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2006 Federal Budget Summary

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INTRODUCTION

Minister of Finance Jim Flaherty today presented a balanced federal budget that significantly cuts taxes, focuses federal spending on priority areas and pays down debt.

The Government prioritizes and focuses federal spending, including:

- \$3.7 billion over two years for the new \$1,200 Universal Child Care Benefit;
- \$1.5 billion more this year for agriculture;
- \$1.4 billion more this year for policing, border security and public safety;
- \$1.1 billion more over two years to rebuild the Armed Forces.

The budget is balanced and specifically commits \$3 billion per year in debt paydown.

For 2005–2006, the federal surplus is currently estimated at \$8 billion.

1. PERSONAL INCOME TAX MEASURES

1.1 *Personal Income Tax Rates*

The lowest personal income tax rate will be reduced to 15% from 16% effective January 1, 2005. The rate will be 15.5% effective July 1, 2006. Accordingly, the full-year rate for 2005 will be 15%, for 2006, 15.25% and, for the 2007 and subsequent taxation years, 15.5%. For the 2005 taxation year the 15% rate applies to taxable incomes of up to \$35,595. For the 2006 taxation year the 15.25% rate will apply to taxable incomes of up to \$36,378.

1.2 *Basic Personal Amounts*

The basic personal amount will be increased by \$500 to \$8,648 for the 2005 taxation year. For the first half of 2006 it will then be increased by indexation plus a further \$200, for a total of \$9,039. The basic personal amount will be reduced by \$400 to \$8,639 on July 1, 2006 at the same time as the GST rate is reduced. For the purpose of calculating personal income taxes for the 2006 taxation year, these two half-year amounts will be applied as an annual average of \$8,839. For 2007, the \$8,639 amount will be increased by indexation plus an additional \$100. For 2008, it will be increased by indexation plus an additional \$200. For 2009, it will be increased by indexation plus the greater of \$600 and the amount required to raise the basic personal amount to \$10,000.

Personal amounts in respect of a spouse or common-law partner or wholly dependant relative, for the 2005 taxation year, will be increased by \$425 to \$7,344. For the first half of 2006 they will then be increased by indexation plus a further \$170, for a total of \$7,675. The amount will be reduced by \$340 to \$7,335 on July 1, 2006 at the same time as the GST rate is reduced. For the purpose of calculating personal income taxes for the 2006 taxation year, these two half-year amounts will be applied as an annual average of \$7,505. For 2007, the \$7,335 amount will be increased by indexation plus an additional \$85. For 2008, it will be increased by indexation plus an additional \$170. For 2009, it will be increased by

indexation plus the greater of \$510 and the amount required to raise these amounts to \$8,500.

1.3 Canada Employment Credit

The new credit will take effect July 1, 2006, and will provide tax relief on the lesser of \$500 and the individual's employment income for the year. Because this measure will take effect mid-year, the maximum amount on which the credit is calculated will be \$250 for the 2006 taxation year. For the 2007 and subsequent taxation years, the maximum amount on which the credit is calculated will be increased to \$1,000. The tax credit for a taxation year will be calculated by reference to the lowest personal income tax rate for the taxation year (i.e. 15.25% for 2006 and 15.5% for the 2007 and subsequent taxation years).

1.4 Universal Child Care Benefit

The Government proposes to introduce, effective July 2006, the Universal Child Care Benefit (UCCB), to provide all families with \$100 per month (\$1,200 per year) for each child under the age of 6 years.

Amendments to the *Income Tax Act* will be made to provide that amounts received under the UCCB will be taxable in the hands of the lower-income spouse or common-law partner.

With the introduction of the UCCB, the Canada Child Tax Benefit enhancement to the base benefit will be eliminated, generally as of July 1, 2006. However, in respect of children who attain the age of 6 years on or before June 30, 2007, the enhancement will remain in place for those months before July 2007 for which no UCCB is receivable.

1.5 Capital Gains of Fishers

1.5.1 Intergenerational Rollover: Transfers of Fishing Property to a Child

The Government proposes to allow a tax deferral in certain circumstances where an individual's fishing property is transferred to the individual's child or grandchild.

Fishing property will be land, depreciable property and eligible capital property that is used principally in a fishing business carried on in Canada in which the individual, or the individual's spouse or common-law partner, parent, child or grandchild, was actively engaged on a regular and continuous basis. It will also include shares of the capital stock of family fishing corporations and interests in family fishing partnerships.

Special rules, similar to the existing provisions applicable to the intergenerational rollovers for farm property, will apply where the individual actually receives proceeds of disposition.

1.5.2 Lifetime Capital Gains Exemption — Qualified Fishing Property

This budget measure proposes that an individual be allowed access to the \$500,000 lifetime capital gains exemption in respect of capital gains arising on a disposition of qualified fishing property.

Qualified fishing property will include real property, fishing vessels and eligible capital property used principally in a fishing business carried on in Canada in which the individual, or the individual's spouse or common-law partner, parent, child or grandchild, was actively engaged on a regular and continuous basis. It will also include shares of the capital stock of family fishing corporations and interests in family fishing partnerships, of the individual.

1.5.3 Reserve Allowed on Certain Dispositions of Fishing Assets

Special rules apply in respect of transfers by an individual of farm property to an individual's child or grandchild to increase the maximum reserve period to 10 years. The Government proposes measures that will extend the scope of this measure to include fishing property as defined for the purposes of the intergenerational rollover.

1.6 Mineral Exploration Tax Credit for Flow-Through Share Investors

The Government proposes to reintroduce the mineral exploration tax credit, effective for flow-through share agreements entered into on or after May 2, 2006 and on or before March 31, 2007.

1.7 Tradespeople's Tool Expenses

The Government proposes that the total cost of eligible new tools acquired by an employed tradesperson in a taxation year, in excess of \$1,000 (indexed after 2007), be deductible up to a maximum of \$500 for that year. For the cost of tools to qualify for the deduction, the employer will have to certify that the employee is required to acquire those tools as a condition of, and for use in, the employment.

This measure will apply to new tools acquired on or after May 2, 2006.

Apprentice vehicle mechanics will be eligible to claim the new \$500 tools tax deduction in addition to the existing apprentice vehicle mechanics' tools deduction. Currently, apprentice vehicle mechanics can deduct the total cost of new tools acquired in a taxation year that is in excess of the greater of \$1,000 and 5% of the individual's apprenticeship income for the year. For the 2007 and subsequent taxation years, the \$1,000 threshold will be set at the amount on which the Canada Employment Credit for the year is calculated plus \$500. The 5% income threshold will continue to apply on total new tools costs incurred by the apprentice.

The employee will also be eligible for a rebate of the goods and services tax/harmonized sales tax paid on the portion of the purchase price of the new tools that is deducted in computing employment income.

1.8 Introducing a New \$1,000 Apprenticeship Grant

A new Apprenticeship Incentive Grant program will be established effective January 1, 2007. The program will provide a cash grant of \$1,000 per year to apprentices in the first two years of an apprenticeship program in one of the Red Seal trades and other economically strategic apprenticeship programs. This grant will be included in computing the income of the recipient for tax purposes.

1.9 Textbook Tax Credit

The Government proposes to introduce a non-refundable textbook tax credit. The tax credit for a taxation year will be calculated by reference to the lowest personal income tax rate for the taxation year. The textbook tax credit will be in addition to the education tax credit. The amount on which the textbook tax credit is calculated will be:

- \$65 for each month for which the student qualifies for the full-time education tax credit amount; and
- \$20 for each month for which the student qualifies for the part-time education tax credit amount.

This measure will apply to the 2006 and subsequent taxation years.

1.10 Scholarship and Bursary Income

The Government proposes to fully exempt scholarship, fellowship or bursary income from tax. The full exemption will apply only to amounts received by a student in connection with the student's enrolment in a program which entitles the student to claim the education tax credit.

This measure will apply to the 2006 and subsequent taxation years.

1.11 Children's Fitness Tax Credit

The Government proposes to allow parents to claim a non-refundable tax credit in respect of up to \$500 in eligible fees for the enrolment of a child under the age of 16 in an eligible program of physical activity. The measure will apply to the 2007 and subsequent taxation years. The credit will be calculated by reference to the lowest personal income tax rate for the taxation year and can be claimed by either parent for eligible fees incurred during the calendar year.

To be eligible for the credit, fees must be paid in respect of eligible expenses in an eligible program of physical activity. Eligible expenses will include those for the operation and administration of the program, instruction, renting facilities, equipment used in common (e.g. team jerseys provided for the season), referees and judges, and incidental supplies (e.g., trophies). Expenses that will not be eligible include the purchase or rental of equipment for exclusive personal use, travel, meals and accommodation.

1.12 Pension Income Credit

The Government proposes to provide greater tax relief to pensioners by increasing to \$2,000 from \$1,000, the maximum amount of eligible pension income that can be used in calculating the pension income credit.

This measure will apply to the 2006 and subsequent taxation years.

1.13 Child Disability Benefit (CDB)

The Government proposes to increase the maximum annual CDB to \$2,300 from \$2,044, starting in July 2006. The benefit will continue to be indexed for inflation thereafter.

The Government also proposes to extend the CDB to more families caring for a child eligible for the DTC by reducing the rates at which the CDB is reduced as family income rises.

Current and Proposed Income Thresholds of the Child Disability Benefit—July 2006

Number of DTC-Eligible Children	Net Family Income Start of Phase-Out (\$)	Phase-Out Rate (%)		Net Family Income at Which Phase-Out Ends (\$)	
		Current	Proposed	Current	Proposed
1	36,378	12.2	2	55,230	151,378
2	36,378	23.0	4	56,378	151,378
3	36,378	33.3	4	57,099	208,878

1.14 Refundable Medical Expense Supplement (RMES)

The Government proposes to increase the maximum amount of the RMES to \$1,000 from \$767 for the 2006 taxation year.

The Government also proposes to set the income threshold at which the RMES starts to be reduced at its level for 2005—\$21,663. The threshold will be indexed for inflation thereafter. For 2006, it will be \$22,140.

1.15 Tax Credit for Public Transit Passes

The Government proposes to allow individuals to claim a non-refundable tax credit for the cost of monthly public transit passes or those passes of a longer duration (e.g., annual passes). Public transit will include transit by local bus, streetcar, subway, commuter train, commuter bus and local ferry. The credit for a taxation year will be calculated by reference to the lowest personal income tax rate for the taxation year. It will be claimable by the individual or the individual's spouse or common-law partner in respect of eligible transit costs of the individual, the individual's spouse or common-law partner, and the individual's dependent children that are under 19 years of age.

This measure will apply in respect of that portion of the cost of public transit passes that is in respect of transit on or after July 1, 2006.

1.16 Donations of Publicly Listed Securities to Public Charities and donations of Ecologically Sensitive Land

The Government proposes to reduce the capital gains inclusion rate for such donations to zero.

In addition, since 2000, an individual who makes a qualifying charitable donation of listed publicly traded securities that were acquired with employee stock options has also been eligible for a special deduction that has the effect of taxing the associated employment benefit at the reduced capital gains inclusion rate. The Government also proposes to reduce the effective inclusion rate for such donations to zero per cent.

These measures will apply to donations of eligible securities made on or after May 2, 2006.

1.17 Large Corporation Dividends

The Government confirms its intention to proceed with measures consistent with those announced in a Notice of Ways and Means Motion tabled on November 23, 2005, which would enhance the gross-up and dividend tax credit for eligible dividends. Eligible dividends will generally include dividends paid after 2005 by public corporations (and other corporations that are not Canadian-controlled private corporations (CCPCs)) that are resident in Canada and subject to the general corporate income tax rate. In addition, CCPCs will be able to pay eligible dividends to the extent that their income (other than investment income) is subject to tax at the general corporate income tax rate.

Specifically, in respect of eligible dividends, shareholders will include 145% of the eligible dividend amount in income (that is, a 45% gross-up), and the federal dividend tax credit with respect to eligible dividends will be approximately 19% of the grossed-up amount.

Consequently, the maximum combined federal/Quebec tax rate applicable to dividends will decrease from 32.82% to 29.65% for an eligible dividend and increase to 36.36% for other dividends.

This measure will apply to eligible dividends paid after 2005.

2 BUSINESS INCOME TAX MEASURES

2.1 General Corporate Income Tax Rate

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. The rate will be prorated for taxation years that include any of those dates.

The rate reductions will apply to income that is taxed at the general corporate income tax rate. The income that already qualifies for special tax treatment is excluded, including small business income and investment income of Canadian-controlled private corporations.

2.2 Corporate Surtax

The elimination of the 4% surtax for small and medium-sized corporations in 2008 has already been legislated. The Government proposes to eliminate the corporate surtax for all remaining corporations effective January 1, 2008, prorated for taxation years that include that date.

Federal Corporate Income Tax Rates, 2006–2010

	Proposed Rates				
	2006	2007	2008	2009	2010
General corporate income tax rate	21.0	21.0	20.5 %	20.0	19.0
Corporate surtax	1.12	1.12	0.0	0.0	0.0

2.3 Small Business Limit and Tax Rate

The Government proposes that the annual amount of active business income eligible for the reduced tax rate be increased as of January 1, 2007 to \$400,000.

The Government also proposes a one-percentage point reduction in the 12% tax rate.

The increase to the small business limit, and the rate reductions, will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

As a consequence of the proposal to increase the small business limit, the \$2 million expenditure limit available to CCPCs at an enhanced rate of 35% on scientific research and experimental development (SR&ED) will be reduced where taxable income for the previous taxation year is between \$400,000 and \$600,000. This change will apply to taxation years that end after 2006.

Small Business Limit and Tax Rates, 2006–2010

	Proposed Limit and Rates				
	2006	2007	2008	2009	2010
Small business limit	300,000	400,000	400,000 %	400,000	400,000
Small business tax rate ¹	12	12	11.5	11	11

¹ Small businesses also pay the corporate surtax, which currently is equivalent to a tax rate of 1.12%. It will be eliminated in 2008.

Consequently, the combined federal/Quebec tax rate will be as follows:

Proposed tax rates						
	Before March 24, 2006	After March 23, 2006	2007	2008	2009	2010
	%	%	%	%	%	%
Small business tax rate						
Federal	13.12	13.12	13.12	11.50	11.00	11.00
Quebec	8.50	8.00	8.00	8.00	8.00	8.00
Combined rate	21.62	21.12	21.12	19.50	19.00	19.00
Other corporations						
Federal	22.12	22.12	22.12	20.50	20.00	19.00
Quebec	9.90	9.90	9.90	11.40	11.90	11.90
Combined rate	32.02	32.02	32.02	31.90	31.90	30.90

2.4 *Non-Capital Losses and Investment Tax Credits*

The Government proposes to extend to 20 years the carry-forward period for all taxpayers for non-capital losses incurred and investment tax credits earned in taxation years that end after 2005.

2.5 *Federal Capital Tax*

The Government proposes to eliminate the federal capital tax as of January 1, 2006. The federal capital tax rate will be pro-rated for taxation years that do not coincide with the calendar year.

Corporations will continue to be able to apply the corporate surtax against the federal capital tax liability, if any, for the three previous taxation years.

2.6 *Minimum Tax on Financial Institutions*

The Government proposes to increase the threshold above which the tax begins to apply to \$1 billion and to adopt a single tax rate of 1.25% on taxable capital employed in Canada over that threshold. These changes will apply starting July 1, 2006.

2.7 *Apprenticeship Job Creation Tax Credit*

The Government proposes to introduce an Apprenticeship Job Creation Tax Credit. Eligible employers will be entitled to a non-refundable tax credit equal to 10% of the salaries and wages paid to qualifying apprentices to a maximum credit of \$2,000 per year per apprentice. Eligible employers will be businesses that incur salaries and wages in respect of qualifying apprentices. Special rules will apply where an apprentice works for two or more related employers in a year so that the maximum tax credit in the year does not exceed \$2,000.

A qualifying apprentice will be an apprentice who is working in a qualifying trade in the first two years of his or her provincially registered apprenticeship contract with an eligible employer. The qualifying trades will be prescribed and will include the 45 trades currently included in the Red Seal trades. The Red Seal allows a journeyman to engage in their trade - without having to write further examinations - in any province or territory in Canada where the trade is recognized.

The Apprenticeship Job Creation Tax Credit will be available to eligible employers in respect of salaries and wages that are paid to qualifying apprentices on or after May 2, 2006.

2.8 *Capital Cost Allowance for Tools*

The Government proposes that the cost limit for access to the 100% Class 12 treatment be increased to \$500 from \$200 for such tools, kitchen utensils and medical or dental instruments, acquired on or after May 2, 2006.

2.9 ***Accelerated Capital Cost Allowance for Forestry Bioenergy***

The Government confirms its intention to proceed with proposed measures to extend eligibility for accelerated capital cost allowance under Class 43.1 (30% rate) and Class 43.2 (50% rate) to cogeneration systems that use a type of biomass, commonly referred to as "black liquor" (or "spent pulping liquor") used in the pulp and paper industry.

3. **SALES AND EXCISE TAXES**

3.1 ***Reducing the GST to 6%***

The Government proposes to reduce the GST rate by one percentage point, from 7 to 6%, effective July 1, 2006. It also proposes to maintain the GST credit at current levels for low- and modest-income Canadians and to retain the existing GST rebate rates for new housing and purchases made by public service bodies.

Transitional Rules

The general transitional rule, based upon the time at which the GST in respect of a transaction becomes payable, is outlined below:

If GST becomes payable, or is paid without having become payable, before July 1, 2006, the rate of 7% will apply.

If GST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% will apply.

If GST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% will apply.

(a) Sales of Real Property

Ownership or Possession Transferred before July 1, 2006: the 7% rate will apply.

Ownership and Possession Transferred on or after July 1, 2006: the 6% rate will apply to all of the consideration for a supply by way of sale of real property if under an agreement of purchase and sale entered into after May 2, 2006, both ownership of the property, and possession of it under the agreement, are transferred to the buyer on or after July 1, 2006.

Written Agreement Entered Into on or before May 2, 2006: GST will apply at the rate of 7%, even if ownership and possession of the real property are both transferred on or after July 1, 2006. In these circumstances, where transfer of ownership and possession both take place on or after July 1, 2006, the purchaser will be entitled to file a claim with the Canada Revenue Agency to be paid a Transitional Adjustment that reflects the GST rate reduction to 6% net of any corresponding rebate adjustment.

(b) Deemed Supplies

The *Excise Tax Act* provides for deemed supplies in a number of circumstances. Under the proposed rules, the rate of 6% will generally be used to determine

GST that is deemed under the *Excise Tax Act* to be paid, or collected, on or after July 1, 2006.

(c) Imported Goods and Imported Taxable Services and Intangibles

Imported Goods: GST at the rate of 6% will apply to goods that are either imported on or after July 1, 2006, or released from Customs' control on or after July 1, 2006.

Imported Taxable Services and Intangibles: The general transitional rule outlined above will determine the rate of tax to be applied in these circumstances.

(d) Taxable Benefits; Passenger Vehicles and Aircraft; and Employee/Partner Rebates

The prescribed rate for calculating the GST on the automobile operating expense benefit, which is currently 5%, will be 4.5% for the 2006 taxation year and 4% thereafter, and for calculating the HST, the prescribed rate, which is currently 11%, will be 10.5% and 10% respectively.

(e) Anti-Avoidance Provision

The Government proposes that rules be implemented to maintain the integrity of the GST system through the transition period. These rules are intended to prevent inappropriate tax savings in cases where transactions are undertaken between non-arm's length parties to obtain the benefit of the rate reduction, rather than primarily for commercial purposes.

Other Measures

Housing Rebates: The rebate percentage of 36%, and the lower and upper phase-out thresholds of \$350,000 and \$450,000 respectively, will not change as a result of the rate reduction. However, the maximum dollar value of the rebate, which is currently set at \$8,750, will be adjusted to \$7,560 (i.e. 36% of the GST paid at the 6% rate on a \$350,000 home).

Public Service Bodies: The existing rebate percentages used to calculate rebates of the otherwise unrecoverable GST claimed by charities, qualifying non-profit organizations and selected public service bodies (including municipalities, universities, public colleges, schools and hospitals) will not change.

Streamlined Accounting Methods: As a result of the proposed rate reduction, the specified percentages will change to those shown in the tables set out in Appendix 1. The new percentages will apply to reporting periods that begin on or after July 1, 2006.

3.2 **Tobacco Excise Levies**

The Government proposes to increase tobacco excise duties to offset the impact of the GST rate reduction.

The new excise duty rates (see Appendix 2) apply only to tobacco products that are packaged or imported on or after July 1, 2006.

This inventory tax will not apply to retailers holding 30,000 or fewer units at the end of the day on June 30, 2006.

3.3 *Alcohol Excise Levies*

The Government proposes to increase alcohol excise duties to offset the impact of the GST rate reduction. The federal excise duty increases shown in Appendix 3 are to be effective July 1, 2006.

3.4 *Air Travellers Security Charge (ATSC) Rates (see Appendix 4)*

3.5 *GST/HST Treatment of Debt Collection Services*

The Government confirms that debt collection services that are generally provided by collection agents to financial institutions are not financial services for GST/HST purposes and are therefore taxable.

3.6 *Vintners and Small Brewers*

3.6.1 *Excise Duty on Wine*

The Government proposes to exempt from duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100% Canadian-grown agricultural products.

This measure will apply to wine packaged on or after July 1, 2006.

3.6.2 *Excise Duty on Beer*

The Government proposes excise duty relief for beer produced by small and mid-sized brewers (see Appendix 5)

The proposed excise duty relief will apply to qualifying beer packaged on or after July 1, 2006.

4. *OTHER MEASURES*

4.1 *Administrative Provisions (Standardized Accounting)*

The Government proposes measures that harmonize a number of other administrative, interest and penalty provisions, primarily as they relate to the *Excise Tax Act* (GST), but also affecting the *Excise Tax Act* (non-GST), the *Excise Act, 2001*, the *Income Tax Act*, and the *Air Travellers Security Charge Act*. These measures will apply based on an implementation date that is the later of April 1, 2007 and the date that legislation to give effect to the standardized accounting proposals receives Royal Assent. These changes provide for, in particular:

(a) Withholding of Refunds/Rebates

The Government proposes to restrict the payment or offset of a credit, other than the Child Tax Benefit, to a person until all returns, of which the Minister of

National Revenue has knowledge, that the person is required to file under all the Acts have been filed.

(b) Late-Filing Penalties

The Government proposes that a late-filing penalty, modelled after a similar penalty under the *Income Tax Act*, be introduced with a rate of 1.0% of the outstanding balance on the return plus an additional 0.25% for each complete month the return remains outstanding, to a maximum of 12 months. This measure will apply to returns that are required to be filed on or after the implementation date. The measure will also apply to returns outstanding as of that date, but the 0.25% per month portion of the penalty will apply only in respect of the period after the implementation date. The Government will set the penalty for failure to file at \$250 in respect of demands served on or after the implementation date.

(c) Period of Interest Accrual on Cancelled Penalties and Interest

The Government proposes that interest payable to a person in respect of cancelled penalties and interest will begin to accrue 30 days after the day the Minister receives a request from a person, and will end on the day the amount is refunded or offset against another liability. This measure will come into force on the implementation date.

(d) Collection Restrictions

The Government proposes to remove the 90-day collection restriction before commencing collection by way of deduction or set-off against amounts owing to the person.

(e) Interest Calculation

The Government proposes that the rate of interest on amounts owed by persons be based on the Treasury Bill rate, rounded up to the nearest percentage point, plus 4%, and that the 6% penalty be removed. Interest on amounts owed to persons will be based on the Treasury Bill rate, rounded up, plus 2%. This measure will apply to all amounts payable on or after the implementation date.

(f) Day Credit Interest Begins to Accrue

The Government proposes that the *Excise Tax Act* be amended to provide that interest on all amounts owing to a person begins to accrue 30 days after the person files a credit return or rebate claim. This measure will apply to reporting periods, and to claim periods in respect of specified rebates, that end, as well as to claims for other rebates that are filed, on or after the implementation date.

(g) Reallocation of Payments

The Government proposes that the Minister be authorized to reallocate, upon a person's request, amounts paid by the person under the *Income Tax Act* to amounts payable by that person under the *Excise Tax Act* (GST and non-GST), the *Excise Act, 2001* or the *Air Travellers Security Charge Act*, with the

reallocation taking effect from the date the amount was paid under the first Act. This measure will come into force in respect of reallocation requests made on or after the implementation date.

(h) Non-Deductibility of Interest and Penalties

The Government proposes that the interest and penalties provided for by regulation as concerns the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act* no longer be deductible.

4.2 Measures Announced in the 2005 Budget

The Government confirms its intention to proceed with measures which would introduce a tax deferral in respect of certain dividends paid after 2005 by agricultural cooperatives, and would for the 2005 and subsequent taxation years :

- introduce a new tax credit for adoption expenses,
- respond to recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities concerning the eligibility criteria for the disability tax credit and the expenses eligible for the disability supports deduction,
- expand the list of expenses eligible for the medical expenses tax credit, and clarify the eligibility of home renovation and construction expenses, and
- double the amount of disability-related and medical expenses that can be claimed by a caregiver.

The Government also confirms its intention to enact regulations to implement the changes to the capital cost allowance (CCA) provisions proposed in the 2005 budget.

4.3 Functional Currency Tax Reporting

The Government proposes to explore allowing corporations, required for financial reporting purposes to report in a functional currency other than the Canadian dollar, to determine their income for Canadian tax purposes in that functional currency.

APPENDIX 1

The following tables illustrate the effect of the proposed measures. ("Participating provinces" means the provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador where the GST/HST will apply at a combined rate of 14%).

Table A

Remittance Rates for Business Registrants Using the Quick Method of Accounting That Mainly Purchase Goods for Resale

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating province	9.3%	9.0%	2.5%	2.2%
Participating provinces	5.0%	4.7%	0.0%*	0.0%*
			(2.1% credit)*	(2.5% credit)*

* Businesses who use the 0% remittance rate for eligible sales are entitled to a credit on those sales as they generally pay HST on their inputs but collect GST on those sales.

Table B

Remittance Rates for Business Registrants Using the Quick Method of Accounting that Mainly Provide Services

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating province	11.6%	11.0%	5.0%	4.3%
Participating provinces	10.0%	9.4%	3.2%	2.6%

Table C

Remittance Rates for Registrants Acting in Their Capacity as a University or Public College (if Supplies Through Vending Machines Account for at Least 25% of Total Supplies)

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating provinces	12.2%	11.5%	5.6%	4.8%
Nova Scotia	11.2%	10.5%	4.5%	3.8%
Newfoundland and Labrador or New Brunswick	9.1%	8.5%	2.3%	1.6%

Table D

Remittance Rates for Registrants Acting in Their Capacity as a University or Public College (if Supplies Through Vending Machines Account for Less Than 25% of Total Supplies)

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating provinces	12.5%	11.8%	6.0%	5.2%
Nova Scotia	12.0%	11.3%	5.4%	4.6%
Newfoundland and Labrador or New Brunswick	10.8%	10.1%	4.1%	3.3%

Table E

Remittance Rates for Registrants Acting in Their Capacity as a Specified Facility Operator, Qualifying Non-Profit Organization or Designated Charity

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating province	11.6%	11.0%	5.0%	4.3%
Participating provinces	10.0%	9.4%	3.2%	2.5%

Table F

Remittance Rates for Registrants Acting in Their Capacity as a School Authority

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating provinces	12.5%	11.8%	6.0%	5.2%
Nova Scotia	12.0%	11.3%	5.4%	4.6%
Newfoundland and Labrador or New Brunswick	10.7%	10.0%	4.1%	3.2%

Table G

Remittance Rates for Registrants Acting in Their Capacity as a Municipality

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating provinces	13.0%	12.3%	6.5%	5.7%
Nova Scotia or New Brunswick	12.3%	11.5%	5.7%	4.8%
Newfoundland and Labrador	11.2%	10.5%	4.6%	3.7%

Table H

Remittance Rates for Registrants Acting in Their Capacity as a Hospital Authority, External Supplier or Facility Operator

Permanent establishment in:	Supplies Made in Participating Provinces		Supplies Made in Non-Participating Provinces	
	Current Rate	New Rate	Current Rate	New Rate
Non-participating provinces	12.7%	12.0%	6.2%	5.4%
Nova Scotia	12.4%	11.6%	5.8%	5.0%
Newfoundland and Labrador or New Brunswick	10.6%	9.8%	3.9%	3.0%

APPENDIX 2

The following table shows the federal excise duty increases that will apply beginning July 1, 2006.

Tobacco Excise Duty Rate Structure

	Proposed Increase	Proposed Duty Rates as of July 1, 2006
Cigarettes	0.28 cents per cigarette	\$16.41 per carton (200 cigarettes)
Tobacco sticks	0.25 cents per stick	\$12.10 per carton (200 sticks)
Manufactured tobacco	0.19 cents per gram	\$11.18 per 200 grams
Cigars	0.28 cents per cigar and 1% of the sale price	\$0.0166 per cigar plus the greater of \$0.066 per cigar and 66% of the sale price

APPENDIX 3

Alcohol Excise Duty Rate Structure

	Proposed Increase	Proposed Duty Rates as of July 1, 2006
Spirits with greater than 7% alcohol by volume	0.63 cents per litre of absolute ethyl alcohol	\$11.696 per litre of absolute ethyl alcohol
Wine with greater than 7% alcohol by volume	0.1078 cents per litre	\$0.62 per litre
Spirits with 0.5% to 7% alcohol by volume; and wine with 1.2% to 7% alcohol by volume	0.0491 cents per litre	\$0.295 per litre
Beer with greater than 2.5% alcohol by volume	0.03235 cents per litre	\$0.3122 per litre
Beer with 1.2% to 2.5% alcohol by volume	0.0162 cents per litre	\$0.1561 per litre

APPENDIX 4

Air Travellers Security Charge Rate Structure*

	Current rates	Proposed new rates
Domestic (one-way)	\$5.00	\$4.95
Domestic (round-trip)	\$10.00	\$9.90
Transborder	\$8.50	\$8.42
Other international	\$17.00	\$17.00
* The above amounts include the GST or the federal portion of the HST where applicable.		

APPENDIX 5

Excise Duty Relief for Beer Produced by Small and Mid-Sized Brewers

Annual Production Volume (hectolitres)	Excise Duty Reduction	Proposed Rates as of July 1, 2006 for Regular Beer ¹
First 2,000	-90 %	\$3.122/hl
Next 3,000 (2,001 – 5,000)	-80 %	\$6.244/hl
Next 10,000 (5,001 – 15,000)	-60 %	\$12.488/hl
Next 35,000 (15,001 – 50,000)	-30 %	\$21.854/hl
Next 25,000 (50,001 – 75,000)	-15 %	\$26.537/hl
Over 75,000	Regular rate	\$31.220/hl
¹ Greater than 2.5% alcohol by volume.		