommodate phased retirement arrangements under its provincial pension rules.

Budget 2007 proposes to permit an employer to simultaneously pay a partial pension to an employee and provide further pension benefit accruals to the employee. The measure will apply only to employees aged 55 years and over who are entitled to an unreduced pension.

These changes will come into effect beginning in 2008.

### **WORKING INCOME TAX BENEFIT (WITB)**

The budget proposes to introduce the Working Income Tax Benefit (WITB), effective for the 2007 taxation year. The WITB will provide up to \$500 for single individuals (\$1,000 for families) and will be phased out at a rate of 15% of net family income in excess of \$9,500 (\$14,500 for families). The WITB will include an additional disability supplement for individuals eligible for the disability tax credit (DTC).

### **BUSINESS**

*(continued from page 1)*

This will apply to investments in new machinery and equipment on or after March 19, 2007, and before 2009.

In addition, Budget 2007 proposes increasing the capital cost allowance rate from 4 to 10 per cent for buildings used in manufacturing and processing, and from 45 to 55 per cent for computers.

### **ASSISTANCE TO SMALL BUSINESSES**

Budget 2007 proposes to make reporting and compliance easier for small businesses by:

- ◆ Reducing the federal paper burden on small business by 20 per cent by November 2008.
- ◆ Raising the threshold amount, above which corporations are required to pay corporate income tax instalments, to \$3,000 for years beginning after 2007. In addition, the frequency of instalment payments for small Canadian-controlled private corporations (CCPCs) will be changed to a quarterly basis. Similar changes apply to payroll remittances and goods and services tax/harmonized sales tax (GST/HST) remittances.

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Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by Parliament, may be altered to some degree.

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**GREEN LEVY ON FUEL-INEFFICIENT VEHICLES**

Budget 2007 introduces a vehicle efficiency incentive (VEI) designed to promote the purchase of fuel-efficient vehicles in Canada. The VEI structure includes a rebate for highly fuel-efficient vehicles, neutral treatment for vehicles of average fuel efficiency and a new Green Levy on fuel inefficient vehicles.

The Green Levy will apply to new automobiles designed primarily to carry passengers, including station wagons, vans and sport utility vehicles, but not pickup trucks, in accordance with the vehicle's fuel-efficiency rating.

Vehicles that have a weighted average fuel consumption of 13 or more litres per 100 kilometres will be subject to the levy at the following rates:

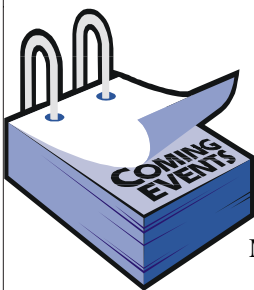
- at least 13 but less than 14 litres per 100 kilometres \$1,000;
- at least 14 but less than 15 litres per 100 kilometres \$2,000;
- at least 15 but less than 16 litres per 100 kilometres \$3,000; and
- 16 or more litres per 100 kilometres \$4,000.

The Green Levy will apply to new vehicles delivered or imported after March 19, 2007. The inventory of vehicles held by dealers on March 19, 2007 will not be subject to the levy, allowing dealers to sell these vehicles to final consumers without the application of the levy. As well, vehicles for which an agreement in writing between a dealer and a final consumer was entered into before March 20, 2007 will not be subject to the levy, provided the final consumer takes possession of the vehicle before July 2007.

The Green Levy will also apply to imported used vehicles put into service after March 19, 2007.

**INCREASED TRAVEL EXEMPTION**

The budget proposes to double the value of goods that may be imported duty- and tax-free by returning Canadian residents after a 48-hour absence from \$200 to \$400.



**ALERT DATES**

|                    |   |
|--------------------|---|
| March 31, 2007     | Filing date for T-5013 of partnerships.   |
| April 30, 2007     | Deadline for filing personal income tax returns other than those permitted to file by June 15.        |
| June 15, 2007      | Second installment due for individuals required to make income tax installments.                      |
|                    | Filing date for individuals reporting business income including professional income and their spouses |
| September 15, 2007 | Third installment due for individuals required to make income tax installments.                       |

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### CONTACT INFORMATION

**LEVI & SINCLAIR** SENCRL  
LLP

4141 Sherbrooke Street West, Suite 240

Westmount, Quebec H3Z 1B8

Tel: (514) 931-7600

Fax: (514) 931-3600

Philip C. Levi, CMC, CFE, FCA, CPA, CA•IFA

[plevi@levifca.com](mailto:plevi@levifca.com)

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