

The J Thomas McCallum Letter

advancing the understanding of income tax and valuation matters

Federal Budget Edition February 23, 2005

This special release reviews only the tax measures contained in today's federal budget. Those interested in other aspects of the budget can download the budget document from <http://www.fin.gc.ca/budtoce/2005/budliste.htm>

Basic Personal Amount

The basic personal amount will increase (in addition to the CPI indexing amount) by \$100 in 2006, \$100 in 2007, \$400 in 2008 and by \$600 or the amount required to bring it to at least \$10,000 in 2009.

Married Personal Amount

The spouse/common-law partner/wholly dependant person amount will also be increased. Again, this is in addition to the increases resulting from CPI indexing. The scheduled increases are \$85 in 2006, \$85 in 2007, \$340 in 2008 and \$510 or the amount required to bring it to at least \$8,500 in 2009.

Retirement Savings

RPP limits will increase to \$19,000 in 2006, \$20,000 in 2007, \$21,000 in 2008 and \$22,000 in 2009. RRSP limits will be similarly increased although there is a one year lag (\$19,000 in 2007 not 2006, and so on).

The foreign property rule which limits the amount of foreign investments allowed to

be held in a retirement plan is being eliminated in 2005.

Qualified investments are being expanded to include investment-grade gold and silver bullion coins and bars, and certificates on such investments. This proposal is effective today.

Disability Related

The **disability tax credit** criteria includes a person having a "severe and prolonged mental or physical impairment". This is revised (for 2005 on) to "*severe and prolonged impairment in physical or mental functions*". This change is described as being for clarity only and **does not** expand eligibility for the disability tax credit.

Eligibility for the **disability tax credit** also requires marked restrictions in "perceiving, thinking and remembering". This is revised (for 2005 on) to "*mental functions necessary for everyday life*". Again this change is for clarity only and **does not** expand eligibility for the disability tax credit. Mental functions will be defined as "memory, problem-solving, goal-setting and judgement, and adaptive functioning".

Existing eligibility for the **disability tax credit** requires a person to have a marked restriction in at least one basic activity of

daily living. For 2005 on, the eligibility is expanded to include the cumulative effect of restrictions (which do not in and of themselves markedly restrict any one basic activity) as being equivalent to a restriction of at least one basic daily activity. It's estimated that this change will make the tax credit available to an additional 50,000 people.

Additional proposed changes to the **disability tax credit** include expanding what is considered (life-sustaining) therapy and allowing physiotherapists to certify eligibility where the marked restriction is walking. While the therapy change is for 2005 on, the certification change is effective February 23, 2005.

A number of items eligible for the **disability supports deduction** have been added for 2005. Added are job-coaching services, reading services, deaf-blind intervening services, Bliss symbol boards, Braille note-takers, page-turners, and devices or software (not already found in the Act) for reading print. As disability supports deductions these items have to be related to employment or education. Where they are not, they (other than job-coaching) will alternatively be eligible as medical expenses.

In 2005, the **refundable supplementary medical expense** is increased to a maximum of \$750 from the 2004 level of \$571.

If a **RESP beneficiary** qualifies for the disability tax credit in the 21st year following the year the RESP was entered into, the maximum time allowed for

RESP contributions will be extended to 25-years and the termination date is extended to 30-years (both from the date the plan was entered into). These changes apply to 2005 on *but only* where the RESP is a single-beneficiary plan.

Medical Expenses

For 2005 three new items have been added to the list of eligible medical expenses (in addition to those noted under the Disability Supports Deduction changes):

- cost of purchasing, operating and maintaining phototherapy equipment prescribed for psoriasis or other skin disorders;
- expenses (included electricity) to operate an oxygen concentrator; and
- drugs purchased under Health Canada's Special Access Programme, and medical marijuana [editorial added: *Holy Cow!*].

In order for home renovation expenses (incurred 23/2/05 or later) to be eligible as a medical expense they will need to satisfy two criteria:

- the expense must not typically be expected to increase the value of the home; and
- it must not be an expense typically incurred by a person who does not suffer from the access/mobility impairment.

The 2004 budget brought in a change which allowed taxpayers to claim a dependent relative's medical expenses. The maximum was set at \$5,000. This

budget doubles that maximum to \$10,000 for 2005 on.

Adoption Expenses

Beginning in 2005 a non-refundable tax credit will be available for adoption expenses incurred for a completed adoption of a child under 18-years of age.

The maximum base amount (expenses) will be \$10,000, and that can be split between the adoptive parents. The credit is available only in the year the adoption is finalized but expenses will include those incurred in a prior year.

Automobile Benefit

Beginning in 2005, clearly marked EMS vehicles, used to provide paramedic services, will be added to the list of automobiles not subject to the formula based stand-by charge and operating costs taxable benefits. However, taxable benefits related to any personal use (presumably based on personal kilometres) will continue to apply.

Co-ops & Patronage Dividends

Patronage dividends of agricultural co-ops distributed in shares will be eligible to be deferred as income until the share itself is disposed of. Additionally, the co-op will not be required to withhold tax on dividends distributed in shares, but rather, there will be a withholding tax required when the share is redeemed. Only shares issued *after* 2005 and not redeemable or retractable (except for death, disability or ceasing membership) within five years are eligible.

Corporate Tax

The existing 4% surtax (which is really 1.12% of income) is to be eliminated January 1, **2008**. [editorial: three years from now!]

The general federal corporate tax rate (currently 21%) will be reduced to 20.5% on January 1, **2008**, 20% on January 1, **2009**, and 19% on January 1, **2010**. [same editorial as above!]

Capital Cost Allowance

Revisions have been made to CCA rates for hydrocarbon transmission pipelines and related pumping and compression equipment, combustion turbines generating electricity, electricity generation and transmission equipment, and telecommunication infrastructure cables.

Changes have also been made to CCA for high efficiency and renewable energy generation equipment, district energy systems and biogas production equipment.

SR&ED

Currently, scientific research and experimental development expenditures include those incurred with Canada's 12-nautical-mile territorial sea. Effective 24/02/05, SR&ED expenditures incurred within Canada's Exclusive Economic Zone (the "EEZ" is 200 nautical miles) will also be eligible expenditures.

Excise Tax

The current 10% excise tax on jewellery (includes clocks, watches and articles made of semi-precious stones) is reduced to 8% on 24/2/05 and will be further reduced by 2 percentage points annually (on March 1st each year) over the next four years, to where it is totally eliminated in 2009.

GST

The 83% rebate, currently available to hospitals on purchases to provide exempt health care supplies, is extended to charities and non-profits that provide health care services traditionally performed in hospitals. This measure is effective January 1, 2005.

Tax Administration

An additional \$30 million will be invested to enhance CRA audit and collections activities on cross-border and international transactions.

A corporate director's liability for unpaid GST is extended, after Royal Assent, to recovery of GST refunds to which the corporation was not entitled.

REOP

Draft legislation for an alternative (described by Finance as more "modest") Reasonable Expectation Of Profit proposal will be released "shortly" for comment/consultation. CRA will simultaneously release a publication providing "guidance" on deductibility. [Editorial comment: I can hardly wait!]

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