

# 2009 Federal Budget Commentary

## *"Canada's Economic Action Plan"*

*January 27, 2009*

### ***Introduction***

Today, the Honourable Jim Flaherty, Minister of Finance tabled the minority Conservative government's fourth Federal Budget implementing their comprehensive budget plan to stimulate economic growth, restore confidence, and support Canadians and their families during this global recession.

The key initiatives for budget 2009 are as follows:

- **Fulfilling Canada's G20 Commitment** – Canada's Economic Action Plan fulfills Canada's commitments at the recent G-20 Special Leaders Summit to provide timely stimulus to domestic demand, while maintaining long run fiscal sustainability.
- **Improving Access to Financing, Strengthening the Financial System** – Providing up to \$200 billion through the Extraordinary Financing Framework to improve access to financing for consumers and allow businesses to obtain the financing they need to invest, grow and create new jobs, including support for the transition to a Canadian Securities Regulator.
- **Help Canadians and Stimulate Spending** – Providing \$8.3 billion for the Canadian Skills and Transition Strategy, which includes extra support for Canadians most affected by the economic downturn, including enhancements to Employment Insurance and more funding for skills and training. The budget provides \$20 billion in personal income tax relief that will benefit Canadians over 2008-09 and the next five fiscal years.
- **Stimulate Housing Construction** – Providing \$7.8 billion to build quality housing, stimulate construction and enhance energy efficiency. Measures include a renovation tax credit, funding for energy retrofits, investments for social housing to support low income Canadians, seniors, persons with disabilities and Aboriginal Canadians, and low cost loans to municipalities.
- **Action to Build Infrastructure** – Expanding and accelerating the recent historic federal investment in infrastructure with almost \$12 billion in new infrastructure stimulus funding for roads, bridges, broadband internet access, electronic health records, laboratories and border crossings across the country.
- **Support Businesses and Communities** – Extra support of \$7.5 billion to protect jobs and support adjustments for targeted sectors such as auto, forestry and manufacturing, as well as funding for clean energy.
- **Partnerships with Aboriginals and Investments in First Nations Infrastructure** – Significant new investments for Aboriginal Canadians, including funds for social housing, Aboriginal Skills and Employment training, improving health outcomes, and improvements to child and family services on reserves.

## *Personal Tax Measures*

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### *Home Renovation Tax Credit*

Budget 2009 proposes to introduce a temporary Home Renovation Tax Credit (HRTC) whereby individuals (on a family basis) will be able to claim a 15% non-refundable tax credit for eligible expenditures made in respect of eligible dwellings. The credit will apply to expenditures in excess of \$1,000, but not more than \$10,000, resulting in a maximum credit of \$1,350 (\$9000 x 15%). The credit will apply only to the 2009 taxation year. Expenditures must be incurred for work performed, or goods acquired, after January 27, 2009 and before February 1, 2010. Expenditures will qualify provided the renovation or alteration is of an enduring nature and integral to the eligible dwelling. Expenditures would include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits. Expenditures such as routine repairs and maintenance, appliances, audio-visual electronics, and financing costs are not included.

### *Home Buyers Plan*

The maximum Home Buyer's Plan (HBP) withdrawal limit will be increased from \$20,000 to \$25,000 and will apply to the 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009.

### *First-Time Home Buyers' Tax Credit*

First time home buyers who acquire a qualifying home after January 27, 2009 may qualify for a new non-refundable tax credit of \$750. The credit will also be made available to existing homeowners in respect of a more accessible or functional home purchased by an individual eligible for the disability tax credit (DTC) or for the benefit of a DTC eligible person who is related to the individual purchasing the home.

### *Personal Amounts and Income Tax Brackets*

Budget 2009 proposes to increase the basic personal amount and the two lowest personal income tax brackets by 7.5 per cent above their 2008 levels, effective January 1, 2009. Amounts will be indexed for inflation for 2010 and subsequent years. As a result of these measures:

- the basic personal amount, the spousal and common-law partner amount, and the eligible dependant amount will increase for 2009 to \$10,320 from \$9,600 in 2008;
- the upper limit of the first personal income tax bracket (15% income tax rate) will increase to \$40,726 in 2009 from \$37,885 in 2008; and
- the upper limit of the second personal income tax bracket (22% income tax rate) will increase to \$81,452 in 2009 from \$75,769 in 2008.

### *Age Credit*

The Age Credit will be increased by \$1,000 to \$6,408 for the 2009 taxation year and indexed thereafter. The net income level at which the Age Credit phase out begins remains unchanged at \$32,312. The income level at which the Age Credit is fully phased out will be \$75,032.

### *RRSP / RRIF Losses After Death*

Prior to this budget, there were no income tax provisions available to provide relief for any decreases in values of RRSPs or RRIFs after the death of a taxpayer. The budget allows, upon the final distribution of property from a deceased annuitant's RRSP or RRIF, any post-death decreases in value to be

allowed to be carried back and deducted against the year of death RRSP/RRIF inclusion. This measure will apply to final distributions which occur after 2008.

### ***Canada Child Tax Benefit (CCTB) / National Child Benefit Supplement (NCB)***

The budget proposes to raise the level at which the NCB supplement for low income families and the CCTB are phased out to \$40,726.

### ***Working Income Tax Benefit***

The Working Income Tax Benefit funding will be increased and benefits are expected to double for the 2009 and subsequent taxation years.

### ***Employment Insurance Benefit Increase***

Employment Insurance (EI) benefit entitlements will be extended for an extra five weeks, increasing the maximum duration to 50 weeks from 45 weeks.

### ***Mineral Exploration Tax Credit***

The eligibility for the mineral exploration tax credit which was schedule to expire March 31, 2009 will be extended to flow through share agreements entered into on or before March 31, 2010.

## ***Business Income Tax Measures***

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### ***Small Business Limit***

The small business limit, whereby active business income is eligible for the reduced tax rate of 11%, will be increased as of January 1, 2009 to \$500,000. The small business limit will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

Consistent with the increased small business limit, a CCPC's eligible expenditure limit, for the purpose of claiming scientific research and experimental development ("SR&ED"), will be reduced for taxable income earned by a corporation over \$500,000 with a complete phase out at \$800,000. Current legislation eliminates a CCPC's SR&ED expenditure limit for active business income between the former small business limit of \$400,000 and \$700,000.

As a consequence of the increased small business limit:

- CCPCs with taxable income between \$400,000 and \$500,000 will now have an extra month to pay their tax balance before the application of interest charges; and
- CCPCs with taxable income not exceeding \$500,000 may be eligible for quarterly instalments of corporate tax. Under current legislation CCPC's with over \$400,000 in taxable income are required to pay monthly instalments.

### ***Employment Insurance Rates***

Employment Insurance rates will remain at \$1.73 per \$100 for both 2009 and 2010.

### ***Manufacturing and Processing - Accelerated Capital Cost Allowance (CCA)***

Manufacturing and Processing companies claiming CCA under the Class 29 Manufacturing and Processing with an existing accelerated CCA rate of 50% will continue to qualify for the accelerated CCA rates for assets purchased in the calendar years 2010 through 2011, instead of the previously proposed declining balance basis. The "half-year" rule will apply to asset additions which limits the deduction for capital cost allowance in the year of acquisition.

### ***Computers – Accelerated Capital Cost Allowance (CCA)***

Computers and software acquired after January 27, 2009 and before February 2011 will be eligible for a temporary 100% CCA rate and will not be subject to the half-year rate.

## ***International Tax Measures***

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### ***Interest Deductibility***

The Budget proposes that draft legislation denying the double dipping of interest deductions, which was scheduled to come into force in 2012, be repealed. The proposed rules would have limited the deductibility of interest in certain situations where a Canadian corporation uses borrowed funds to finance a foreign affiliate and a second deduction for that interest is available in the foreign jurisdiction – effectively double dipping the interest deduction.

### ***Non-Resident Trusts and Foreign Investment Entities***

Outstanding proposals first introduced in the 1999 Budget will continue to be reviewed in light of submissions made to date before proceeding with measures in this area.

## ***Sales and Excise Tax Measures***

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### ***Simplification of the GST/HST for the Direct Selling Industry***

The Excise Tax Act currently offers an Alternate Collection Method (ACM) for direct sellers employing a buy and resell model. The method will now be available to sales representatives in the direct selling industry employing the commission-based model, when the network seller elects with all of the sales representatives. This special GST/HST accounting method will be available in respect of fiscal years of a network seller beginning after 2009.

### ***Tariff Reductions on Machinery and Equipment***

Tariffs on a range of machinery and equipment have been eliminated in respect of goods imported into Canada on or after January 28, 2009.

## ***Administrative and Other Tax Measures***

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### ***Acquisition of Control of a Corporation – Time of Acquisition***

The deeming rules regarding the timing of an acquisition of control of a corporation will be amended to ensure it does not affect the status of a corporation as a CCPC at the time of the transaction that caused the change of control. This proposal is in response to the Federal Court of Appeal's 2006 ruling in *La Survivance*. The change will apply in respect of acquisitions of control that occur after 2005 except that it will not apply to a taxpayer in respect of such an acquisition of control that occurs before January 28, 2009 if the taxpayer so elects on or before the taxpayer's filing due date for the taxpayer's 2009 taxation year. A taxpayer shall be deemed to have made such an election if the position is taken in the taxpayer's return of income before January 28, 2009.

### ***Mandatory Electronic Filing – Corporate tax and Information Returns***

**Corporate Tax** - Corporations with annual gross revenues in excess of \$1 million for a taxation year will be required to file their income tax returns for the year in electronic format, for corporate income tax returns for taxation years that end after 2009.

**Information Returns** - The number of income tax information returns (e.g. T4s, T5s, T1204) that can be filed by a taxpayer, before the taxpayer is required to file those information returns electronically will be reduced to 50 from 500. This measure will apply for information returns filed after 2009.

### **Penalties**

**Corporate Tax** - A new penalty for filing a corporate income tax return in an incorrect format will be introduced for returns filed for taxation years that end in 2011. The penalty will be set at \$250 for 2011, increased to \$500 for taxation years that end in 2012 and to \$1,000 for taxation years that end after 2012.

**Information Returns** - The existing penalty for filing information returns late or in an incorrect format will be reduced, so that taxpayers who fail to file electronically under the electronic information returns requirements, or who file information returns late, are not unduly penalized. These penalties will apply to information returns required to be filed after 2009.

#### Information Return filed in incorrect format

\$ 250	Taxpayer is required to file more than 50 but less than 251 returns
500	Taxpayer is required to file more than 250 but less than 501 returns
1,500	Taxpayer is required to file more than 500 but less than 2,501 returns
2,500	Taxpayer is required to file more than 2,500 returns

#### Information Returns that are filed late – greater of \$100 and the following amounts

\$ 10 / day	Taxpayer is required to file less than 51 returns
15 / day	Taxpayer is required to file more than 50 but less than 501 returns
25 / day	Taxpayer is required to file more than 500 but less than 2,501 returns
50 / day	Taxpayer is required to file more than 2,500 but less than 10,001 returns
75 / day	Taxpayer is required to file more than 10,000 returns

The penalty for late filed information returns will be limited to 100 days, meaning that it will be capped at between \$1,000 and \$7,500.

### **Disclaimer**

The information contained herein is for information purposes only and is not intended to be complete in all respects. It is a summary of budget materials released by the Department of Finance Canada. It is not certain if all or parts of these materials will become law. We recommend that you consult with a Collins Barrow tax professional before acting on the basis of material contained herein.