

On May 2, 2006, the Honourable *Jim Flaherty*, Minister of Finance, presented his first Budget to the House of Commons.

The Minister reports an estimated *surplus of \$8.0 billion* for fiscal period 2005/2006. This results from revenues of \$220.9 billion, spending of \$179.2 billion, and debt service of \$33.7 billion.

The *surplus* for 2006/2007, after debt reduction of \$3 billion, is estimated to be *\$.6 billion*.

As expected, the Goods and Services Tax (*GST*) is to be reduced by 1% to **6%** effective **July 1, 2006**. Generally, the key date for determining the GST rate is the time of invoice. For new homes, the 7% rate will still apply when ownership or transfer takes place before July 1, 2006.

The Budget also proposes a new *Universal Child Care Benefit* of **\$100** per child per month which will be included in income by the lowest income spouse but will not affect federal benefits that are determined according to income. This is to be effective **July 1, 2006**.

For other *details* - see below.



## HIGHLIGHTS

- A. Personal Income Tax
- B. Business Income Tax
- C. Excise Tax
- D. Universal Child Care
- E. Other

## A. PERSONAL INCOME TAX

### Personal Income Tax Rates

For the 2006 taxation year the tax rate applicable to taxable income less than \$36,378 will be 15.25%. (The tax rate increases from 15% to **15.5%** effective **July 1, 2006**.)

### Basic Personal Amounts

For 2006, the *basic personal amount* increases from \$8,648 to **\$8,839**. For 2007, the amount is increased by \$100.

For 2006, the *spouse or common-law partner amount* increases from \$7,344

to **\$7,505**. For 2007, the amounts are increased by **\$85**.

For 2006, the *net income threshold* for the spouse or common-law partner increases from \$734 to **\$751**.

### Canada Employment Credit

For 2006, an individual will be entitled to deduct in computing tax the lesser of employment income and **\$250**, multiplied by the appropriate percentage for the taxation year. (The \$250 increases to **\$1,000 for 2007** and subsequent years.)

### Capital Gains of Fishers

For a disposition on or after **May 2,**

**2006** by an individual of a *fishing property*, a share of the capital stock of a family fishing corporation, an interest in a family fishing partnership or a qualified fishing property, the provisions of the Act relating to eligible capital property gains, capital gains reserves, replacement property rollovers, intergenerational rollovers from an individual to a child of the individual, trust rollovers from a spousal or common-law partner trust to a child of the individual and the lifetime capital gains exemption **will apply** to these *fishing properties*.

The Conservative *election platform* to eliminate the capital gains tax for individuals on the sale of assets when proceeds are reinvested within 6 months **did not make it into this Budget**.

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## Mineral Exploration Tax Credit

For *flow-through share agreements* made on or after May 2, 2006 and before March 31, 2007, the definition “flowthrough mining expenditure” will be *expanded*.

## Tradespeople’s Tool Expenses

For *eligible tools* acquired on or after May 2, 2006, there may be deducted in computing the income of an individual from employment as a tradesperson the tool costs in *excess of \$1,000* to a *maximum of \$500* for that year.

The tools must be *new* and *certified* by the employer to be required as a condition of the individual’s employment. They generally cannot include an electronic communication device or electronic data processing equipment.

Also, the *\$200 limit* on the cost of tools eligible for the *100% capital cost allowance* will be increased to *\$500*.

## Textbook Tax Credit

For the 2006 and subsequent taxation years, an individual who is entitled to the education tax credit will be entitled to claim a *textbook tax credit* equal to the product obtained when the appropriate tax rate percentage for the year is multiplied by *\$65* for each month in the year in which the individual was entitled to claim the education tax credit as a full-time student, or *\$20* for each month in which the individual was entitled to claim the education tax credit as a part-time student.

This is worth about *\$80 per year* for a full-time student.

## Scholarship and Bursary Income

For the 2006 and subsequent taxation

years, the total of *all amounts* received in the year on account of *scholarships, fellowships, and bursaries* be *excluded* from *income*, if these amounts are received in connection with the individual’s enrolment at a designated educational institution in a program in respect of which the individual may claim the education tax credit.

## Canada Student Loans

The Budget proposes an expanded eligibility for *Canada Student Loans* through a *reduction* in the expected *parental contribution*, starting in *2007*.

## Pension Income Amount

For the 2006 and subsequent taxation years, the *pension income* on which the *pension tax credit* is calculated will be increased to *\$2,000* from *\$1,000*.

## Child Disability Benefit

For benefits paid after June 2006, the *Child Disability Benefit* will be increased to *\$2,300* in respect of each child who is eligible for the disability tax credit. The threshold for the phase-out of this benefit will be modified in accordance with proposals described in the Budget documents.

## Refundable Medical Expense Supplement

For the 2006 and subsequent taxation years, the maximum *refundable medical expense supplement* will be increased to *\$1,000*.

## Tax Credit for Public Transit Passes

For the 2006 and subsequent taxation years, an individual will be entitled to deduct an amount equal to the product obtained when the appropriate tax rate percentage for the year is multiplied by amounts paid in respect of eligible *public transit passes* in respect of transit on

or after *July 1, 2006* for the use of the individual, the spouse or common-law partner, or a child of the individual who has not before the end of the taxation year attained the age of 19 years. This includes a public transit pass that is valid for a period of at least *one month* of public transit.

## Donations of Publicly Listed Securities and Ecologically Sensitive Land

These *gifts* made to a *qualified donee* on or after May 2, 2006 will *not* be subject to *taxable capital gain* treatment.

## Dividend Tax Credit

The federal dividend *gross-up* will be increased to *45 per cent* and the individual tax credit will be adjusted to 11/18ths of the gross-up in respect of taxable dividends (“eligible dividends”) paid after 2005 by

- (i) public corporations resident in Canada (and any other resident corporations that are not Canadian-controlled private corporations (CCPCs) and are subject to the general corporate tax rate), and
- (ii) CCPCs resident in Canada to the extent that their income (other than investment income) is subject to tax at the general corporate tax rate.

This relates to the November 23, 2005 announced reduction in *personal income taxes* on dividends received after 2005 from *public corporations*.

## Disability Supports Deduction

For the 2005 and subsequent taxation years, the list of expenses eligible for the *disability supports deduction* will be expanded in accordance with proposals previously described in the *2005 Federal Budget*.

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## Medical Expense Tax Credit

For the 2005 and subsequent taxation years, the list of expenses eligible for the *medical expense tax credit* has been expanded in accordance with proposals previously described in the *2005 Federal Budget*.

## Medical Expense Tax Credit - Caregiver

For the 2005 and subsequent taxation years, the \$5,000 maximum amount eligible for the medical expense tax credit for certain dependants will be increased to **\$10,000** in accordance with the *2005 Federal Budget*.

## Adoption Expense Tax Credit

For the 2005 and subsequent taxation years, an *adoption expense tax credit* will be introduced in accordance with the *2005 Federal Budget*.

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## B. BUSINESS INCOME TAX

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### General Corporate Income Tax Rate

This rate will be *reduced to 19 per cent* from 21 per cent by 2010.

### Corporate Surtax

The *surtax* imposed on corporations will be *eliminated* for taxation years that end after **December 31, 2007**, with proration for taxation years that include that date.

### Small Business Deduction Limit

The *small business income* eligible for the 12% tax rate will be increased to **\$400,000** from \$300,000 as of **January 1, 2007**.

### Small Business Rate

The *small business deduction rate* will be *reduced* for taxation years that end

after 2007 to **11.5%** in **2008**, and **11%** after 2008.

## Carry-Forward Periods for Business Losses and Investment Tax Credits

The 10 taxation year *carry-forward period* in respect of non-capital losses, farm losses, and investment tax credits earned in taxation years that end *after 2005* will be extended to **20 taxation years**.

## Federal Capital Tax

This tax will be *eliminated* effective **January 1, 2006**.

## Minimum Tax on Financial Institutions

For taxation years that end on or after July 1, 2006, the minimum tax on financial institutions will be modified by creating a *single rate of tax* of **1.25%** and a *single capital deduction* of **\$1 billion**, with proration for taxation years that begin before and include that date.

## Apprenticeship Job Creation Tax Credit

For the 2006 and subsequent taxation years, a taxpayer will be allowed an *investment tax credit* in respect of *each eligible apprentice employed* in the business after May 2, 2006 equal to the lesser of \$2,000 and 10% of eligible salary and wages payable in respect of the employment.

An *eligible apprentice* is an individual who is working in a *prescribed trade* in the first two years of the individual's provincially registered apprenticeship contract.

A prescribed trade is a trade that is one of the 45 Red Seal Trades or a trade prescribed to be a trade that is in Canada's strategic economic interest.

The Budget also proposes a new **\$1,000**

*grant* for first and second year apprentices effective **January 1, 2007**.

## Farming

Budget 2006 provides an additional **\$2 billion** over two years to the *farming sector*.

**\$1.5 billion** will be provided in **2006**. This includes \$500 million for *farm support*, plus a one-time investment of \$1 billion to assist farmers in the transition to more *effective programming* for farm income stabilization and disaster relief.

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## C. EXCISE TAX ACT

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### GST Rate Cut

The 7% Goods and Services Tax (GST) will be *cut to 6%* effective **July 1, 2006**.

### GST Transitional Rules

The Budget includes *transitional rules* for transactions occurring close to or straddling the July 1, 2006, implementation date.

In general, the existing GST rules that determine when tax is payable will determine if the 6-per-cent rate will apply. Typically, GST is payable when an invoice is issued. Consequently, a good or service for which you are invoiced *on or after July 1, 2006*, will generally be taxable at the new **6-per-cent rate**.

A good or service for which you are invoiced *before July 1, 2006*, will generally be taxable at the **7-per-cent rate**.

### Buying a New Home— Transitional Rules

The Budget also sets out the rules that will apply to purchases of new homes during the transition to the new 6-per-cent rate. Specifically, where the *ownership or possession* transfer to the buyer *before July 1, 2006*, the **7-per-**

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cent rate would apply.

Where ownership and possession transfer to the buyer *on or after July 1, 2006*, the *6-per-cent rate* would apply if the agreement of purchase and sale is signed after Budget day, May 2, 2006.

Buyers who signed the purchase agreement on or before May 2, 2006, and whose GST is based on the 7-per-cent rate may be able to claim a *transitional adjustment*.

### Repealing the Excise Tax on Jewellery

Budget 2006 proposes to *repeal* the excise tax on *jewellery* effective May 2, 2006.

### Reducing Excise Duties for Canadian Vintners and Small Brewers

Budget 2006 proposes to provide *excise duty relief* to *wines* made from 100-per-cent *Canadian-grown product*. Excise duty reductions for *small brewers* are also proposed.

These measures will be effective July 1, 2006.

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## D. UNIVERSAL CHILD CARE

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### Families

Budget 2006 introduces the *Universal Child Care Benefit* as of July 1, 2006. This new benefit will give families *\$100*

*per month per child* under *age 6*. This will put \$2.1 billion per year into the hands of parents.

The Universal Child Care Benefit will be *taxed* in the hands of the *spouse* with the *lower income* but, will *not reduce* federal income-tested *benefits*.

Families who receive the Canada Child Tax Benefit (*CCTB*) will receive the new benefit *automatically*.

Families who *do not* receive the *CCTB* will be able to *apply* for the new benefit by submitting a completed CCTB application form to the Canada Revenue Agency.

### New Child Care Spaces

The Budget also sets aside \$250 million per year beginning in 2007–08 to support the creation of *new child care spaces*.

### Children's Fitness Tax Credit

The Budget proposes to introduce, effective *January 1, 2007*, a *tax credit* to promote physical fitness among children. For each child *under 16*, the credit will be provided on up to *\$500 in eligible fees* for programs of physical activity.

The Government will consult with a group of experts in health and physical fitness to determine which programs should be eligible for the credit.

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## E. OTHER

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### Aboriginal Communities

In addition to setting aside \$2.2 billion to address the legacy of *residential schools*, the Government proposes:

- *\$450 million* for improving education outcomes, socio-economic conditions for Aboriginal women, children and families, and water supply and housing on Reserves,
- Up to *\$300 million* to provinces to address immediate pressures in off-Reserve Aboriginal housing,
- Up to *\$300 million* to Territories for affordable housing in the North.

### Immigrants

The Budget reduces the "*Right of Permanent Residence Fee*" to *\$490* from *\$975*, effective May 2, 2006.

Over the next two years it will also provide \$307 million to *enhance immigration settlement programs* and services, and take steps to create a Canadian agency for assessment and recognition of *foreign credentials*.



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