

Federal Budget Summary of Tax Measures March 21, 2013

Business Income Tax

Extending Accelerated CCA Rates

The Budget extends the 50% straight-line accelerated CCA rate (subject to the half-year rule) for purchase of eligible manufacturing and processing machinery and equipment for two additional years. This temporary CCA rate will apply to machinery and equipment acquired before 2016.

Hiring Credit for Small Businesses

The Budget continues the temporary Hiring Credit for Small Businesses of up to \$1,000 against a business's increase in 2013 Employment Insurance (EI) premiums over those paid in 2012.

Scientific Research and Experimental Development Program

The Budget proposes to provide the Canada Revenue Agency ("CRA") with new tools with respect to the SR&ED Program. More detailed information will be required regarding SR&ED tax preparers and billing arrangements. A penalty of \$1,000 will be imposed on each SR&ED program claim where the information about the SR&ED tax preparer is missing, incomplete, or inaccurate. This change applies to SR&ED claims filed after the later of January 1, 2014 and the royal assent to the enacting legislation.

Leveraged Life Insurance Arrangements

The Budget proposes to eliminate certain benefits relating to two leveraged life insurance products – levered insured annuities and 10/8 arrangements. The capital dividend account will no longer increase as a result of the death benefit, and there will be restrictions on the deductibility of insurance premiums and interest on related borrowings on these life insurance products.

Restricted Farm Losses

The Budget proposes to subject the restricted farm loss rules to a chief source of income test. It is intended that the taxpayer's other sources of income must be subordinate to farming in order for farming losses to be fully deductible. The Budget also proposes to increase the restricted farm loss limit to \$17,500 of deductible farm losses annually. These measures will apply to taxation years that end on or after March 21, 2013.

T1135 Foreign Reporting Requirements

The Budget proposes to extend the normal reassessment period for a taxation year by 3 years (to 6 years) if a taxpayer fails to report income from a specified property, fails to file Form T1135 on time, or does not identify or properly identify a specified foreign property on the form. These measures will apply to the 2013 and subsequent taxation years. The CRA will also revise the Form T1135 to require more detailed information.

The CRA is working on a system that will permit taxpayers to file this form electronically. The CRA will announce when electronic filing becomes available.

Personal Income Tax

Capital Gains Exemption

The Budget increases the Lifetime Capital Gains Exemption to \$800,000 (from \$750,000) effective January 1, 2014 and will index the new limit to inflation for taxation years after 2014.

Dividend Tax Credit – Non-eligible dividends

The Budget increases the non-eligible dividend tax rates for years after 2013. The increase is as follows:

	2012 and 2013	2014 and 2015
Top federal rate	19.58%	21.22%
Top federal and BC rate *	33.71%	37.94%

* Assumes the amendments announced in the BC Budget on February 19, 2013 applicable to the 2014 and 2015 years will be passed.

Labour-Sponsored Venture Capital Corporations (“LSVCC”) Tax Credit

The Budget will phase out the current 15% tax credit for LSVCCs. The credit will be reduced to 10% for the 2015 taxation year and to 5% for the 2016 taxation year and then be eliminated thereafter.

Charitable Donations

The Budget introduces a temporary First-Time Donor’s Super Credit for first-time claimants of the Charitable Donation Tax Credit. The Super Credit will supplement the current credit with an additional 25% tax credit for a first-time donor on up to \$1,000 of donations. A first-time donor will be entitled to a 40% federal credit (54.7% combined federal and BC credit) for donations of \$200 or less, and a 54% federal credit (68.7% combined federal and BC credit) for the portion of donations over \$200 but not exceeding \$1,000. Only donations of money will qualify for the Super Credit. The Super Credit is only available if neither the individual nor the individual’s spouse has claimed the Charitable Tax Credit in any taxation year after 2007. The temporary credit expires at December 31, 2018.

Adoption Expense Tax Credit

The Budget increases the Adoption Expense Tax Credit to \$11,669 (from \$10,000) to better recognize the costs of adopting a child. It also extends the period in which eligible adoption costs can be incurred.

Mineral Tax Credit

The Budget extends the temporary 15% Mineral Exploration Tax Credit for an additional year (until March 31, 2014).

Safety Deposit Boxes

The Budget makes the cost of rental of safety deposit boxes no longer deductible for tax purposes after December 31, 2013.

Tax Disputes and Charitable Donation Tax Shelters

The Budget proposes to permit the CRA to collect 50% of the disputed tax, interest, and penalties where a taxpayer has disputed an assessment relating to a charitable donation tax shelter. This measure will apply to amounts assessed for the 2013 and subsequent taxation years.

Testamentary Trusts and Estates – Graduated Tax Rates

The Budget announced the government’s intention to consult on the possible elimination of the tax benefits that arise from the graduated tax rates currently available to testamentary trusts and estates, and certain grandfathered inter-vivos trusts.



Indirect Tax

GST/HST on Health Care Services

The Budget proposes to expand the GST exemption for certain homemaker services. These measures will apply to supplies made after March 21, 2013.

Tariff Relief

The Budget proposes to eliminate all tariffs on baby clothes and sports and athletic equipment (except bicycles). The tariff reductions will be effective in respect of goods imported into Canada after March 31, 2013.

Disclaimer

This information is general in nature and may not be applicable to all taxpayers. Please contact your Johnsen Archer LLP advisor to discuss your specific situation.

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