

Glen Stanley-Turner Professional Corp

is pleased to provide you with its commentary and analysis of the 2011 Federal Budget.

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Budget Overview

The June 6 budget is essentially the same as the March 22, 2011 budget which was introduced but not passed by Parliament due to the call of a federal election.

As Canada's economy recovers from the global economic downturn, the federal government has reaffirmed its commitment to jobs and growth, and confirmed economic planning assumptions remain on track.

Private sector economists expect real gross domestic product (GDP) growth of 2.9 per cent in 2011 – up from 2.5 per cent in the October 2010 Update of Economic and Fiscal Projections.

The budget announced a comprehensive one-year Strategic and Operating Review will be launched across all of government in 2011-12. This and other savings measures, combined with the expiration of stimulus measures, are expected to bring the average annual rate of program spending growth to 2 per cent per year through to 2015-16.

Honouring its recent election pledge, the government expects to eliminate the deficit by 2014-15. The federal debt

is projected to decline to 29.7 per cent of GDP in 2015-16, returning to its pre-recession level.

Here are some measures announced:

- Support to SMEs include:
 - A temporary Hiring Credit for Small Business of up to \$1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010, to encourage hiring;
 - Extending the work-sharing program and the Targeted Initiative for Older Workers.
- Strengthening the taxation system and improving taxpayer fairness by:
 - A contribution of \$2.2 billion towards finalizing an agreement with Quebec to harmonize its provincial sales tax with the federal goods and services tax;
 - Introducing – by April 2012 – written electronic answers to written queries from clients using the "My Business Account" interface;
 - Reviewing the penalty structure for the late filing of information returns, with particular regard to its impact

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on small businesses. Any changes to the penalty structure as a result of this review will be announced in advance of the filing due date for the 2011 taxation year.

- Phasing out the direct subsidy of political parties over the next three years.
- The government will also:
 - Appoint a Financial Literacy Leader to promote national efforts and provide an additional \$3 million per year to the Financial Consumer Agency of Canada to undertake financial literacy initiatives;
 - Enhance the Guaranteed Income Supplement (GIS) for those who rely exclusively on their Old Age Security and

- GIS by providing a new annual top-up benefit of up to \$600 for single seniors and \$840 for couples;
- Enhance and expand eligibility for Canada Student Loans and Grants for part-time and full-time post-secondary students;
- Provide up to \$10 million a year in tax relief and Registered Education Savings Plan assistance to Canadian post-secondary students studying abroad;
- Encourage skills certification by making all occupational, trade and professional examination fees eligible for the Tuition Tax Credit.



Tax Measure Highlights

Personal Income Tax Measures

The budget contains an array of targeted tax and non-tax measures that address specific groups of individuals rather than offering more broadly based tax reductions or adjustments. Parents, seniors, students, doctors, nurses and volunteer firefighters are among the groups that may benefit from these measures.

- Total net estimated costs for these measures are \$35 million in 2010-11 and rising to \$168 million in 2012.
- Non-refundable Tax Credits
 - Children's Arts Tax Credit – allows parents to claim a 15 per cent tax credit based on an amount not exceeding \$500 in artistic, cultural, recreational or development

- activities per child under 16 years of age.
- Volunteer Firefighters Tax Credit – allows volunteer firefighters to claim a 15 per cent tax credit based on an amount of \$3,000.
- Family Caregiver Tax Credit – 15 per cent tax credit based on an amount of \$2,000 to be applied in 2012 to support caregivers of dependents with a mental or physical infirmity. This credit will be in addition to the amounts claimed under one of the existing dependency-related tax credits.
- Medical Expense Tax Credit – removes the \$10,000-limit on eligible expenses that can be claimed for a dependent relative.
- Child Tax Credit eligibility – removes the rule that limits the number of child tax credit claimants to one per household.

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- Tuition Tax Credit – expands costs eligible for the tuition tax credit to include fees paid to take an examination that is required to obtain a professional status recognized by statute or to be licensed or certified to practice a profession or trade in Canada.
- Tuition, Education and Textbook Tax Credit – reduces the minimum course-duration requirement that must be met by Canadian students studying abroad to three consecutive weeks from 13 weeks. Similar rules would apply to Educational Assistance payments.
- RESPs – allows transfers between individual Registered Education Savings Plans for siblings without tax penalties and without repayment of Canada Education Savings Grants, provided the beneficiary of a plan receiving a transfer of assets had not reached 21 years of age when the plan was opened.
- RDSPs – allows earlier access to savings in a Registered Disability Savings Plan for beneficiaries with shortened life expectancies without requiring the repayment of Canada Disability Savings Grants and Canada Disability Savings Bonds.
- RRSPs – proposes anti-avoidance rules to curtail the use of RRSPs in tax planning schemes including “RRSP strips” using rules similar to those that currently apply to Tax-Free Savings Accounts: the advantage rules, the prohibited investment rules and the non-qualified investment rules.
- Tax on Split Income – expanded to include capital gains realized by a minor on the disposition of shares of a corporation to a non-arms-length person.
- Mineral Exploration Tax Credit – extended by one year for flow-through share agreements entered into on or before March 31, 2012.
- Individual Pension Plans – annual minimum amounts will be required to be withdrawn once a plan member reaches age 72. Any contributions made to the plan that relate to past service must be funded first out of a member’s existing RRSP assets or by reducing the individual’s accumulated RRSP contribution room before new deductible contributions based on past service can be made.
- Administrative Changes:
 - Individuals receiving the Canada Child Tax Benefit must notify the government of a marital change before the end of the month following the month in which the change in status occurs.
- Employee Profit Sharing Plans (EPSP), a tool used by business to compensate employees, will be reviewed by the government to ensure they are used for their intended purpose.

Charitable Sector

A number of technical amendments are introduced affecting the powers of the Canada Revenue Agency and the responsibilities of certain types of charities.

- Grants the CRA the ability to reassess the taxpayer to disallow a taxpayer’s claim for the Charitable Donations Tax Credit or Deduction in cases where property is returned to a donor.
- Requires that registered Canadian amateur athletic associations (RCAAA), municipalities, housing corporations providing low-cost housing for seniors, universities outside Canada whose student body ordinarily includes students from Canada to follow certain regulatory requirements that apply to registered charities. These entities would be required to be on a publicly available list maintained by

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- Canada Revenue, and to maintain proper books and records and provide the CRA access to them.
- Gives the Minister of National Revenue the ability to refuse or revoke the registration of an organization or suspend its authority to issue official donation receipts if individuals controlling or managing the operations have been found guilty of an offence or has managed or controlled an organization whose registration has been revoked.
 - In addition, RCAAAs would be required to follow many of the same rules that apply to registered charities:
 - The issuance of official donation receipts, subject to rules and penalties
 - Having the promotion of amateur athletics in Canada on a nation-wide basis as their exclusive purpose
 - Be subject to monetary penalties if undue benefits are provided to any person
 - Certain information and documents must be made available to the public by the CRA
 - Budget 2011 proposes, in general terms, to allow the exemption from capital gains tax on donations of shares which a taxpayer acquired pursuant to a flow-through share agreement entered into on or after March 22, 2011 only to the extent that cumulative capital gains exceed the original cost of the flow-through shares.
- machinery and equipment acquired before 2014. Machinery and equipment acquired after 2013 would be included in Class 43.
- Expansion of Class 43.2 (Specified Clean Energy Generation and Conservation equipment) to include equipment acquired on or after March 22, 2011 that generates electricity using waste heat.
- Oil Sands Properties
 - Cost of oil sands leases and other oil sands resource property to be treated as a Canadian oil and gas property expense (deductible at 10 per cent per year on a declining basis) rather than a Canadian development expense (deductible at 30 per cent per year).
 - Development costs for bringing new oil sands mines into production to be treated as a Canadian development expense rather than a Canadian Exploration expense (fully deductible in the year incurred).
 - Corporations having significant interest in a partnership with a different fiscal year-end 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. Transitional relief will be available to recognize the incremental amount gradually over the five taxation years that follow that first taxation year.

Business Income Tax Measures

Small and medium size enterprises may find the non-tax measures outlined above in the overview section to be of most interest. But there are also several technical measures of note, particularly affecting capital cost allowance (CCA).

- Accelerated Capital Cost Allowance
 - Manufacturing and Processing Sector – CCA Class 29 is to be extended for a further two years for eligible

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Other Tax Measures

- Customs Tariff Measures
 - Facilitating low-value imports – the introduction of three new tariff items to ease the processing of low-value non-commercial imports arriving by mail or courier. These new tariff items will be subject to the generic, Most-Favoured-Nation tariff rates of 0 per cent, 8 per cent or 20 per cent depending on the goods being imported.
- Aboriginal Tax Policy – the government reiterates its willingness to discuss and put into effect direct taxation arrangements with interested Aboriginal governments, reflecting its support for the exercise of direct taxation powers by Aboriginal governments.



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