

## **Federal Budget Summary of Tax Measures March 22, 2011**

### **Corporate Income Tax**

#### Corporate Partnership Deferrals

- The Budget proposes to limit the deferral opportunities for corporations (other than professional corporations) with significant interests in partnerships that have a fiscal period different from the corporation's taxation year.
- The proposed measure will require the corporation to include not only the income of the partnership for the taxation year that ends in the corporation's taxation year, but also to accrue partnership income for a stub-period of the partnership's subsequent taxation year. Stub-period income is reversed the following taxation year and a new stub-period income is then calculated and included in income.
- Significant partnership interests are where a corporate partner, together with affiliated and related parties, is entitled to more than 10% of the partnership's income or assets on windup.
- These measures will be effective for corporations with a taxation year after March 22, 2011.
- Transitional relief will be available to recognize the incremental amount gradually over the five taxation years that follow the corporation's first taxation year that ends after March 22, 2011.
- For partnerships that are part of a tiered partnership structure, all partnerships will be required to have the same fiscal period. The partnerships will be allowed, on a one-time basis, to choose a common fiscal period by filing a written election.

#### Extending Accelerated CCA Rates

- The Budget extends the 50% straight-line accelerated CCA rate for investment in machinery and equipment for two additional years.
- This temporary CCA rate will now apply to equipment acquired before 2014.

#### Hiring Credit for Small Business

- The Budget provides a temporary Hiring Credit for Small Business of up to \$1,000 to reduce its 2011 Employment Insurance (EI) premiums.

#### Stop-Loss Rules on Share Redemptions

- The Budget proposes to extend the application of the stop-loss rules to any dividend deemed to be received on the redemption of shares held by a non-private corporation.
- This measure will apply to redemptions that occur on or after March 22, 2011.

#### Employee Profit Sharing Plans (EPSPs)

- The Department of Finance is planning to review the rules on employee profit sharing plans and will hold consultations before they proceed with any changes.

### **Personal Income Tax**

#### Children's Art Tax Credit

- For the 2011 and subsequent taxation years, a tax credit of 15% of up to \$500 spent on eligible expenses for a qualified child in a prescribed program of artistic, cultural, recreational, or development activity.
- This would reduce federal income taxes of parents by \$75 per child.

#### Volunteer Firefighters Tax Credit

- For the 2011 and subsequent taxation years, a tax credit of 15% of \$3,000 for volunteer firefighters that perform more than 200 hours of eligible volunteer firefighting services for one or more fire departments.
- This would reduce federal taxes of volunteer firefighters of \$450.

#### Family Caregiver Tax Credit

- Effective January 1, 2012, a new tax credit of 15% of \$2,000 that can be claimed by caregivers of dependents with a mental or physical infirmity including spouses, common-law partners, and minor children.
- This would reduce federal income taxes by \$300 for a caregiver.

#### Tuition Tax Credit – Examination Fees

- For 2011 and subsequent taxation years, the definition of tuition fees will be amended to allow for a tuition tax credit for examination fees required to obtain a professional status recognized under a federal or provincial statute, or to be licensed or certified to practice a profession or trade in Canada.

#### Mineral Tax Credit

- The Budget extends the temporary 15% Mineral Exploration Tax Credit for an additional year (until March 31, 2012).

#### Guaranteed Income Supplement

- The Budget proposes to enhance the Guaranteed Income Supplement (GIS) for those seniors who rely almost exclusively on their Old Age Security and the GIS. Effective July 1, 2011, this measure will provide a new annual top-up benefit of up to \$600 for single seniors and \$840 for couples.

### Child Tax Credit

- The child tax credit (“CTC”) is a non-refundable tax credit that can be claimed by parents for each child who is under 18 years at the end of the year. The current rules do not allow more than one individual to claim the CTC in respect of the same domestic establishment. This means that when two or more families share a home, only one individual from one family can claim the CTC in respect of his or her children.
- To ensure that this does not prevent the claiming of the CTC by parents who would otherwise be eligible, the Budget proposes to repeal this rule which only allows one CTC claimant per domestic establishment. This measure will apply to the 2011 and subsequent taxation years.

### Donation of Publicly Listed Flow-Through Shares

- The Budget disallows the exemption from capital gains tax on donations of flow-through shares except to the extent that the cumulative capital gains from dispositions of shares of that class exceed the original cost of the flow-through shares.
- This applies to flow-through shares issued pursuant to a flow-through share agreement entered into on or after March 22, 2011,

### Tax on Split Income

- The Budget proposes to extend the tax on split income to capital gains realized by a minor from a disposition of shares of a corporation to a person who does not deal at arm’s length with the minor
- This applies if the taxable dividends on the shares would have been subject to the tax on split income.
- These capital gains will be treated as dividends and therefore will not benefit from capital gains inclusion rates and will not qualify for the lifetime capital gains exemption.
- This measure will apply to capital gains realized on or after March 22, 2011.

### Individual Pension Plans

- Defined benefit registered pension plans can be established for one individual, generally an employee of a corporation that he or she owns. A spouse or other family member (who is employed by the corporation) can also be added as a member of such an individual pension plan (“IPP”).
- The Budget proposes that annual minimum amounts will be required to be withdrawn from IPP’s once a plan member reaches the age of 72. This is similar to current minimum withdrawal requirements for Registered Retirement Income Funds. These required withdrawals will apply to 2012 and subsequent taxation years.
- The Budget also proposes that contributions made to an IPP that relate to past years of employment will be required to be funded first out of a plan member’s existing RRSP assets or by reducing the individual’s accumulated RRSP contribution room before new deductible contributions in relation to the past service may be made.



### RRSP Anti-avoidance Rules

- The Budget proposes to change certain RRSP rules in response to the use of RRSP's in tax planning schemes. Most of these schemes enable RRSP annuitants to access their RRSP funds without including the required amount in their income.
- The Budget introduces rules similar to certain anti-avoidance rules that already apply to Tax-Free Savings Accounts.
- Subject to certain exceptions, these new provisions will apply to transactions occurring and investments acquired after March 22, 2011.

### **Disclaimer**

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