



AMMAR COUSINEAU ALTMAN TÉLIO HADID

Comptables agréés • Chartered Accountants
Société en nom collectif • General Partnership

2005 Federal Budget Summary

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INTRODUCTION

Minister of Finance Ralph Goodale announced today that Budget 2005 will deliver on the Government's commitments, while keeping Canada's books balanced.

Minister Goodale emphasized that the measures contained in this budget commit substantial new funding for health care, seniors, child care, national defence and the environment, while providing tax reductions and laying the groundwork for future progress in addressing the priorities of Canadians.

The Minister stated that the Government of Canada is forecast to post balanced budgets or better in 2004–05 and in each of the next five years, adding that the Government would continue to set aside \$3 billion in its Contingency Reserve and an additional economic prudence of \$1 billion in 2005–06, rising to \$4 billion by 2009–10. If it is not needed, the Contingency Reserve will be used to reduce Canada's debt, while the economic prudence will be used to address the priorities of Canadians.

Minister Goodale also noted that the Expenditure Review Committee of Cabinet has identified nearly \$11 billion in savings that will be achieved over the next five years. The overwhelming majority of these savings will come from improved efficiencies in government-wide activities and within departments.

Looking forward, the Minister stated that the Canadian economy will continue to face challenges caused by the much higher Canadian dollar and, over the medium term, from the U.S. current account and budget deficits, which could have a negative effect on the economy of Canada's largest trading partner. Private sector economists surveyed by the Department of Finance have estimated an economic growth for Canada of 2.7% for 2004. This figure rises to 2.9% in 2005 and 3.1% in 2006.

1 PERSONAL INCOME TAX MEASURES

1.1 *Basic Personal Amount*

The budget proposes that, by 2009, the amount of income that any Canadian will be able to receive tax free will grow to at least \$10,000, as a result of progressive increases in the basic personal amount.

Specifically, the basic personal amount will be increased:

- For 2006, by \$100.
- For 2007, by \$100.
- For 2008, by \$400.
- For 2009, by the greater of \$600 and the amount required to bring the basic personal amount to \$10,000.

The income tax system also includes personal credits in respect of a spouse or common-law partner or a wholly dependent relative. The amounts on which these credits are based will also be increased:

- For 2006, by \$85.
- For 2007, by \$85.
- For 2008, by \$340.
- For 2009, by the greater of \$510 and the amount required to bring the amounts on which these credits are based to \$8,500.

These increases to the amounts will be in addition to increases that take effect due to indexation of the tax system.

1.2 Retirement Savings

1.2.1 Registered Pension Plan (RPP) and Registered Retirement Savings Plan (RRSP) Limits

The budget proposes the following increases in the tax-deferred retirement savings plan limits:

Existing and Proposed RPP/RRSP Limits

	2005	2006	2007	2008	2009	2010	2011
(dollars)							
Money purchase RPPs:							
annual contribution limit							
Existing	18,000	indexed					
Proposed	18,000	19,000	20,000	21,000	22,000	indexed	
Defined benefit RPPs:							
maximum pension benefit (per year of service)							
Existing	2,000	indexed					
Proposed	2,000	2,111	2,222	2,333	2,444	indexed	
RRSPs:							
annual contribution limit							
Existing	16,500	18,000	indexed				
Proposed	16,500	18,000	19,000	20,000	21,000	22,000	indexed

1.2.2. Foreign Property Rule (FPR)

The Foreign Property Rule, which was introduced in 1971, limits the amount of foreign property that pension funds and other tax-deferred retirement plans can hold. The FPR, which was originally set at 10% of a plan’s assets, was raised to 20% in the 1990s and then to its current level of 30% in 2001.

The budget proposes to repeal the FPR effective as of 2005, thus allowing broader international diversification opportunities for retirement investments.

1.2.3 Qualified RRSP Investments

The budget proposes to add to the list of qualified investments, investment-grade gold and silver bullion coins and bars, and certificates on such investments.

These changes will be effective for investments made on or after February 23, 2005.

1.3 Tax Measures for Persons with Disabilities

1.3.1 Eligibility for the Disability Tax Credit (DTC)

The budget proposes to:

- Clarify the legislation with respect to how impairments are conceptualized.
- Align the legislative criteria for impairments in mental functions with wording used in the administration of these provisions.
- Extend eligibility to include individuals with multiple restrictions where the cumulative effect of those restrictions is equivalent to a marked restriction in a single basic activity of daily living.
- Better define the activities that constitute life-sustaining therapy.
- Add to the list of health practitioners who can certify eligibility for the DTC.

1.3.2 Reducing Barriers to Employment and Education

1.3.2.1 Expansion of the Disability Supports Deduction

Persons with disabilities may receive tax relief for the cost of disability supports incurred for the purposes of employment or education through the disability supports deduction.

This budget proposes to expand the list of expenses eligible for the disability supports deduction.

1.3.2.2 Increasing the Refundable Medical Expense Supplement

The budget proposes to increase the maximum amount of the refundable medical expense supplement to \$750, representing an increase of over 30%. The maximum amount will continue to be indexed.

1.3.2.3 *Changes to Registered Education Savings Plans (RESP)*

The budget proposes that, if an RESP beneficiary qualifies for the disability tax credit in the 21st year following the year in which the plan was entered into:

- The maximum period for making contributions to the RESP be extended to 25 years following the year in which the plan was entered into.
- The termination date of the RESP be extended to 30 years following the year in which the plan was entered into.

These measures will apply for the 2005 and subsequent taxation years.

1.3.3 **Increasing the Child Disability Benefit (CDB)**

The budget proposes to increase the maximum annual CDB. This maximum will be increased for the 2005–06 benefit year to \$2,000 from \$1,681. The benefit will continue to be indexed.

1.4 ***Medical Expense Tax Credit (METC)***

The budget proposes three other additions to the list of expenses eligible for the METC.

First, the budget proposes to add the cost to purchase, operate, and maintain phototherapy equipment prescribed for the treatment of psoriasis or other skin disorders.

Second, while the cost of purchasing an oxygen concentrator is currently an eligible expense under the METC, the budget proposes to extend eligibility under the METC to expenses incurred to operate an oxygen concentrator, including the cost of electricity.

Third, the budget proposes to add drugs purchased under Health Canada's Special Access Programme, and medical marihuana, to the list of expenses eligible under the METC.

These changes will be effective for the 2005 and subsequent taxation years.

The budget also proposes to clarify the METC provisions regarding the eligibility of home renovation expenses.

These changes will be effective for expenses incurred on or after February 23, 2005.

1.5 ***Tax Relief for Caregivers***

Taxpayers paying medical or disability-related expenses on behalf of a dependent relative may claim those expenses under the medical expense tax credit (METC).

This budget proposes to double the eligible maximum amount to \$10,000.

1.6 Adoption Expense Tax Credit

The budget proposes to introduce a 16-per-cent non-refundable credit for eligible (non-reimbursable) adoption expenses for the completed adoption of a child under the age of 18 years.

Eligible adoption expenses will include:

- Fees paid to an adoption agency licensed by a provincial or territorial government.
- Court, legal and administrative expenses.
- Reasonable travel and living expenses for the child and the adoptive parents.
- Document translation fees.
- Mandatory fees paid to a foreign institution.
- Any other reasonable expenses required by a provincial or territorial government or an adoption agency licensed by a provincial or territorial government.

The maximum eligible adoption expenses claimable in respect of any particular adoption will be \$10,000. This amount will be indexed for taxation years after 2005.

This measure will apply for the 2005 and subsequent taxation years.

1.7 Emergency Medical Services Vehicles (EMS)

The budget proposes to exclude clearly marked EMS vehicles, used for the purpose of providing emergency paramedic services, from the definition of automobile. This change will mean that an employee whose employer provides these vehicles will not have to include the formula-based standby charge and operating expense benefits in calculating income. Rather the employee will be required to include in income a reasonable amount in respect of the personal use of such vehicles determined without reference to those formula-based inclusions.

This measure will apply for the 2005 and subsequent taxation years.

2 BUSINESS INCOME TAX MEASURES

2.1 Agricultural Cooperatives

The budget proposes to permit eligible members of eligible agricultural cooperatives to defer the inclusion in income of all or a portion of any patronage dividend received as an eligible share until the disposition (or deemed disposition) of the share. Further, when an eligible agricultural cooperative issues an eligible share as a patronage dividend, there will be no withholding tax obligation in respect of the patronage dividend.

In order to be an eligible share, the share must be issued after 2005 and before 2016, and must not, except in the case of death, disability or ceasing to be a member, be redeemable or retractable within five years of its issue.

2.2 **Corporate Income Tax Reductions**

2.2.1 **Corporate Surtax**

The budget proposes to eliminate the corporate surtax on January 1, 2008, prorated for taxation years that include that date.

2.2.2 **Corporate Tax Rate Reduction**

The budget proposes to reduce the general corporate income tax rate to 19% from 21% by 2010. The general corporate income tax rate will be reduced to 20.5% effective January 1, 2008, to 20% effective January 1, 2009, and to 19% effective January 1, 2010 (all prorated for taxation years that include those dates).

The rate reductions will apply to all types of corporate income, other than, among others, small business income that is already eligible for the low 12-per-cent corporate tax rate and investment income of Canadian-controlled private corporations (CCPCs), which income is eligible for a special refundable tax.

The following table presents the federal corporate tax rates on various types of income, before and after the proposed rate reductions.

Federal Corporate Income Tax Rates

	Legislated rates in 2008 ¹	Proposed rates		
		2008	2009	2010
On first \$300,000 of CCPCs' active business income	13,12	12	12	12
On other business income	22,12	20,5	20	19

¹ Rates include the corporate surtax.

2.3 **Capital Cost Allowance (CCA)**

2.3.1 **Transmission Pipelines and Related Equipment**

The budget proposes that the CCA rate for transmission pipelines (as contrasted with distribution lines) for petroleum, natural gas or related hydrocarbons be increased to 8% from 4%.

The budget also proposes changes to the treatment for pumping and compression equipment, and equipment ancillary to it, related to a transmission pipeline for petroleum, natural gas or related hydrocarbons. The tax treatment of such equipment is to be rationalized by establishing a uniform 15-per-cent CCA rate.

The budget also proposes that a separate class election be introduced for transmission pipelines and related pumping and compression equipment.

The new CCA rates for transmission pipelines will apply to equipment acquired on or after February 23, 2005 that has not been used or acquired for use before that date. The new CCA rates for pumping and compression equipment will apply to all such equipment acquired on or after February 23, 2005.

2.3.2 Combustion Turbines Generating Electricity

The budget proposes that the CCA rate for combustion turbines that generate electricity (including associated burners and compressors) be increased to 15%. The 15-per-cent rate will apply to such property acquired on or after February 23, 2005, that has not been used or acquired for use before February 23, 2005.

It is proposed that the separate class election not be extended to combustion turbines eligible for the higher rate.

2.3.3 Electricity Transmission and Distribution Assets

The budget proposes that the CCA rate for transmission and distribution equipment and structures (but not including buildings) of a distributor of electrical energy be increased to 8%.

The 8-per-cent rate will apply to assets acquired on or after February 23, 2005 that have not been used or acquired for use before February 23, 2005.

2.3.4 Specified Energy Property Rules

This budget proposes that the specified energy property rules be extended to combustion turbines and electricity transmission and distribution assets that are eligible for the higher CCA rates proposed in this budget.

2.3.5 Cable for Telecommunications Infrastructure

The budget proposes that the CCA rate for wire or cable used for telephone, telegraph or data communication not included in any other class be increased to 12%.

The 12-per-cent CCA rate will apply to assets acquired on or after February 23, 2005 that have not been used or acquired for use before February 23, 2005.

2.4 ***Efficient and Renewable Energy Generation Equipment***

2.4.1 **High-Efficiency and Renewable Energy Generation Equipment**

The budget proposes to include certain highly fossil-fuel-efficient and renewable energy generation equipment—which is currently eligible for the 30-per-cent CCA rate under Class 43.1—in a new class eligible for a 50-per-cent CCA rate. The increased rate will apply to such equipment acquired on or after February 23, 2005 and before 2012. As is currently the case with Class 43.1, the specified energy property rules will be extended to apply to this new Class.

2.4.1.1 *High-Efficiency Cogeneration Systems*

The budget proposes that cogeneration equipment that would otherwise be included in Class 43.1 will be included in the new class entitled to a 50-per-cent CCA rate if the equipment is part of a high-efficiency cogeneration system with an annual heat rate from fossil fuel that does not exceed 4750 BTUs per kilowatt-hour of electricity production.

2.4.1.2 *Renewable Energy Generation Systems*

Class 43.1 also includes a range of renewable energy generation equipment, including wind turbines, small hydroelectric facilities, active solar heating equipment, fixed location photovoltaic equipment and geothermal energy equipment.

The budget proposes that such equipment that would otherwise be included in Class 43.1 will be eligible for the new 50-per-cent CCA rate class.

2.4.2 **Extending Incentives for Investment in Efficient and Renewable Energy Generation**

The budget proposes two further additions to Class 43.1: distribution equipment used in district energy systems that rely on efficient cogeneration; and biogas production equipment.

2.4.2.1 *Distribution Equipment of a District Energy System*

The budget proposes to extend eligibility for Class 43.1 to specified distribution equipment of a taxpayer that is part of a district energy system used by the taxpayer (or a lessee) primarily to provide district heating or cooling through the use of heat produced by electrical cogeneration equipment that meets the requirements of Class 43.1, including the heat rate requirements.

This change will apply to eligible equipment acquired on or after February 23, 2005.

2.4.2.2 *Biogas Production Equipment*

The budget proposes to extend eligibility for Class 43.1 to equipment used to produce biogas (which is primarily methane) from the anaerobic digestion of manure.

This change will apply to eligible equipment acquired on or after February 23, 2005.

2.5 ***Scientific Research and Experimental Development (SR&ED) Investment Tax Credit***

The budget proposes to extend the SR&ED incentives to include expenditures incurred in the performance of SR&ED in Canada's Exclusive Economic Zone (EEZ). As an example of the impact of this measure, expenditures by the fishing sector within the 12 nautical mile territorial sea that are eligible for SR&ED tax incentives will also be eligible for these incentives if they are undertaken in Canada's EEZ.

This measure will apply to expenditures incurred on or after February 23, 2005.

3 **SALES AND EXCISE TAX MEASURES****3.1** ***Excise Tax on Jewellery***

An excise tax of 10% is imposed under the Excise Tax Act on jewellery manufactured and sold in, or imported into, Canada.

The budget proposes that the excise tax on jewellery be phased-out through a series of rate reductions over the next four years. The proposed rate reductions and their effective dates are set out in the box below:

Effective Date	Proposed Rate
February 24, 2005	8%
March 1, 2006	6%
March 1, 2007	4%
March 1, 2008	2%
March 1, 2009	0%

3.2 GST/HST Health Care Rebate

The budget proposes to extend, effective January 1, 2005, the application of the 83-per-cent rebate to eligible charities and non-profit organizations that provide health care services similar to those traditionally performed in hospitals.

The proposed measure, will expand the 83-per-cent rebate to eligible facilities and entities that belong to the following categories:

- Ambulatory care hospitals, which currently do not qualify for the hospital rebate because they do not have in-patient beds, and day surgery clinics.
- Cancer clinics and other specialized clinics that provide care such as mental health or HIV programs.
- Community health centres.
- Facilities that offer high-level therapeutic care.
- Organizations that provide medical care to individuals in their homes.
- Regional health authorities that support the delivery of health care within their regions.
- Entities that provide ancillary support, such as laboratory and diagnostic services and centralized laundry and in-patient meal services, to health care facilities.

4 OTHER BUDGET PROPOSALS

4.1 Improving Support for Seniors

Guaranteed Income Supplement benefits for low-income seniors will be increased by \$2.7 billion over five years as a result of increases in monthly benefits of \$36 for singles and \$58 for couples by January 2007.

4.2 Investing in People

\$5 billion over five years to start building a framework for an Early Learning and Child Care initiative in collaboration with provinces and territories.

4.3 More Efficient and Effective Markets

Budget 2005 commits the Government to increase deposit insurance coverage to \$100,000 from \$60,000.

4.4 *Delivering on a New Deal for Cities and Communities*

The Government commits to:

- Implement its pledge to share \$5 billion worth of gas tax revenue over the next five years:
 - In 2005–06, the share of the federal gas tax dedicated to cities and communities will be \$600 million.
 - By 2009–10, the share will increase to \$2 billion, representing 5 cents per litre.
- Renew federal infrastructure programs such as the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund, which invest more than 50 per cent of funding toward sustainable infrastructure.