

March 22, 2011

# tax & business Alert

## BUDGET HIGHLIGHTS:

- Introducing Children's Arts Tax Credit
- Extending the work-sharing Program
- Employment Insurance Pilot Projects
- Extending the accelerated capital cost allowance
- Corporate Partnership Tax Deferral

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## FEDERAL BUDGET 2011



The Minister of Finance, James M. Flaherty, presented the 2011 budget in the House of Commons this afternoon. He announced a projected deficit for 2010-2011 of \$40.5 billion which is almost \$9 billion less than was projected in budget 2010. There are no tax increases contained in the budget, nor any changes to previously promised tax rate reductions.

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

### Individuals

#### INTRODUCING CHILDREN'S ARTS TAX CREDIT

The budget proposes a new 15% non-refundable Children's Art Tax Credit for eligible expenses up to \$500.

The credit will be available in respect of a child who is under 16 years of age at the beginning of the year who is enrolled in an eligible artistic, cultural, recreational or developmental activity.

Eligible activities include activities that:

- contribute to the development of creative skills or expertise in an artistic or cultural activity;
- provide a substantial focus on wilderness and the natural environment;
- help children develop and use particular intellectual skills;

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### Corporations

#### TEMPORARY HIRING CREDIT FOR SMALL BUSINESS

Budget 2011 proposes a temporary Hiring Credit for Small Business of up to \$1,000 against a small employer's increase in its 2011 EI premiums over those paid in 2010.

#### EXTENDING THE WORK-SHARING PROGRAM

The work-sharing program offers EI benefits to workers willing to work a reduced work week while their company recovers.

Budget 2011 provides \$10 million in additional support to assist those employers that continue to face challenges by making available an extension of up to 16 weeks for active or recently terminated work-sharing agreements.

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The extension will be phased out by October 2011. In addition, the Government will also make the program more flexible and efficient for employers signing new agreements by recognizing fluctuations in work schedules and by reducing administrative complexity.

#### RENEWING EMPLOYMENT INSURANCE PILOT PROJECTS

In October 2010, the Government announced the continuation of three Employment Insurance (EI) pilot projects. The extra 5 weeks pilot project was renewed until 2012, while the other two of these pilots—Working While on Claim and Best 14 Weeks—are scheduled to expire in the summer of 2011.

Budget 2011 proposes to renew these two pilots for one year.

The Working While on Claim pilot project, available across Canada, will allow EI claimants to earn additional money while receiving income support. It will be renewed until August 2012.

The Best 14 Weeks pilot project, which allows claimants in 25 regions of higher unemployment to have their EI benefits calculated based on the highest 14 weeks of earnings over the year preceding a claim, will be renewed until June 2012.

#### EXTENDING THE ACCELERATED CAPITAL COST ALLOWANCE

Budget 2011 announces the extension of the temporary accelerated capital cost allowance (CCA) treatment for investment in machinery and equipment in

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## Individuals

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- include structured interaction among children where supervisors teach or help them develop interpersonal skills or;
- provide enrichment or tutoring in academic subjects.

An eligible program must be ongoing in nature. As such, an eligible program will be either a weekly program lasting a minimum of eight consecutive weeks or, in the case of children's camps, a program lasting a minimum of five consecutive days.

This credit will be structured in the same manner as the existing Children's Fitness Tax Credit.

The credit will apply to eligible expenses paid in the 2011 and subsequent taxation years, and will be

#### EI PREMIUM RATE

On September 30, 2010, the Government announced that the increase in EI premiums was limited to 5 cents per \$100 of insurable earnings for 2011 and 10 cents for subsequent years.

able to be claimed by either parent, or shared by both parents.

#### FAMILY CAREGIVER TAX CREDIT

The budget introduces a new tax credit for caregivers of dependants with a mental or physical infirmity, including spouses, common-law partners and

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The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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the manufacturing and processing sector for two additional years. A 50-per-cent straight-line rate will be provided for eligible assets acquired before 2014.

#### MINERAL EXPLORATION TAX CREDIT

The temporary 15-per-cent Mineral Exploration Tax Credit helps companies raise capital by providing an incentive to individuals who invest in flow-through shares issued to finance mineral exploration. This credit is in addition to the regular deduction provided for the exploration expenses “flowed through” from the issuing company.

The credit is scheduled to expire on March 31, 2011. Budget 2011 proposes to extend the credit for an additional year, until March 31, 2012.

#### CORPORATE PARTNERSHIP TAX DEFERRAL

The budget proposes to limit the deferral opportunities for corporations (other than professional corporations) with significant interests in partnerships that have a fiscal period different from the corporation’s taxation year.

In computing the corporation’s income for the taxation year, it will be required to accrue income from the partnership for the portion of the partnership’s fiscal period that falls within the corporation’s taxation year.

Affected partnership interests are those where a corporate partner, together with affiliated and related parties, is entitled to more than 10% of the partnership’s income (or assets in the case of a wind-up) at the end of the last fiscal period of the partnership that ended in the taxation year.

The partnership’s stub period accrual can be calculat-

ed using a formula that essentially pro-rates the partnership income for the taxation year that ended in the corporation’s taxation year.

Alternatively, the corporation will be able to designate an amount as the stub period accrual but, should the corporation underestimate this stub-period income, an income adjustment will need to be added to the corporate partner’s income for the subsequent taxation year equal to the shortfall multiplied by a prescribed interest rate (this income adjustment can be viewed somewhat like a penalty but is considered income to the partnership).

The additional income for the first year will be brought into the corporation’s income over a five year period.

This measure will apply to taxation years of a corporation that end after March 22, 2011.

Because some partnerships may wish to change their fiscal period as a result of these measures, a one-time written election to do so will generally be available where all members of the partnership are corporations other than professional corporations. This election will be possible for fiscal periods of partnerships that end after March 22, 2011 and no later than the last day of the partnership’s first taxation year that ends after this date.

Partnerships that are part of a tiered partnership structure will be required to have the same fiscal period, whether or not this fiscal period aligns with the taxation year of any of its corporate partners. The partnerships will be allowed, on a one-time basis, to choose a common fiscal period by filing a written election.

The elected fiscal period will have to end before March 22, 2012 and must be no more than 12 months in duration.

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minor children. The 15% non-refundable credit will be based on an amount of \$2,000 and will apply beginning in 2012.

Caregivers will benefit from this credit by claiming an enhanced amount for an infirm dependant under one of the existing dependency-related credits:

- Spousal or Common-law Partner Credit,
- Child Tax Credit,
- Eligible Dependand Credit,
- Caregiver Credit and
- Infirm Dependand Credit.

The budget also proposes to increase for 2012 the threshold for the dependant's income level at which the Infirm Dependand Credit begins to be phased out, so that the enhanced amount is fully phased out at the same income level as the 2012 enhanced Spousal or Common-law Partner Credit.

The \$2,000 Family Caregiver Credit amount will be indexed to inflation for 2013 and subsequent years.

#### **EXPANDING THE WAGE EARNER PROTECTION PROGRAM**

The Wage Earner Protection Program (WEPP) provides guaranteed and timely compensation of up to \$3,400 in 2011 to workers for unpaid wages, vacation pay, severance and termination pay earned in the six months preceding an employer bankruptcy or receivership.

Budget 2011 announces more protection for workers by extending the WEPP to also cover employees who lose their jobs when their employer's attempt at restructuring takes longer than six months, is subsequently unsuccessful and ends in bankruptcy or receivership.

#### **MEDICAL EXPENSE TAX CREDIT**

The Medical Expense Tax Credit in respect of a dependent relative (other than a child who has not reached the age of 18 years before the end of the taxation year) is proposed to be amended to remove the current \$10,000 limit on eligible expenses that can be claimed.

This measure will apply to the 2011 and subsequent taxation years.

#### **TAX ON SPLIT INCOME**

The tax on split income, also is proposed to be amended to extend the application of the 29% tax to certain capital gains. The provision is proposed to apply to capital gains realized on the disposition of shares of a corporation to a person who does not deal at arm's length with the minor, if taxable dividends on those shares would have been subject to the tax on split income.

If this provision applies, the capital gains will be treated as dividends and neither the capital gains inclusion rate nor the lifetime capital gains exemption will apply.

This measure is proposed to apply to capital gains realized on or after March 22, 2011.

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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.**

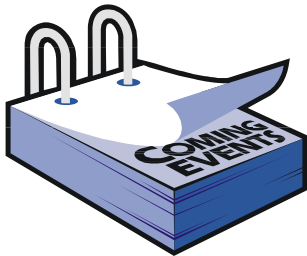
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## Other Measures Included in the Budget

- Extending the temporary 15-per-cent Mineral Exploration Tax Credit for an additional year (until March 31, 2012)
- Providing renewed funding of almost \$100 million over two years for research, development and demonstrations of clean energy and energy efficiency.
- Enhancing the Guaranteed Income Supplement (GIS) for those seniors who rely almost exclusively on their Old Age Security and the GIS and may therefore be at risk of experiencing financial difficulties. This measure will provide a new top-up benefit of up to \$600 annually for single seniors and \$840 for couples.
- Attracting more health care workers to underserved rural and remote communities by forgiving up to \$40,000 of the federal component of Canada Student Loans for new family physicians and up to \$20,000 for nurse practitioners and nurses.
- A Volunteer Firefighters Tax Credit for volunteer firefighters who perform at least 200 hours of service in their communities.
- The extension of the ecoENERGY Retrofit – Homes program that will help homeowners make their homes more energy efficient and reduce the burden of high energy costs.
- The budget proposes that Registered Canadian Amateur Athletic Associations be required to have the promotion of amateur athletics in Canada on a nation-wide basis as their exclusive purpose and exclusive function rather than their primary purpose and primary function.



### **ALERT DATES**

March 15, 2011	First installment due for individuals required to make income tax installments.
March 31, 2011	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2010 taxation year-end.  Filing date for T-5013 of partnerships.
April 30, 2011	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2011	Deadline for filing personal income tax returns for self-employed individuals, but any amounts owing must still be paid by April 30th

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