
CURRENT DEVELOPMENTS

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Comptables Agréés • Chartered Accountants

FEDERAL BUDGET

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INTRODUCTION

Minister of Finance Ralph Goodale tabled the 2005 federal budget today. Following is a summary of the more significant tax and related measures

MEASURES AFFECTING INDIVIDUALS

BASIC PERSONAL AMOUNT

The budget proposes that, by 2009, the amount of income that any Canadian will be able to receive tax free will grow to at least \$10,000, as a result of progressive increases in the basic personal amount.

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

The income tax system also includes personal credits in respect of a spouse or common-law partner or a wholly dependent relative. The amounts on which these credits are based will be increased by \$85 for 2006, \$85 for 2007, \$340 for 2008, and for 2009 by the greater of \$510 and the amount required to bring the amounts on which these credits are based to \$8,500.

These increases to the amounts will be in addition to increases that take effect due to indexation of the tax system.

RETIREMENT SAVINGS

Foreign Property Rule (FPR)

The Foreign Property Rule limits the amount of foreign property that pension funds and other tax-deferred retirement plans can hold to 30% of a plan's assets.

The budget proposes to repeal the FPR effective as of 2005.

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.

These changes will be effective for investments made on or after February 23, 2005.

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Registered Pension Plan (RPP) and Registered Retirement Savings Plan (RRSP) Limits

The budget proposes the following increases in the tax-deferred retirement savings plan limits:

Existing and Proposed RPP/RRSP Limits \$

	2005	2006	2007	2008	2009	2010	2011
Money purchase RPPs: annual contribution limit							
Existing	18,000	indexed					
Proposed	18,000	19,000	20,000	21,000	22,000	indexed	
Defined benefit RPPs: maximum pension benefit (per year of service)							
Existing	2,000	indexed					
Proposed	2,000	2,111	2,222	2,333	2,444	indexed	
RRSPs: annual contribution limit							
Existing	16,500	18,000	indexed				
Proposed	16,500	18,000	19,000	20,000	21,000	22,000	indexed

TAX MEASURES FOR PERSONS WITH DISABILITIES

Eligibility for the Disability Tax Credit (DTC)

The budget proposes to:

- Clarify the legislation by replacing the present wording of “severe and prolonged mental or physical impairment” with “severe and prolonged impairment in physical or mental functions.”
- Align the legislative criteria for impairments in mental functions with wording used in the administration of these provisions on Form T2201. “Perceiving, thinking and remembering” will thus be replaced with “mental functions necessary for everyday life.”
- Extend eligibility to include individuals with multiple restrictions where the cumulative effect of those restrictions is equivalent to a marked restriction in a single basic activity of daily living.
- Better define the activities that constitute life-sustaining therapy.
- Add to the list of health practitioners who can certify eligibility for the DTC.

Reducing Barriers to Employment and Education

Disability Supports Deduction

This budget proposes to expand the list of expenses incurred for the purposes of employment or education that are eligible for the disability supports deduction.

Refundable Medical Expense Supplement

The budget proposes to increase the maximum amount of the refundable medical expense supplement to \$750. The maximum amount will continue to be indexed.

Registered Education Savings 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 be extended to 25 years following the year in which the plan was entered into.
- The termination date of the RESP be extended to 30 years following the year in which the plan was entered into.

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

Child Disability Benefit (CDB)

The budget proposes to increase the maximum annual CDB. This maximum will be increased for the 2005–06 benefit year to \$2,000 from \$1,681. The benefit will continue to be indexed.

TAX RELIEF FOR CAREGIVERS

Taxpayers paying medical or disability-related expenses on behalf of a dependent relative may claim those expenses under the medical expense tax credit.

This budget proposes to double the eligible maximum amount to \$10,000 for dependants other than spouses and children under 18 years of age.

ADOPTION EXPENSE TAX CREDIT

The budget proposes to introduce a 16-per-cent non-refundable credit for eligible (non-reimbursable) adoption expenses for the completed adoption of a child under the age of 18 years.

The maximum eligible adoption expenses claimable in respect of any particular adoption will be \$10,000. This amount will be indexed for taxation years after 2005.

This measure will apply for the 2005 and subsequent taxation years.

MEASURES AFFECTING BUSINESSES**CORPORATE INCOME TAX REDUCTIONS****Corporate Tax Rate Reduction**

The budget proposes to reduce the general corporate income tax rate to 19% from 21% by 2010. The general corporate income tax rate will be reduced to 20.5% effective January 1, 2008, to 20% effective January 1, 2009, and to 19% effective January 1, 2010 (all prorated for taxation years that include those dates).

The rate reductions will apply to all types of corporate income, other than, among others, small business income that is already eligible for the low 12-per-cent corporate tax rate and investment income of Canadian-controlled private corporations (CCPCs), which income is eligible for a special refundable tax.

Corporate Surtax

The budget proposes to eliminate the corporate surtax on January 1, 2008, prorated for taxation years that include that date.

The following table presents the federal corporate tax rates on various types of income, before and after the proposed rate reductions.

Federal Corporate Income Tax Rates (%)

	Legislated Rates	Proposed Rates		
	2008 ¹	2008	2009	2010
First \$300,000 of a CCPC's active business income	13.12	12	12	12
Other business income	22.12	20.5	20	19
Investment income	35.79	34.67	34.67	34.67

¹ Rates include the corporate surtax.

As always, readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by Parliament, may be altered to some degree.

OTHER MATTERS

EXCISE TAX ON JEWELLERY

An excise tax of 10% is imposed under the Excise Tax Act on jewellery manufactured and sold in, or imported into, Canada.

The budget proposes that this tax be phased-out over the next four years, commencing with a reduction to 8% effective February 24, 2005.

GUARANTEED INCOME SUPPLEMENT

Guaranteed Income Supplement monthly benefits for low-income seniors will be increased by up to \$36 for singles and \$58 for couples by January 2007.

DEPOSIT INSURANCE COVERAGE

The budget increases deposit insurance coverage to \$100,000 from \$60,000, effective immediately.

UPDATE - TAXATION ISSUES

The Department of Finance will, at an early opportunity, release alternative proposals in connection with the deductibility of interest and other expenses following concerns expressed over the October 2003 proposals.

A discussion draft of proposed amendments to implement proposals allowing a rollover for cross-border share-for-share exchanges will be released in the near future.

Legislation to implement the proposals relating to foreign investment entities and non-resident trusts, the February 27, 2004 draft technical amendments, and a number of previously announced sales tax technical measures will be introduced at a suitable time.



DATES TO REMEMBER

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|--------------------------|---|
| February 28, 2005 | Deadline for filing 2004 remuneration slips to employees (T4/Relevé 1) and independent sales representatives (T4A/Relevé 1), slips for payments of dividends and interest (T5/Relevé 3); and the related summaries. |
| March 1, 2005 | Deadline for 2004 contributions to an RRSP. |
| March 15, 2005 | First quarterly personal income tax instalment for 2005 due.
Commission de la Santé et de la Sécurité du travail du Québec (CSST) filing due date. |
| March 31, 2005 | Deadline for filing trust income tax returns for trusts with a December 31, 2004 year-end. |
| April 30, 2005 | 2004 personal income tax returns filing due date. |

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