

tax & business Alert

BUDGET HIGHLIGHTS:

- Creation of tax free savings account.
- Termination of ecoAUTO program.
- Simplified automobile log rules.
- Increased capital cost allowance for the manufacturing sector.

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FEDERAL BUDGET 2008



The Minister of Finance, James M. Flaherty, presented the 2008 budget in the House of Commons this afternoon, the fourth successive budget presented by a minority government in Canada. The following is a summary of the highlights contained in the budget.

Individuals

TAX-FREE SAVINGS ACCOUNT

The Government proposes to reduce the taxation of savings through the introduction of a Tax-Free Savings Account (TFSA)—a flexible, registered general-purpose account that will allow Canadians to earn tax-free investment income.

Since not everyone is able to save each year, individuals who are unable to contribute \$5,000 in a year will be able to carry forward unused contribution room to future years.

In addition, the full amount of withdrawals may be re-contributed to a TFSA in the future, to ensure that there is no loss in a person's total savings room. Individuals may contribute to the TFSA of their spouse or common-law partner, subject to the spouse or partner's available contribution room.

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Corporations

EXTENDING ASSISTANCE FOR CANADA'S MANUFACTURING SECTOR

Budget 2007 announced a temporary two-year 50-per-cent straight-line accelerated CCA rate for investment in manufacturing or processing machinery and equipment undertaken before 2009.

Budget 2008 proposes to extend accelerated CCA treatment for investment in machinery and equipment in the manufacturing and processing sector for three additional years. This will include a one-year extension of the 50-per-cent straight-line accelerated CCA treatment, followed by a two-year period during which the accelerated treatment will be provided on a declining basis.

For eligible assets acquired in 2009, a 50-per-cent straight-line rate will be

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How the Tax-Free Savings

Account Will Work

- Starting in 2009, Canadian residents age 18 or older will be eligible to contribute up to \$5,000 annually to a TFSA, with unused room being carried forward.
- Contributions will not be deductible.
- Capital gains and other investment income earned in a TFSA will not be taxed.
- Withdrawals will be tax-free.
- Neither income earned within a TFSA nor withdrawals from it will affect eligibility for federal income-tested benefits and credits.
- Withdrawals will create contribution room for future savings.
- Contributions to a spouse's or common-law partner's TFSA will be allowed, and TFSA assets will be transferable to the TFSA of a spouse or common-law partner upon death.
- Qualified investments include all arm's-length Registered Retirement Savings Plan (RRSP) qualified investments.
- The \$5,000 annual contribution limit will be indexed to inflation in \$500 increments.
- Because the investment income within, and withdrawals from, a TFSA will not be taxable, interest on money borrowed to invest in a TFSA will not be deductible in computing income for tax purposes.
- Generally, an individual's TFSA will lose its tax-exempt status upon the death of the individual. However, an individual will be permitted to name his or her spouse or common-law partner as the successor account holder, in which case the account will maintain its tax-exempt status. Alternatively, the assets of a deceased individual's TFSA may be transferred to a TFSA of the surviving spouse or common-law partner, regardless of whether the survivor has available
- This measure will have effect after 2008.

CHANGES TO LIFE INCOME FUNDS (LIFs)

LIFs hold investments stemming from federally regulated registered pension plans. LIFs provide seniors with the ability to withdraw these investments, but withdrawals are currently subject to strict annual withdrawal limits.

Budget 2008 proposes to significantly enhance the flexibility to withdraw funds from LIFs through three provisions:

- * Individuals 55 or older with small holdings of up to \$22,450 will be able to wind up their accounts with the option to convert to a tax-deferred savings vehicle. The threshold for small holdings will increase with the average industrial wage.
- * Individuals 55 or older will be entitled to a one-time conversion of up to 50 per cent of LIF holdings into a tax-deferred savings vehicle with no maximum withdrawal limits.
- * All individuals facing financial hardship (e.g. low income, high disability or medical-related costs) will be entitled to unlock up to \$22,450. This maximum will also increase with the average industrial wage.

EXTENDING CAPITAL GAINS TAX RELIEF IN RESPECT OF DONATIONS OF SECURITIES

Budget 2006 introduced an additional incentive for Canadians to increase their charitable giving, by eliminating capital gains tax on donations of publicly-traded securities. Some securities are not publicly traded, but are exchangeable into other securities that are.

A person who exchanges such non-publicly-traded securities in order to make a charitable gift of the publicly-traded securities acquired on the exchange is not exempt on any resulting capital gain, because the gain arose on the exchange and not on the gift.

Budget 2008 proposes to exempt from tax the capital gain arising on the exchange of certain exchangeable securities, where the securities acquired on the exchange are themselves eligible for a capital gains exemption and are donated to a registered charity within 30 days of the exchange.

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CANADA STUDENT GRANT PROGRAM

Budget 2008 is launching a new consolidated Canada Student Grant Program to take effect in the fall of 2009, to coincide with the wind-down of the Canada Millennium Scholarship Foundation. All federal grants will be integrated into one program that will provide more effective support to more students for more years of study, assisting Canadian families who struggle with the cost of higher education.

EXTENDING ASSISTANCE FOR CANADA'S MANUFACTURING SECTOR

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provided. For assets acquired in 2010, a 50-per-cent declining balance rate will apply in the first taxation year, a 40-per-cent declining balance rate will apply in the second year, and a 30-per-cent declining balance rate will apply in subsequent years. For assets acquired in 2011, a 40-per-cent declining balance rate will apply in the first year and a 30-per-cent declining balance rate will apply in subsequent years.

SUPPORTING SMALL AND MEDIUM-SIZED BUSINESSES

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX INCENTIVE PROGRAM

Currently, an enhanced SR&ED investment tax credit (ITC) of 35 per cent is available to small Canadian-controlled private corporations (CCPCs) on their first \$2 million of qualified expenditures. These enhanced benefits are phased out based on the taxable capital and taxable income of the corporation.

Budget 2008 proposes to increase the expenditure limit from \$2 million to \$3 million and to increase the

upper limit for the taxable capital phase-out range from \$15 million to \$50 million. The upper limit of the taxable income phase-out range will also be increased, from \$600,000 to \$700,000.

These changes will be generally applicable for taxation years that end on or after February 26, 2008.

SR&ED OUTSIDE CANADA

Budget 2008 proposes to extend the SR&ED ITC to certain activities carried on outside Canada. Eligibility will be limited to a maximum of 10 per cent of the Canadian SR&ED labour expenditures, and will apply generally to salaries and wages paid on or after February 26, 2008.

SIMPLIFYING COMPLIANCE WITH THE MOTOR VEHICLE TAX PROVISIONS

To support motor vehicle expense claims and calculate taxable benefits, the Canada Revenue Agency (CRA) requires individuals to keep a detailed record (i.e. a logbook) of their business driving, including the total and business kilometres driven annually, as well as the date, destination, distance driven and purpose for each business trip.

This requirement can be burdensome for taxpayers.

Budget 2008 proposes that maintaining a logbook during a sample period of time, that is representative of how the motor vehicle is used, be sufficient to support motor vehicle expense and taxable benefit calculations. To inform the development of the proposed record-keeping requirements, the CRA will undertake consultations in 2008 with key stakeholders, including the CFIB, and will implement a revised administrative policy in 2009.

tax & business ALERT has been prepared by LEVI & SINCLAIR, LLP for the general information of our clients, staff and other interested parties.

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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NON-RESIDENTS' DISPOSITIONS OF TAXABLE CANADIAN PROPERTY (TCP)

Beginning in 2009, the rules that apply to non-residents' dispositions of taxable Canadian property (TCP) are to be simplified:

- Treaty-protected property will be exempt from withholding requirements. For dispositions between related persons, the purchaser will be required to file a notice within 30 days of the disposition setting out basic information about the transaction and the vendor.
- Purchasers will not be required to withhold if:
 - ◆ the purchaser concludes after reasonable inquiry that the vendor is treaty resident of another country,
 - ◆ the property is treaty-protected property; and
 - ◆ the purchaser files a notice within 30 days with the CRA setting out basic information about the transaction and the vendor.
- Non-residents will be exempt from filing Canadian income tax returns if
 - ◆ no tax is payable for the year,
 - ◆ the non-resident has no outstanding balances (other than amounts for which appropriate security has been posted); and
 - ◆ the TCP disposed of is "excluded property" (includes treaty-protected property) or a 116 certificate has been received.

END TO THE ECOAUTO REBATE PROGRAM

Budget 2007 announced funding for a two-year ecoAUTO Rebate program for consumers who purchase fuel-efficient vehicles. The program offers rebates from \$1,000 to \$2,000 to people who, beginning March 20, 2007, buy or enter a long-term lease (12 months or more) for a fuel efficient vehicle.

Consumers will continue to be able to collect the rebate through March 31, 2009, on eligible 2006, 2007 and 2008 model year vehicles purchased by December 31, 2008.

WORLD-CLASS TRAVEL DOCUMENTS

Budget 2008 takes the steps needed to introduce a higher-security electronic passport by 2011. The validity period of the new passport will be doubled to 10 years.

Budget 2008 also invests \$14 million over the next two years to expand the joint Canada/United States NEXUS program by adding dedicated infrastructure, increasing the number of users from 160,000 to 350,000 and better targeting frequent travellers.

The NEXUS program has been successful in reducing border transit times. Expediting crossings for low risk frequent travellers will also free up resources to improve the clearance of regular traffic, thereby improving border security and reducing border congestion.

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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SPECIFIED INVESTMENT

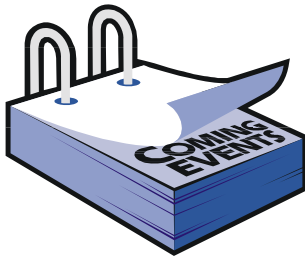
FLOW-THROUGH TRUST

Beginning with the 2009 taxation year, the provincial component of the specified investment flow-through trust (SIFT) tax will be based on the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment. Taxable distributions not allocated to any province will be subject to a 10% rate, and allocations to Quebec will be

subject to nil tax to take into account the SIFT tax imposed by Quebec.

DIVIDEND GROSS-UP

The dividend gross-up factor and dividend tax credit (DTC) rate for eligible dividends will be adjusted to reflect corporate income tax rate reductions.



ALERT DATES

February 29, 2008	T4 and Relevé 1, T5 and Relevé 3 Summaries and Supplementary reporting due. Last day to make RRSP contribution for 2007.
March 15, 2008	First installment due for individuals required to make income tax installments.
March 31, 2008	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2008 taxation year-end. Filing date for T-5013 of partnerships.
April 30, 2008	Deadline for filing personal income tax returns other than those permitted to file by June 15.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our tax group has been in existence for 50+ years and is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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