

On February 23, 2005, the Honourable **Ralph Goodale**, Minister of Finance, presented his second Budget to the House of Commons.

The Minister reports new spending of \$42 billion over five years with a surplus of \$4 billion for 2005-2006.

The spending includes \$12.8 billion over five years for defense, \$5 billion for climate change and environmental protection, and \$5 billion for a new shared Early Learning and Child Care Initiative.

Also, the funding for Sport Canada will increase from \$70 million to \$140 million including \$65 million annually in support of Canada's elite athletes.

The Budget also provides an additional \$87 million in funding for the Vancouver Olympics.

Personal changes include increasing the tax exemption level from \$8,012 to \$10,000 by 2009, eliminating the 30% foreign property limit on retirement plans, increasing retirement contribution limits to \$22,000, and increasing the guaranteed income supplement for seniors. (\$36/month for singles and \$58/month for couples by January 2007.)

Total national debt is projected to drop to \$499 billion by the end of the 2004-2005 fiscal year.



HIGHLIGHTS

- A. Personal Income Tax
- B. Businesses
- C. Excise Taxes
- D. Tax Administration
- E. Update – Taxation Issues

for 2006, \$19,000;
 for 2007, \$20,000;
 for 2008, \$21,000;
 for 2009, \$22,000, and
 for each year after 2009,
 an indexed amount.

Qualified RRSP Investments

The Budget proposes to add to the list of qualified investments, investment-grade gold and silver bullion coins and bars, and certificates on such investments purchased on or after February 23, 2005.

Foreign Property Rule

The limit of foreign property that may be held by pension funds and other deferred income plans will be eliminated for months that end in the 2005 and subsequent calendar years.

A. PERSONAL INCOME TAX

Basic Personal Amount

The basic personal amount will increase:

for 2006 by \$100;
 for 2007 by \$100;
 for 2008 by \$400, and
 for 2009 by the greater of \$600 and the amount to bring the basic personal amount to \$10,000.

Spousal Credit

The spousal credit will increase:
 for 2006 by \$85;

for 2007 by \$85;
 for 2008 by \$340; and
 for 2009 by the greater of \$510 and the amount necessary to bring the spouse amount and the equivalent amount for a wholly dependent relative to \$8,500.

Retirement Savings Limits

The money purchase limit for registered pension plans, deferred profit sharing plans and registered retirement savings plans for years after 2005 and before 2010 will be the greater of \$18,000 indexed after 2005 and:

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Disability Supports Deduction

For the 2005 and subsequent taxation years, there will be added to the list of expenses eligible for the disability supports deduction amounts paid for certain deaf-blind intervening services. Also, if the need for the service or device is certified in writing by a medical practitioner, certain job coaching services, reading services, a device that is a Bliss symbol board for use by an individual who has a speech impairment, a device that is a Braille note-taker, a device that is a page turner, and certain devices or software used by a blind individual or an individual with a severe learning disability will also qualify.

Canada Child Tax Benefit – Child Disability Benefit Supplement

For benefits paid after June 2005, the Child Disability Benefit Supplement will increase to \$2,000 in respect of each child who is eligible for the disability tax credit.

Medical Expense Tax Credit

For the 2005 and subsequent taxation years, there will be added to the list of expenses eligible for the medical expense tax credit amounts paid for certain phototherapy equipment, oxygen concentrators, deaf-blind intervening services, reading services, drugs and medical devices obtained under Health Canada's Special Access Programme, and certain medical marijuana.

Also, renovations or alterations after February 22, 2005 will require that such expenses must be of a type that would not typically be incurred by persons who do not have a severe and prolonged mobility impairment; and must not be of a type that would be expected to increase the value of the dwelling.

Medical Expense Tax Credit - Caregiver

For the 2005 and subsequent taxation years, the \$5,000 maximum amount in respect of certain dependants in calculating the medical expense tax credit will be increased to \$10,000.

Adoption Expense Tax Credit

For the 2005 and subsequent taxation years, an individual will be entitled to deduct in computing tax payable 16% of the lesser of \$10,000 (indexed after 2005) and the total of all amounts paid in respect of eligible adoption expenses.

Emergency Medical Service Vehicles

For the 2005 and subsequent taxation years, the definition "automobile" will be amended to exclude clearly marked Emergency Medical Service vehicles.

Agricultural Cooperatives

The Act will be modified to introduce a tax deferral in respect of certain dividends paid by an agricultural cooperative corporation.

Tsunami Relief

A gift made before January 12, 2005 will generally be deemed to have been made in the individual's 2004 taxation year.

Eligibility for the Disability Tax Credit

The Budget proposes to:

- (i) clarify the legislation with respect to "impairment",
- (ii) align the legislative criteria for impairments in mental functions,
- (iii) extend eligibility to include individuals with multiple restrictions,
- (iv) better define the activities that constitute life-sustaining therapy, and
- (v) add to the list of health practitioners who can certify eligibility for the DTC.

These measures will apply for the 2005 and subsequent taxation years.

Increasing the Refundable Medical Expense Supplement

The Budget proposes to increase the maximum amount to \$750 for the 2005 taxation year.

Changes to Registered Education Saving Plans (RESP)

The Budget proposes that if an RESP beneficiary qualifies for the disability tax credit in the 21st year following the year in which the plan was entered into the maximum period for making contributions to the RESP will be extended to 25 years and the termination date of the RESP to 30 years.

These extended limits will apply for the 2005 and subsequent taxation years.

Increasing the Child Disability Benefit (CDB)

The Budget proposes to increase the maximum annual CDB for the 2005-06 year to \$2,000 from \$1681.

B. BUSINESSES

Corporate Surtax

The surtax will be eliminated for taxation years ending after December 31, 2007.

Corporate Tax Reduction

For taxation years ending after 2007, a deduction will be provided from the tax otherwise payable equal to 0.5 per cent for 2008, 1 per cent for 2009, and 2 per cent after 2009 of the taxable income exceeding amounts eligible for the small business deduction and investment income refund.

Capital Cost Allowance (CCA)

Transmission Pipelines and Related Equipment

The Budget proposes that the CCA rate for transmission pipelines (as contrasted with distribution lines) for petroleum, natural gas or related hydrocarbons will be increased to 8 per cent from 4 per cent.

The Budget also proposes changes to the treatment for pumping and compression equipment related to a transmission pipeline for petroleum, natural gas or related hydrocarbons.

The new CCA rates for transmission pipelines will apply to new equipment acquired on or after February 23, 2005. The new CCA rates for pumping and compression equipment will apply to all such equipment acquired on or after February 23, 2005.

Combustion Turbines Generating Electricity

The Budget proposes that the CCA rate for combustion turbines that generate electricity (including associated burner and compressors) will be increased to 15 per cent. The 15 per cent rate will apply to property acquired on or after February 23, 2005.

The separate class election will not be available.

Electricity Transmission and Distribution Assets

The Budget proposes that the CCA rate for transmission and distribution equipment and structures (but not including buildings) of a distributor of electrical energy will be increased to 8 per cent.

Specified Energy Property Rules

The Budget proposes that the specified energy property rules be extended to combustion turbines and electricity transmission and distribution assets that are eligible for the higher CCA rates proposed in this Budget.

Cable for Telecommunications Infrastructure

The Budget proposes that the CCA rate for wire or cable used for telephone, telegraph or data communication not included in any other class will be increased to 12 per cent.

The 12 per cent CCA rate will apply to new assets acquired on or after February 23, 2005.

High-Efficiency and Renewable Energy Generation Equipment

The Budget proposes to include certain highly fossil-fuel-efficient and renewable energy generation equipment—which is currently eligible for the 30 per cent CCA rate under Class 43.1—in a new class eligible for a 50 per cent CCA rate. The increased rate will apply to equipment acquired on or after February 23, 2005 and before 2012.

Extending Incentive for Investment in Efficient and Renewable Energy Generation

The Budget proposes two further additions to Class 43.1: distribution equipment used in district energy systems that rely on efficient cogeneration; and biogas production equipment.

C. EXCISE TAXES

Excise Tax on Jewelry

The tax rate of ten per cent will be reduced to zero per cent over 5 years.

GST/HST Health Care Rebate

Technical amendments will be made with respect to, “ancillary supply”, “external supplier”, “facility operator”, “facility supply”, “home medical supply”, “medical funding, midwife”, “specified activities”, “selected public service body”, and “specified percentage”.

D. TAX ADMINISTRATION

International Tax Enforcement

The Budget proposes to invest \$30 million annually in enhanced CRA audit and collection activities in this area. These resources will be used to increase audit and compliance capacity with respect to cross-border and international transactions, using a risk-based approach. Additional revenues generated through increased audit and enforcement are expected to offset this cost.

Directors’ Liability for GST/HST Refunds

The Budget proposes to provide that a director of a corporation may be held liable not only for unremitted net GST/HST amounts, but also for GST/HST net tax refund amounts to which the corporation is not entitled.

GST/HST Web Registry

As part of their obligations under the goods and services tax and the harmonized sales tax (GST/HST), registrants are required to ensure that input tax credits are claimed only where GST/HST has been paid to suppliers who are registered for GST/HST purposes. Currently, the sole means available to verify the validity of a supplier’s registration is to contact the Canada Revenue Agency (CRA). A publicly accessible Web-based GST/HST registry is therefore proposed to facilitate the verification of a supplier’s GST/HST registration. This will help streamline the process and ensure that a supplier’s registration information is readily available. The registry will be designed so that only a supplier’s GST/HST registration status may be verified.

It is intended that this Registry be operational within 12 months of this measure receiving Royal Assent.

E. UPDATE – TAXATION ISSUES

Deductibility of Interest and Other Expenses

In October 2003, the Department of Finance released legislative proposals regarding the deductibility, for income tax purpose, of interest and other expenses.

A period of consultation on the new proposals ended in August 2004. Many commentators expressed concerns with the proposals' structure: in particular, that the proposals' codification of an objective

“reasonable expectation of profit” test might inadvertently limit the deductibility of a wide variety of ordinary commercial expenses.

The Department of Finance will respond by developing a more modest legislative initiative to be released as soon as possible.

Other Outstanding Legislative Proposals

There are a number of legislative proposals that remain outstanding, including:

- Income tax proposals concerning foreign investment entities and non-resident trusts

tabled in Parliament as a Detailed Notice of Ways and Means Motion on October 30, 2003.

- Draft income tax technical amendments released for public commentary on February 27, 2004.
- A number of previously announced sales tax technical measures.

The Government intends to introduce legislation to implement these proposals as soon as possible.

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