

June 6, 2011

NEW BUDGET

HIGHLIGHTS:

- The \$2 per vote political party allowance will gradually be phased out.
- The budget includes a provision for \$2.2 billion to fund the compensation to Quebec in connection with the harmonization of the GST with the QST.

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tax & business Alert

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FEDERAL BUDGET 2011



The Minister of Finance, James M. Flaherty, presented his second budget this year in the House of Commons this afternoon. This budget essentially confirms the measures announced on March 22, 2011. 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 measures that were confirmed. For a more detailed summary of these measures, we invite our readers to visit view our March 22, 2011 budget newsletter.

Corporations

ACCELERATED CAPITAL COST ALLOWANCE (CCA) FOR MACHINERY AND EQUIPMENT

The budget proposes to extend the temporary incentive for accelerated CCA for machinery and equipment primarily for use in Canada for the manufacturing or processing of goods for sale or lease for an additional two years. This measure will apply to eligible machinery and equipment purchased before 2014.

LIMITATION OF DEFERRAL FOR CORPORATIONS USING PARTNERSHIPS

The budget proposes to limit the deferral opportunities for corporations with a significant interest in a partnership that has a different fiscal period than the corporation's taxation year. This measure will apply to taxation years of a corporation that end after March 22, 2011.

EMPLOYMENT INSURANCE (EI) PREMIUMS ONE-TIME CREDIT

The budget proposes a one-time credit of up to \$1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010. This new credit will be available for employers whose EI premiums were at or below \$10,000 in 2010.

Individuals

CHILDREN'S ART TAX CREDIT

The budget proposes a new 15% non-refundable Children's Art Tax Credit for eligible expenses up to \$500. The credit will apply to eligible expenses paid in the 2011 and subsequent taxation years, and will be able to be claimed by either parent, or shared by both parents.

FAMILY CAREGIVER TAX CREDIT

A Family Caregiver tax credit is proposed for a caregiver of a dependent person who has a mental or physical infirmity. The credit will be integrated into the existing dependency-related credits and will be based on an amount of \$2,000. The credit will apply beginning in 2012.

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.

REGISTERED EDUCATION SAVINGS PLAN (RESP) ALLOCATIONS:

The budget proposes to allow for greater flexibility with respect to the allocation of RESP assets among siblings. This proposal will apply to asset transfers that occur after 2010.

TUITION TAX CREDIT

The Tuition Tax Credit is proposed to be amended to include certain occupational, trade or professional examination fees and ancillary fees and charges as eligible fees for the credit. This amendment will apply to eligible amounts paid in respect of examinations take in the 2011 and subsequent taxation years.

TUITION, EDUCATION AND TEXTBOOK CREDITS

The Tuition, Education and Textbook Tax Credits, as well as eligibility for Educational Assistance Payments (EAPs) from an RESP, are proposed to be amended to accommodate the fact that many programs at foreign universities are based on semesters that are shorter than 13 weeks. This amendment will apply with respect to tuition paid for courses taken in the 2011 and subsequent taxation years and to EAPs made after 2010.

(Continued on page 3)

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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RRSP RULES TO LIMIT ABUSES

The RRSP rules are proposed to be amended to address certain perceived abuses, a number of which involved accessing RRSP without a corresponding income inclusion.

INDIVIDUAL PENSION PLANS (IPPs)

The budget proposes two amendments in respect of Registered Pension Plans that are considered IPPs. Similar to the requirements applicable to a Registered Retirement Income Fund, annual minimum amounts will be required to be withdrawn from an IPP once a plan member reaches 72 years of age. This measure is proposed to be applicable to the 2012 and subsequent taxation years.

Contributions to an IPP that relate to past years of employment will be required to be funded first out of RRSP assets or a reduction in RRSP contribution room before a deductible contribution can be made. This measure is proposed to be generally applicable to past service contributions made after March 22, 2011.

PENSION TAX RULES FOR LUMP SUM PAYMENTS:

The Canada Revenue Agency (CRA) will clarify the application of the pension tax rules with respect to the tax treatment of lump sum amounts received by former employees. These amounts will not be treated as income for tax purposes in relation to insolvencies arising before 2012.

“KIDDIE TAX” EXTENSION TO CAPITAL GAINS

The tax on split income, also known as the “kiddie tax”, is proposed to be amended to extend the application of the 29% tax to certain capital gains. This measure is proposed to apply to capital gains realized on or after March 22, 2011.

CHILD TAX CREDIT

Eligibility for the 15% non-refundable Child Tax Credit (based on an indexed amount - \$2,131 in 2011) is proposed to be modified to eliminate the restriction that only one credit may be claimed per domestic establishment. This measure will apply to the 2011 and subsequent taxation years.

DONATION OF FLOW-THROUGH SHARES LIMITATION

The budget proposes to allow the exemption from capital gains tax on donations of flow-through shares only to the extent that cumulative capital gains in respect of dispositions of shares of that class exceed the original cost of the flow-through shares. This measure applies for shares issued pursuant to a flow-through share agreement entered into on or after March 22, 2011.

RENEWAL OF TWO EI PILOT PROJECTS

The government intends to renew The Working While on Claim pilot project and The Best 14 Weeks pilot project for one year.

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.

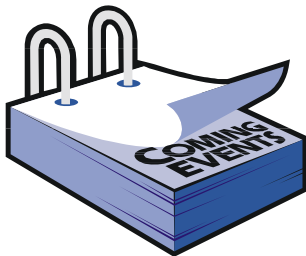
Other Measures Confirmed in the Budget

- 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.
- 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.

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ALERT DATES

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.

Second installment due for individuals required to make income tax installments.

Sep 30, 2011

Third installment due for individuals required to make income tax installments.

Dec 15, 2011

First installment due for individuals required to make income tax installments.

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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