

Behind the Counter

Federal Budget 2009

It seems that the theatrics in the House of Commons have finally died down and Canada has a Federal Budget subject to change until it receives Royal Assent sometime this summer. If you would like to view or print the actual document tabled in the House of Commons on February 2, 2009 the link is <http://www.fin.gc.ca/drleg-apl/wmmJan09a.pdf> .

Items that will affect Businesses:

- The small business deduction for active business in Canadian Controlled Private Corporations (CCPC) is to be increased to \$500,000 for January 1, 2009 to be prorated for non-calendar year ends. This applies to incorporated small businesses only (2008 = \$400,000).
- Scientific Research and Experimental Development expenditure limits previously increased will be gradually phased out to coincide with the increase in the small business deduction for CCPCs
- The accelerated Manufacturing and Processing capital cost allowance (CCA) at 50% straight line will continue for assets acquired up to 2011.
- There is a temporary CCA rate to write off computer hardware and systems software at 100% provided that the equipment was acquired after January 27, 2009 and before February 1, 2011 and that the equipment would normally be included in Class 50. The half-year rule will not apply. Property that is currently in Class 29 that could be classified in Class 50 would also benefit.
- The EI premiums will be frozen at \$1.73 per \$100 of insurable earnings for 2009 and 2010.
- There are technical changes to the timing of a change in control on the sale of a CCPC so that the vendor can qualify for the capital gains exemption.
- Section 18.2 of the act concerning interest deductibility on the financing of a foreign affiliate that was due to come into force in 2012 will be repealed as it is thought to have a negative effect on foreign investment and the global economy.
- There is a proposed change to the GST after 2009 for commissioned sellers to elect to have their commissions, bonuses, sales aid and host gifts GST exempt. The process requires approval from the Minister of National Revenue after complying with certain conditions.
- Mandatory electronic filing will come into effect for taxation years after 2009 where the corporation has annual gross revenues in excess of \$1 million. New penalties will be introduced for non-compliance after 2010.

- Mandatory electronic filing will be required for corporations filing more than 50 T-slips after 2009. The current threshold is 500 slips.
- Tariffs are to be eliminated on the importing of a range of machinery and equipment that were imported after January 28, 2009

Items that will affect Personal taxes:

- The basic personal tax, spousal and common-law partner, eligible dependent amounts for the income tax credits will increase to \$10,320 in 2009 (2008 is \$9,600)
- The upper limit for the 15% federal tax bracket will be raised to \$40,726 (2008 is \$37,885) and the upper limit for the 22% federal tax bracket will be raised to \$81,452 (2008 is \$75,769) and these amounts will be indexed to inflation for 2010 and beyond.
- The age credit amount will increase to \$6,408 (2008 is \$5,276) applying to those 65 and older and this credit will begin to be phased out if your income is more than \$32,312 and will be totally unavailable if your income is more than \$75,032.
- There will be a Home Renovation tax credit of 15% per family for expenses incurred of \$1,000 to \$10,000 to a maximum credit of \$1,350. These expenses must have been incurred between January 27, 2009 and February 1, 2010 and will not apply if there is was contract in place prior to January 28, 2009. The credit can be split among family members and must be supported by receipts. This credit only applies to expenditures made on the principal residence – not to rental properties. If the residence is split between personal and rental then only the expenses relating to the personal portion will apply. The expenses that will qualify are those that have significantly altered the home and thereby increased the value of it. The expenses that will **not** qualify are:
 - o Cost of routine repairs and routine annual maintenance
 - o Purchase of appliances and electronics
 - o Financing costs associated with the renovation
 - o Cost of new furniture or drapes
 - o Renovations done by a relative or non-arm's length person
- The First Time Home Buyers Tax Credit of \$5,000 will apply to the purchase of a home that was purchased after January 27, 2009 subject to certain qualifications.
- The maximum amount that can be withdrawn from an RRSP for the purchase of a home under the Home Buyer's plan has been increased to \$25,000.
- If the tax payer has deceased with RRSP and RRIF's still in their name, these items are required to be included in income in full at the time of death. Sometimes there is a time lag between the

time of death and the time that the investments pass to the beneficiaries that could result in a decrease in value of the investments. Until now, there has not been a way to use that loss. With this budget, that loss can now be carried back to the final return of the deceased tax payer beginning with dispositions that occur in 2009.

- The mineral exploration tax credit is to be extended to the end of 2011 for those flow-through share arrangements that were entered into on or before March 31, 2010.
- The threshold for the Child Tax Benefit is to be increased to \$40,726 meaning that if your income is over that amount you will not receive the benefit. The supplement will also be totally phased out at that income level.
- The Working Income Tax benefit levels are to be doubled, but they will not be finalized until each province has been consulted. The proposal is to provide a tax credit of 25% of each dollar earned over \$3,000 to a maximum of \$925 for single persons whose income is less than between \$13,404 and \$16,667 and \$1,680 for single parents and couples whose income is less than \$22,108 to 25,700 depending on the province of residence.
- The proposals that were introduced in the 1999 and 2004 budgets with respect to Non Resident Trusts and foreign investments and affiliates are to be reviewed.

Charitable Registrations revoked due to Tax Shelter Schemes:

Millennium Foundation, Little League Baseball Canada, Parklane Charitable Donation program handling the Canadian Wrestling Association, Biathlon Canada, Little League Canada and Canadian Lacrosse Association, Canadian Amateur Football Association

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