InfoBudget 2011
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Marlene L. Grant Professional Corporation C.G.A.

is pleased to provide you with CGA-Canada's commentary and analysis of the 2011 Federal Budget.

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Budget Highlights

If you are a doctor, nurse, senior, volunteer firefighter, student or parent, the 2011 budget is for you. If not, there is not much to get excited about. Some of the proposals affecting individuals and businesses include:

- Increase to the Guaranteed Income Supplement to a maximum of $50 per month for a single senior and $70 for couples.
- Changes to non-refundable tax credits to include:
  – Children's Arts Tax Credit to a maximum of 15% of $500;
  – Volunteer Firefighters Tax Credit equal to 15% of $3,000;
  – Family Caregiver Tax Credit to a maximum of 15% of $2,000;
  – Removal of $10,000 limit on medical expenses that can be claimed for a dependent relative;
  – Removal of rule limiting the number of child tax credits to one per household;
  – Expansion of the tuition tax credit to include fees paid to take an examination required to obtain a professional designation;
  – Reduction of the minimum course-duration requirement from 13 consecutive weeks to 3 consecutive weeks in order to claim the tuition, education and textbook tax credit by Canadian students studying abroad.
- Allowing the transfer of Registered Education Savings Plans between siblings without tax penalties or repayment of the Canada Education Savings Grants.
- Allowing earlier access to savings in a Registered Disability Savings Plan for beneficiaries with shortened life expectancies.
- Expansion of the "Kiddie Tax" to include capital gains.
- Anti-avoidance rules to prevent the use of Registered Retirement Savings Plans in tax planning schemes.
- Changes to the rules governing Individual Pension Plans relating to minimum withdrawal requirements and past service contributions.
- Forgiveness of a portion of the federal component of Canada Student Loans for new family physicians and nurses who locate to rural or remote communities.
- A temporary hiring credit of up to $1,000 against a small firm's increase in its 2011 Employment Insurance premiums over 2010.
- Changes to Employment Insurance rules and benefits relating to work-sharing agreements.
- Renewing of the *Best 14 Weeks* and *Working While on Claim* EI projects for one year.

What this Budget Means for Individuals

There were no general tax reductions or increases to the basic non-refundable amounts for individuals in the Budget. However, there were a number of provisions, both tax and non-tax related, that apply to specific individuals such as doctors, nurses, students and seniors.

Elimination of the Mandatory Retirement Age

Federally regulated workers are currently required to retire at age 65. The budget proposes to eliminate the mandatory retirement age for these employees.

Increase in Guaranteed Income Supplement

The Guaranteed Income Supplement paid to seniors with little or no income other than Old Age Security and the GIS will increase by $600 annually for a single person and $840 annually for a couple. The full supplement will be available for seniors whose income from other than OAS is $2,000 or less for a single person and $4,000 for a couple. The supplement will gradually reduce until other income reaches an income level of $4,400 for singles and $7,360 for couples. This increase will benefit more than 680,000 seniors.

Children's Arts Tax Credit

Parents whose children are enrolled in qualifying programs will be able to claim a non-refundable tax credit of 15% on a maximum of $500. This credit is identical to the Children's Fitness Tax Credit. Eligible expenses will include fees paid to a qualifying entity for registration or membership in an eligible program of artistic, cultural, recreational, or development activities. Fees paid for the purchase or rental of equipment, travel, meals and accommodation will not qualify. Expenses that qualify for the Fitness Tax Credit will not qualify nor will expenses eligible for the child care deduction.

A qualifying entity is defined as a person or partnership offering one or more eligible programs of artistic, cultural, recreational or developmental activities. Spouses or common-law partners of the person claiming the tax credit do not qualify nor do individuals who are under 18 years of age.

An eligible activity will be a supervised program suitable for children that:

- Contributes to the development of creative skills or expertise in an artistic or cultural activity;
- Provides a substantial focus on wilderness and the natural environment;
- Helps children develop and use particular intellectual skills;
- Provides enrichment or tutoring in academic subjects;
- Includes structured interactions among children where supervisors teach or help children develop interpersonal skills

Similar activities adapted for the needs and abilities of children eligible for the Disability Tax Credit will be eligible.

An eligible program must be a weekly program lasting a minimum of eight consecutive weeks or a children's camp lasting a minimum of five consecutive days. At least 50% of the activities offered must be eligible activities in order to qualify for the tax credit. Programs that are part of a school curriculum will not be eligible for the tax credit.

The tax credit may be claimed by either parent or shared provided the claim is not more than the maximum allowed for one parent. Expense claimed under the Medical Expense Tax Credit will not qualify. The credit will be available for the 2011 and subsequent taxation years.

Volunteer Firefighters Tax Credit

Volunteer firefighters who perform at least 200 hours of volunteer firefighting services in a taxation year will be eligible to claim a 15% non-refundable tax credit based on an amount of $3,000. Eligible volunteer services consist

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What this Budget Means for Individuals

primarily of responding to and being on call for firefighting and related emergency calls, attending meetings held by the fire department and participating in required training. Volunteer service hours performed by a firefighter for a fire department will be ineligible if the firefighter also provides firefighting services, otherwise than as a volunteer, to that fire department.

A written certificate from the chief or delegated official will be required to confirm the claim.

An individual claiming this credit will not be eligible for the $1,000 exemption for honoraria paid by a government or municipality. Since the maximum tax credit is $450, an individual receiving honoraria greater than $450 would be better off not taking the credit.

The credit is available for 2011 and subsequent years.

Family Caregiver Tax Credit

Beginning in 2012, an individual caring for dependants with mental or physical infirmities will be eligible for a 15% tax credit based on an amount of $2,000. The credit will be phased out when the dependant's net income in 2012 equals:

- Spouse or common-law partner credit $12,780
- Eligible dependant credit $12,780
- Caregiver Credit $21,360
- Infirm Dependant Credit $12,780

Only one Family Caregiver Tax Credit will be available in respect of each infirm dependant. The credit will be indexed to account for inflation for 2013 and subsequent years.

Medical Expense Tax Credit for Other Dependants

The current rules permit a caregiver to claim eligible medical expenses that exceed 3% of a dependant's income to a maximum of $10,000. Commencing in 2011, the $10,000 limit will be removed. A dependant relative is a child who is 18 years or older, a grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew dependent on the taxpayer for support, and the caregiver pays the medical expenses on their behalf.

Child Tax Credit Eligibility

Currently, the child tax credit may only be claimed by one individual in respect of a domestic establishment. This results in a problem where two or more families share a domestic establishment as only one family is allowed to claim their children.

Commencing in 2011, this limitation will be removed.

Tuition Tax Credit – Examination Fees

Beginning in 2011, the tuition tax credit will be expanded to include fees paid to an educational institution, professional association, provincial ministry or other similar institution to take an examination required to obtain a professional status recognized by federal or provincial statute, or to practice a profession or trade in Canada.

The credit will also apply to ancillary fees, including the cost of examination materials used during the examination, such as identification cards and prerequisite study materials.

The fees must be greater than $100 in the year to qualify.

Education Tax Measures – Study Abroad

Currently, students studying in universities outside Canada qualify to claim the tuition tax credits if the course is at least 13 consecutive weeks. The budget proposes to reduce this to 3 consecutive weeks commencing in 2011. In addition, a qualifying student will be eligible for Educational Assistance Payments from a Registered Educational Savings Plan.

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Registered Education Savings Plan (RESP)– Asset Sharing Among Siblings

Parents and grandparents are permitted to open family plan RESPs, which allow the allocation of plan assets among related children. Individuals, such as aunts and uncles, who are not considered to be connected to the children by blood or adoption, may only set up individual plans. This impedes the allocation of assets among siblings, resulting in tax penalties and repayment of Canada Education Savings Grants. The budget proposes to provide the same flexibility to allocate assets among siblings as exists in family plans. The measure applies to asset transfers after 2010.

Registered Disability Savings Plan – Shortened Life Expectancy

The Government of Canada provides Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) of up to $3,500 per year and $1,000 per year respectively to RDSPs in addition to contributions made by the beneficiary's family. Current legislation requires the CDSGs and the CDSBs to remain in the plan for a minimum of 10 years. If the plan is terminated or there is a withdrawal prior to the 10 years, the CDSGs and CDSBs must be repaid to the government. The Budget proposes to allow beneficiaries of RDSPs who have shortened life expectancies to withdraw more of their RDSPs without triggering the 10 year repayment rule, subject to specified limits and certain conditions.

In order to be eligible, a doctor must certify in writing that the beneficiary has a life expectancy of five years or less. The plan holder must then elect in prescribed form and submit the election with the medical form to the RDSP issuer. The RDSP issuer will then notify Human Resources and Skills Development Canada of the election.

When a plan holder makes the election, withdrawals from the plan will not trigger repayment of CDSGs and CDSBs provided the taxable portion does not exceed $10,000 annually. The total withdrawals may exceed $10,000 due to the non-taxable portions. No further contributions will be allowed with exception of RRSP and RRIF rollovers of a deceased individual to a financially dependent infirm child or grandchild. No further CDSGs or CDSBs will be paid into the plan. No CDSG or CDSB entitlements will be carried forward except for the year the election is made. The minimum withdrawal requirements which normally apply in the year the beneficiary turns 60 years of age, will commence in the year following the election.

The election may be withdrawn by providing notice to the RDSP issuer in prescribed form, who will then notify Human Resources and Skills Development Canada of the reversal.

This measure will apply after 2010 to withdrawals made after Royal Assent to the enacting legislation.

Registered Retirement Savings Plans – Anti-Avoidance Rules

The Budget proposes several changes to the RRSP rules to ensure that the plans are used for legitimate savings purposes and not for excessive tax advantages not related to the basic objective of providing retirement income to Canadians. The anti-avoidance rules parallel the rules currently in effect for Tax Free Savings Accounts:

- The advantage rules;
- The prohibited investment rules;
- The non-qualified investment rules.

Tax advantage rules are described as:

- Benefits derived from transactions that would not have occurred in a regular, open market between arms- length parties if the tax attributes of the RRSP were the reason for the transactions.

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- Payment to a RRSP made on account of or in lieu of payments for services.
- Investment income that is tied to another investment that would normally have been paid outside the RRSP.
- Asset swap transactions between RRSPs and other accounts controlled by the annuitant.
- Income derived from non-qualifying investments.
- Income derived from prohibited investments.

An RRSP investing in prohibited investments as defined in subsection 207.01(1) of the *Income Tax Act* will result in a penalty equal to 50% of the fair market value of the investment. Likewise, investing in non-qualifying investments will attract a penalty of 50% of the fair market value of the non-qualified investment.

The new rules will not apply to swap transactions taking place before July, 2011. The rules pertaining to prohibited and non-qualified investments will apply to gains accruing after Budget Day. The penalties in respect of prohibited investments will not apply if the investments are disposed of prior to 2013.

These proposals are rather long and complex. Persons concerned about them should seek professional advice.

Individual Pension Plans (IPP)

The budget proposes that beneficiaries of IPPs be required to make minimum withdrawals from the plan in the year the plan member turns 72. This proposal is to apply to 2012 and subsequent years. Plan members who turn 72 prior to 2012 will be required to start the making the minimum withdrawals in 2012.

Past service contributions to a plan will have to be paid first out of a plan member's existing RRSP assets or by reducing their existing RRSP contribution room before new deductible contributions can be made to the plan relating to past service.

Doctors and Nurses – Student Loans Forgiven

Canadians living in rural or remote parts of the country often have to travel long distances to get medical care. In order to encourage health care professional to locate to these communities, the budget proposes to forgive federal Canada Student Loans made to doctors and nurses who will practice in these underserved communities. Family doctors will be entitled to forgiveness of loans of $8,000 per year to a maximum of $40,000. Nurse practitioners and nurses will be eligible for $4,000 per year to a maximum of $20,000.

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What this Budget Means for Business

There are few plumbs in this budget for the business community. Perhaps the most encouraging feature of the budget is the commitment by the government to continued support of various projects and public/private partnerships in these projects. This should result in business opportunities for not only large corporations, but also small and medium enterprises as well.

Small Business Hiring Credit

The budget proposes to provide a temporary Hiring Credit of up to $1,000 against a small firm's increase in its 2011 Employment Insurance premiums over those paid in 2010. It is estimated that this credit will reduce the payroll costs of small businesses by $165 million in 2011.

Supporting Young Entrepreneurs

The Canadian Youth Business Foundation has helped young Canadians to start more than 4,000 businesses since 2002. This has resulted in close to 18,000 new jobs. The Budget proposes to grant $20 million over 2 years to enable the Canadian Youth Business Foundation to continue its work.

Tax Measures for Business

- Extension of the accelerated Capital Cost Allowance under Class 29 until 2013.
- Amendment to Class 43.2, which provides accelerated CCA on clean energy generation and conservation equipment to include equipment that recovers waste heat in a broader range of applications than was previously eligible.
- Expansion of Class 43.2 to include equipment that generates electricity using waste heat.
- Eligible equipment for Class 43.2 will include electrical generating equipment, control, feedwater and condensate systems, and other ancillary equipment.

Other Measures Include

- Corporations that are members of partnerships with a different fiscal year will be required to accrue income from the partnership that falls within the corporation's fiscal year.
- Extension for a year of the Mineral Exploration Tax Credit for flow-through share agreements entered into on or before March 31, 2012.
- Cost of oil sands leases and other oil sands resource property will be treated as Canadian oil and gas property expense rather than Canadian development expense. This reduces the write-off from 30% per year to 10% per year for those expenditures.
- Development costs for bringing new oil sands mines into production will be treated as Canadian development expense instead of Canadian Exploration expense, reducing the write-off from 100% to 30% per year.
- CRA permitted to reassess a taxpayer to disallow the taxpayer's claim for a charitable donation tax credit where donated property is returned to the taxpayer.

The Budget contains a number of other proposals which are not included in this newsletter. All these budget measures require the approval of Parliament. If further information is required, contact your local CGA professional.

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