

Financial & Estate Planning Group

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THE 2007 FEDERAL BUDGET INCLUDED A NUMBER OF TAX PROPOSALS:

Working Income Tax Benefit

Effective for the 2007 taxation year, the Working Income Tax Benefit (WITB) will provide a refundable tax credit equal to 20% of each dollar earned in excess of \$3,000 to a maximum credit of \$500 for individuals and to a maximum credit of \$1,000 for families. The credit will be reduced by 15% of net family income in excess of \$9,500 for individuals and \$14,500 for families.

WITB for Persons with Disabilities

WITB for Persons with Disabilities will include an additional disability supplement for each individual who is eligible for the disability tax credit. The supplement will equate to 20% of each dollar in excess of \$1,750 of earned income up to a maximum credit of \$250. The supplement will be reduced by 15% of net family income in excess of \$12,833 for individuals and \$21,167 for families.

Registered Disability Savings Plan

An RDSP will be introduced sometime in 2008. Persons eligible for the Disability Tax Credit and resident in Canada (or their parent or legal representative) will be eligible to establish an RDSP. Contributions will be permitted until the end of the year in which the beneficiary attains 59 years of age and will be limited to a lifetime maximum of \$200,000, with no annual limit. Contributions will not be deductible but the income earned on amounts inside the plan will accrue tax-free. Income earned in the plan will be included in the beneficiary's income for tax purposes when paid out of the RDSP.

Canada Disability Savings Grants

CDSGs will be paid as matching amounts to RDSP contributions made in the year as follows: On family net income up to \$74,357: 300% on the first \$500 in RDSP contributions and 200% on the next \$1,000; On family income over \$74,357, 100% on the first \$1,000 in RDSP contributions.

Canada Disability Savings Bonds

Canada Disability Savings Bonds of up to \$1,000 will be paid annually to an RDSP where family net income does not exceed \$20,833. There will be a lifetime limit of \$20,000 on CDSBs paid in respect of an RDSP beneficiary.

Charitable Donations to Private Foundations

Effective for gifts made on or after March 19, 2007, the budget proposes to eliminate the taxation of capital gains arising from donations of publicly listed securities and proposes to eliminate from tax, the employment benefit associated with employee stock options when those publicly listed securities are donated to the private foundation within 30 days of exercise.

Registered Education Savings Plans

The \$4,000 annual limit will be eliminated and the lifetime contribution limit will be increased to \$50,000. The maximum annual amount qualifying for the 20% Canada Education Savings Grant will be increased to \$2,500 (from \$2,000), increasing the maximum CESG to \$500. The maximum CESG for the year will increase to \$1,000 (from \$800). Part-time students will now also be eligible for RESP assistance.

Elementary and Secondary School Scholarships

Elementary and Secondary School Scholarships will be fully exempt from tax for 2007 and subsequent taxation years.

New Child Tax Credit

Effective for 2007, there will be a new non-refundable child tax credit for parents of \$2,000 for each child under 18 years of age at the end of the taxation year. The credit will be indexed and calculated by reference to the lowest personal tax rate for the taxation year. For 2007 the lowest personal tax rate is 15.5%. The credit will provide income tax relief of up to \$310 per child.

Spousal and Other Amounts

Effective for 2007, the spousal or common-law partner and wholly dependent relative tax credits will be increased by \$1,348, to match the level of the basic personal amount credit. There will be a corresponding elimination of the threshold above which the dependant's net income must be taken into account. This will provide individuals with up to \$209 in additional income tax relief. For 2008 and subsequent tax years, these credits will be increased by the same amounts as the basic personal amount.

Public Transit Tax Credit

The public transit tax credit will be expanded to include cost-per-trip electronic payment cards issued after 2006. The credit will apply to cards where the cost relates to the use of public transit for at least 32 one-way trips during an uninterrupted period not exceeding 31 days. The public transit tax credit is also being expanded to include weekly transit passes that are valid for use after 2006 where an individual purchases at least four consecutive weekly passes

Lifetime Capital Gains Exemption

Effective for dispositions that occur on or after March 19, 2007, the lifetime capital gains exemption (LCGE) for qualified small business shares and qualified farm or fishing properties will be increased to \$750,000. For dispositions of qualified property in 2007 the exemption will be adjusted to recognize both the current and proposed new exemption limits.

Meal Expenses of Truck Drivers

Over the next five years, the deductible portion of the cost of food and beverages consumed by long-haul truck drivers will increase to 80%. The deductible portion of expenses will increase to 60% for expenses incurred on or after March 19, 2007, and before January 1, 2008, and then an additional 5% for each following year.

Phased Retirement

The 2007 budget now offers more flexibility to employers to offer phased retirement programs for its older workers. In effect, it allows an employer to offer an employee a partial pension of up to 60% of the employee's accrued "Defined" pension benefits while at the same time allowing the employee to accrue benefits in respect of post-pension commencement employment. This is regardless of whether the employee is working full-time or part-time.

Qualifying employees will be limited to individuals who are at least 55 years of age and who are otherwise eligible to receive a pension without the plan imposing an early retirement reduction. The 60% limit will be the amount of pension benefit that would be paid from the plan if the employee were fully retired.

Age Limit for Maturing RPPs and RRSPs

Currently, taxpayers are required to stop contributing to their RRSPs at the end of the year in which they turn age 69 and then start a withdrawal program (RRIF). The 2007 budget proposes to extend this conversion to when the taxpayer reaches the age of 71. Individuals who turn 69 years of age in 2007 immediately benefit from the proposed change.

The measure will also benefit individuals who turn 70 or 71 years of age in 2007, in that if RRSP contribution room is available, RRSP contribution can be made in 2007 and 2008 for the 70-year-old and in 2008 for the 71-year-old.

RRSP Qualified Investments

Eligible investments have been expanded to include:

- Any debt or obligation that has an investment grade rating and that is part of a minimum \$25 million issuance.
- Any security that is listed on a designated stock exchange.

Mineral Exploration Tax Credit

The mineral exploration tax credit is a benefit available to individuals who invest in "Flow-Through" shares. It is equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to Flow-Through share investors.

Budget 2007 proposes to extend eligibility for the mineral exploration tax credit to Flow-Through share agreements entered into on or before March 31, 2008.

48-Hour Travellers' Exemption

Budget 2007 proposes to increase the travellers' exemption to \$400 from its current amount of \$200 for Canadian travellers leaving the country for more than 48 hours but less than seven days.

"Green" Levy on Fuel-Inefficient Vehicles

Budget 2007 introduces a vehicle efficiency incentive designed to promote the purchase of fuel-efficient vehicles in Canada. The Green Levy will apply to new automobiles designed to primarily carry passengers, including station wagons, vans, and sport utility vehicles, but not pick-up trucks, in accordance with the vehicle's fuel efficiency rating.

This rating will be calculated on the basis of weighted average fuel consumption. The Green Levy will apply to new vehicles delivered or imported after March 19, 2007. The inventory of vehicles held by dealers on March 19 will not be subject to the levy.

As well, vehicles for which an agreement in writing between a dealer and a final consumer was entered into before March 20, 2007, will not be subject to the levy, provided that the final consumer takes possession of the vehicle before July 2007. The Green levy will also apply to imported used vehicles put into service after March 19, 2007.

International Tax Measures

Withholding Tax on Interest

It has been announced that Canada and the United States have agreed in principle to amend the Canada–U.S. tax treaty to eliminate withholding tax on cross-border interest payments. For interest paid between unrelated parties, the elimination of the withholding tax will take effect as of the first calendar year following the entry into force of the treaty changes. This could be a long process.

Trust Tax Measures

There is increasing pressure on the investment fund industry to issue Trust T3 tax slips in a timely manner to allow taxpayers sufficient time to prepare their annual income tax return. The federal government is working with the investment funds industry to develop a process that will balance the needs of both the taxpayers and commercial trusts (including income trusts) to meet their respective tax filing obligations. Draft regulations setting out a more efficient process for issuing 2007 T3 tax slips is expected to be released shortly.