
CURRENT DEVELOPMENTS

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Comptables Agréés • Chartered Accountants

FEDERAL BUDGET

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INTRODUCTION

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

MEASURES AFFECTING INDIVIDUALS

PERSONS WITH DISABILITIES

A New Disability Supports Deduction

The budget proposes to replace the attendant care deduction with a broader disability supports deduction, which will recognize attendant care as well as other disability supports expenses such as sign-language interpretation services and Braille printers incurred for education or employment purposes, unless they have been reimbursed by a non-taxable payment (e.g. insurance payment).

Expenses claimed under the disability supports deduction will not be claimable under the medical expense tax credit (METC). Individuals who purchase disability supports for purposes other than education or employment will still be able to claim them under the METC.

This deduction applies to the 2004 and subsequent taxation years.

CAREGIVER EXPENSES

The budget proposes to allow caregivers to claim more of the medical and disability-related expenses that they incur on behalf of dependent relatives.

CAREGIVER EXPENSES - cont'd.

Specifically, medical expense claims made on behalf of minor children will be pooled with the medical expenses of the taxpayer and his or her spouse or common-law partner, subject to the taxpayer's minimum expense threshold (the lesser of 3% of the taxpayer's net income and \$1,813), without regard to the income of the minor child.

For medical expenses paid on behalf of other dependent relatives (e.g., parent, niece or nephew), taxpayers will be able to claim qualifying medical expenses paid on behalf of such a dependant that exceed the lesser of 3% of the dependant's net income and \$1,813 (that is, the threshold for the METC that would apply if the dependant claimed the expenses). The maximum eligible amount that can be claimed on behalf of dependent relatives other than minor children will be \$5,000.

The current 'notch provision' will no longer apply, however the \$5,000 limit may severely restrict the credit available for a dependent parent's nursing home expenses.

This measure applies to the 2004 and subsequent taxation years. The current rules for determining dependency will continue to apply.

EDUCATION TAX CREDIT

Students who pursue post-secondary education that is related to their current employment cannot currently claim the education tax credit. The budget proposes to remove this restriction provided that the employer reimburses no part of the costs of education.

This measure applies to the 2004 and subsequent taxation years.

MEASURES AFFECTING BUSINESSES**SMALL BUSINESS DEDUCTION LIMIT**

The 2003 budget implemented a phased increase in the small business limit, from \$200,000 in 2002 to \$225,000 in 2003, \$250,000 in 2004, \$275,000 in 2005, and \$300,000 in 2006 and subsequent years.

This budget proposes that the increase in the small business limit to \$300,000 be accelerated by one year. The small business limit will therefore be \$300,000 in 2005 and subsequent years.

The small business limit will continue to be pro-rated where the taxation year of the corporation does not coincide with the calendar year.

REFUNDABLE SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) INVESTMENT EXPENDITURE LIMIT

The associated corporation rules in the *Income Tax Act* may cause unintended results for some research and development intensive small Canadian-controlled private corporations (CCPCs) that are considered to be associated solely because of independent investments made in the corporations by the same group of otherwise unconnected investors, such as venture capital investors.

The budget proposes to amend the refundable SR&ED investment tax credit (ITC) rules. Small CCPCs that have a group of common investors (which group the Minister of National Revenue is satisfied was not formed to gain access to multiple expenditure limits) will not have to share the \$2 million expenditure limit solely because two or more investors collectively have a majority interest in the shares of each corporation.

This change applies to taxation years that end after March 22, 2004.

CARRY-FORWARD PERIOD FOR BUSINESS LOSSES

The period of carry-forward for non-capital losses and unused foreign tax credits (FTC) will be increased from 7 years to 10 years for losses and FTC incurred during taxation years ending after March 22, 2004.

CAPITAL COST ALLOWANCE RATES

Computer Equipment

The capital cost allowance (CCA) rate for computer equipment acquired after March 22, 2004 will be increased to 45% from 30%.

Data Network Infrastructure Equipment

Data network infrastructure equipment is infrastructure equipment that supports advanced telecommunications applications such as e-mail, Web searching and hosting, instant messaging and audio- and video-over-IP (Internet Protocol).

The budget proposes that such equipment acquired after March 22, 2004 be included in a new class, with a 30% CCA rate.

FINES AND PENALTIES

Statutory fines or penalties imposed after March 22, 2004 will not be deductible. This proposal does not apply to penalties or damages paid under a private contract, nor to those imposed on GST/HST or some other specific Acts.

AFFILIATED PERSONS RULES AND TRUSTS

The budget proposes to expand the scope of the affiliated persons rules to deal more fully with trusts. This will be done in a manner that is generally consistent with how the rules apply to partnerships. This will ensure that the loss deferral rules apply as intended to property dispositions involving trusts and will also improve the application of other rules that use the affiliation standard.

CHARITABLE DONATIONS

The budget proposes that charitable donations deductions of a corporation that were unused at the time control of the corporation was acquired will not be claimable for taxation years that end after that acquisition of control.

This amendment applies in respect of gifts made after March 22, 2004.

TAX RULES FOR REGISTERED CHARITIES

The budget proposes several significant changes to the tax rules for registered charities, including administrative reforms that include applying varying degrees of penalties to varying degrees of non-compliance, as well as a reduced disbursement quota, to 3.5% from 4.5% per year on capital assets held by registered charities (and charitable organizations, effective after 2008).

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 MEASURES

EDUCATION

Canada Learning Bond

A new Canada Learning Bond (CLB) is proposed for children born after 2003, in each year the child's family is eligible to receive the National Child Benefit supplement, up to the year the child is 15. The initial CLB will be \$500 and subsequent CLBs will be \$100, to a maximum of \$2,000.

Canada Education Savings Grant

The Canada Education Savings Grant (CESG) matching rate will increase to 40% for families with income under \$35,000, and 30% for families with income between \$35,000 and \$70,000. The enhanced CESG will apply to the first \$500 contributed annually, with no carry-forward access, beginning in 2005.

Canada Student Loans Program

A new grant of up to \$3,000 will be available by August 1, 2005 for first-year post-secondary students from low-income families who are eligible for Canada Student Loans. Also, an annual grant of up to \$2,000 will be provided to post-secondary students with disabilities.

Enhancements will be made to interest-relief and debt-reduction measures.

TAXPAYER-REQUESTED ADJUSTMENTS

Currently an individual or testamentary trust can request a reassessment for a taxation year as far back as 1985.

It is proposed that, for requests received after 2004, such adjustments be limited to taxation years that end in any of the ten preceding calendar years.

DATES TO REMEMBER



March 30, 2004	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2003 taxation year-end.
April 30, 2004	2003 Personal income tax returns filing due date.
June 15, 2004	Second quarterly personal income tax instalment for 2004 due.
June 15, 2004	2003 Personal income tax returns filing due date for taxpayers with income from self-employment

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