

THE ABACUS

Summer 2006

www.porterhetu.com

2006 FEDERAL BUDGET Personal Tax Changes

The first budget of the newly elected Conservative government was brought down on May 2, 2006 by Minister of Finance Jim Flaherty. As expected, the budget contained a cut in the goods and services (GST) tax rate, with the rate to be reduced from 7% to 6%, effective July 1, 2006.

The budget also contained a wide variety of tax changes, both personal and corporate. Most of those changes, with the notable exception of an increase in the tax rate applied to the lowest bracket of personal income, were of a relieving nature, as outlined below.

The government has followed through on its promise to provide Canadian families with a "Universal Child Care Benefit". That benefit will provide families with children under the age of 6 with a payment of \$100 per child per month beginning in July 2006.

Personal Tax Rate Increase

The former Liberal government proposed to reduce the tax rate levied on the lowest federal tax income bracket from 16% to 15%, retroactive to the beginning of 2005. The budget retains the 15% rate for 2005, but proposes to increase the rate to 15.5% as of July 1, 2006, which will result in a rate of 15.25% for the 2006 taxation year. For 2007 and subsequent years, the rate will be 15.5%. These rates will also apply to determine

the amount of non-refundable tax credits and the alternative minimum tax for 2005 and subsequent years.

Changes to Personal Tax Credit Amounts

Changes are also to be made to the basic personal amount which may be claimed by all taxpayers. The 2006 amount, which was to be set at \$9,039, has instead been scaled back to \$8,839. The personal amount will increase to \$10,000 by 2009. In each year, the amount will also be increased by indexation.

Similar changes are planned for the spousal and equivalent to spouse amounts. For 2006, each of those amounts will be set at \$7,505 increasing to \$8,500 by 2009. As with the basic personal amount, the spousal and equivalent to spouse amounts will be increased by indexation in each year.

The income thresholds above which the spousal and equivalent to spouse amounts are reduced will also be increased in each year between now and 2009, reaching \$850 for the 2009 taxation year.

Canada Employment Credit

The government has proposed a new Canada Employment Credit, to recognize work-related expenses borne by employees which are not deductible. The new credit will be effective July 1, 2006 and will be equal to \$250 for the 2006 taxation year. For the 2007 and following taxation years, the credit amount will be \$1,000.



Like most non-refundable credits, the actual credit to be claimed is calculated by multiplying the credit amount by the lowest tax rate. So, for the 2006 taxation year, the credit received will be about \$38. In 2007, that will rise to \$155.

Universal Child Care Benefit

Not surprisingly, the Budget introduced one of the government's "five priorities", which it named the "Universal Child Care Benefit" (UCCB). The UCCB provides families with payments of \$100 per month for each child under the age of 6, effective July 1, 2006.

The budget documents also indicate that the UCCB will be taxed in the hands of the lower-income spouse in a family, that it will not be taken into account in determining eligibility for income-tested government programs like the Canada Child Tax Benefit or the GST credit, and that it will not reduce the amount claimable by families for eligible child care expenses. However, the introduction of the UCCB will mean the concurrent elimination of the under-7 supplement currently provided as part of the Canada Child Tax Benefit.

New Credits for Post-Secondary Students

Students enrolled in post-secondary education will benefit from two of the budgetary changes. First, a new textbook credit will be made available. The credit amount will be equal to \$65 per month of full-time attendance and \$20 per month of part-time attendance, multiplied by the lowest federal rate (15.25% for 2006 and 15.5% for 2007 and following years). The actual tax reduction for a typical student for 8 months of full-time study in 2007 would therefore be about \$80. Although referred to as a "textbook credit", it does not seem from the wording in the budget documents that the credit will be dependent upon the actual purchase or cost of textbooks.

As with unused tuition and education tax credits, unused textbook credits will be allowed to be carried forward to future years, or to be transferred to parents, grandparents, or spouses or common-law partners. The textbook credit applies to 2006 and following years.

As well, students who earn scholarships will now be able to receive that income tax-free. Under current law, the first \$3,000 of scholarship,

fellowship and bursary income received in a taxation year for post-secondary education is not taxed. That exemption will be expanded to include the full amount of scholarships, fellowships, and bursaries, as long as they are received in connection with enrolment at a designated educational institution in a program in which the student may claim the education tax credit. That definition would encompass most post-secondary college and university programs in Canada.

Pension Income Credit Doubled

The pension income credit currently provides a non-refundable credit for the first \$1,000 of eligible pension income received by a taxpayer. (For this purpose, eligible pension income generally includes private pension or annuity income but does not include income received from government-sponsored plans such as the Canada Pension Plan.) Beginning with the 2006 taxation year, the amount of the pension income credit is to be doubled to \$2,000. The change will mean that the federal income tax payable by a taxpayer receiving at least \$2,000 in eligible pension income this year will be reduced by \$305.



Tax Credit for Transit Passes

Some of the funds diverted by the budget from climate change programs will be used to fund a public transit pass tax credit program. Under the program, purchasers of monthly (or longer) passes for use on local and commuter buses, streetcars, subway, commuter trains and local ferries will be able to claim a tax credit for that expenditure. The tax credit will be equal to the cost of the pass (for which there are no cost limits), multiplied by the lowest personal tax rate (15.25% for 2006 and 15.5% for 2007 and following years).



The new program will become effective for passes relating to travel after June 2006, and taxpayers claiming the credit will be required to have receipts or passes to support their claim. The credit may be claimed for qualifying expenses incurred by the taxpayer or his or her spouse for qualifying expenses of either spouse or any dependent children under the age of 19.

Tradespersons' Tools Expenses

The budget proposes that individuals working in a trade be allowed to deduct the cost of eligible tools acquired in a taxation year. Only the cost of such tools in excess of \$1,000 will qualify for the deduction, and the maximum deduction would be \$500 per year. The deduction will apply to eligible tools acquired after May 1, 2006.

In order for a tradesperson to claim the deduction, it will be necessary for the employer to certify that the tools were required as a condition of, and for use in, the person's employment as a tradesperson.

Child Disability Benefit

The Child Disability Benefit, a component of the Canada Child Tax Benefit, is paid to parents of children whose disabilities qualify them for the federal disability tax credit. Effective for

payments after June 2006, the CDB will be increased from \$2,044 to \$2,300 annually. As well, the rate at which the CDB is phased out above a certain income threshold is being reduced, meaning that the CDB will be available to more middle and higher income parents

Children's Fitness Tax Credit

Parents who are bearing the cost of their children's participation in organized sports activities will benefit from a non-refundable tax credit on up to \$500 in qualifying expenses, beginning with the 2007 taxation year. The credit is to be calculated by multiplying the qualifying expenditure by the lowest personal tax rate (15.5% for 2007). The maximum credit for 2007 would therefore be \$77.50, and may be claimed by either parent.

To be eligible for the credit, costs must be incurred for a child under 16 and must relate to "eligible expenses in an eligible program of physical activity". Generally, eligible expenses will include amounts paid for the operation and administration of a qualifying program, facilities rentals costs, equipment used in common (i.e., team jerseys), judging and refereeing costs and incidental supplies. Expenditures on personal equipment will not qualify, nor will costs for travel, meals and accommodation. The definition of an eligible program will be determined by a consultation group to be established by the federal government.

The credit may be claimed by either parent, and must be supported by tax receipts issued by the sports organization.

Capital Gains on Charitable Donations of Shares

The Canadian tax system already provides preferential tax treatment where individuals donate shares to registered charities. Specifically, capital gains which would otherwise arise on such donations are limited to one-half of the usual amount -- while the standard capital gains inclusion rate is 50%, the inclusion rate for such donations is 25%. The budget proposes that, effective for eligible donations made after May 1, 2006, the capital gains inclusion rate will be zero. At the same time, the capital gains inclusion rate for donations of certified ecologically sensitive lands to a conservation charity is also being reduced to zero.

StatsCan Releases April Employment Figures

Statistics Canada has released its Labour Force Survey for the month of April 2006. The report indicates that **the overall unemployment rate, while up slightly for the month at 6.4%, remains near a 30-year low.** As well, the employment gain for April was the result of increases in full-time work.

While employment growth in Alberta and B.C. remains strong, the bulk of employment gains during April took place in the province of Ontario. The full StatsCan report, detailing the employment picture in various industries, is available on the Agency's Web site at <http://www.statcan.ca/english/Subjects/Labour/LFS/lfs-en.htm>.



Porter Hetu International offers a full range of professional services in accounting and auditing, management advisory, business plans and proposals, estate planning, tax planning, forensic accounting, mergers and acquisitions, business reorganization and more.

Make Porter Hetu International your strategic partner. Call us today.

Visit www.porterhetu.com/locations.htm for a complete list of our national and international offices.

To receive a free copy of the Porter Hetu International Tax Tip Booklet, visit us at www.porterhetu.com/locations.htm to find the phone number or e-mail address of the office nearest you.



PORTER HÉTU INTERNATIONAL

Groupe de services professionnels
Professional Services Group

Galloway Botteselle & Company

Associated with:
Porter Hetu International
Professional Services Group

300 – 2000 West 12th Avenue
Vancouver, BC V6J 21G2
Tel: 604-736-6581
Fax: 604-736-0152
info@porterhetu.com

Brian M Galloway CGA CFP
E Albert Botteselle CGA CFP
Brian R Blamey BA CGA
David P Van Gruen CGA

Visit us online at
www.porterhetu.com

Disclaimer: The information contained in this newsletter is of a general nature. Although all attempts are made to ensure the accuracy and timeliness of the information, an individual or organization should not act upon it without appropriate professional advice and a thorough examination of the facts of their particular situation.