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Newsletter

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A freeze of Employment Insurance Premiums, improvements to to the Universal Child Care Benefit, and revisions to Medical, Education and DSB's (Disability Savings Bonds). These are just some of the highlights of the latest (2010) Budget from the Federal Government. Not surprisingly, this Budget is quite a bit tighter than we have seen in the last couple of years!

2010 Federal Budget Highlights

On March 4th, 2010 the Federal Government presented the 2010 Budget. Given the strong fiscal stimuli of the last couple of years, it comes as no surprise that this year's budget is far more austere.

The ballooning budget deficit is front and centre in most people's minds and the budget moved to begin addressing this. To reduce a deficit you must either raise taxes/revenues, reduce spending or some combination of the two.

While there is still stimulus spending provided, the government has clearly taken the approach of reducing spending although on a fairly modes level. A number of cost reductions have been introduced, particularly in National Defense, government departmental budgets and foreign aid.

Government projections predict that the deficit will be essentially eliminated in five years. However, this is assuming that all the forecasts are correct, which is of course a very speculative exercise. On the personal level, the budget was pretty much "stay-the-course" with a few new tax initiatives.

Some point of interest:

➢Freeze of Employment Insurance (EI) premiums

Premiums will remain at $1.73 per $100 of insurable earnings until the end of 2010.

➢Improved Taxation of the Universal Child Care Benefit (UCCB)

In a two-parent family the UCCB benefit, which is a $100 payment per month per child under six years of age, is included in the income of the lower income parent, which is often zero. However, in a one-parent family the sole income earner must include this benefit in their income and therefore pay tax on it. This can cause an inequality in the amount of tax paid by the one-parent family. The budget proposes that the parent in a one-parent family can choose to take the UCCB benefit into their income or to include it in the income of the dependent for whom the Eligible Dependent Credit can be claimed. Since eligible dependents often have no income, this should be comparable to the situation with a two-parent family.

➢Parental Government Benefits – Shared Custody

Currently, when parents share custody of a child, only one individual can receive the Canada

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Child Tax Benefit (CCTB) and Universal Child Care Benefit (UCCB) amounts in a particular month and the child component of the GST/HST credit in respect of a particular quarter. The Budget proposes to allow two eligible individuals to receive CCTB and UCCB amounts and to receive GST/HST credit amounts when a child lives more less equally with two individuals who live separately. These individuals will each receive 50% of the annual entitlements effective for benefits payable starting in July, 2011.

➢ Registered Disability Savings Plan changes

A Registered Disability Savings Plan (RDSP) allows families and friends to save for the long-term financial security of a person with a severe disability. Where an RDSP has been established for an eligible beneficiary and their family meets certain income tests, the government may contribute Canada Disability Savings Bonds (CDSBs) of up to $1,000 annually ($20,000 lifetime). Where eligible contributions are made, the government may also contribute Canada Disability Saving Grants (CDSGs) of up to $3,500 annually ($70,000 lifetime) to the plan. .

➢New Carry Forward of RDSP Grants & Bonds

New Carry Forward of RDSP Grants & Bonds - Currently, if a contribution is not made or an RDSP is not established during a year of eligibility, the CDSG and CDSB "room" for that year is lost. In recognition of the fact that families of children with disabilities may not be able to contribute regularly to their plans, Budget 2010 proposes to amend the Canada Disability Savings Act to allow a 10-year carry forward of CDSG and CDSB. The amount of the CDSG and CDSB that will be awarded in any given year will be based on the family income during each of the prior 10 years (but not before 2008, the year RDSPs became available). There is no limit on the CDSB amount that can carry forward, but CDSG will only be paid on unused entitlements up to an annual maximum of $10,500. The carry forward will be available starting in 2011.

➢Rollovers from RRSP's/RRIF's to RDSP's

Currently, upon an individual's death, if their RRSP/RRIF proceeds are payable to the individual's financially dependent infirm child or grandchild, they can be transferred to that child or grandchild's own RRSP/RRIF on a tax-deferred basis. The Budget proposes to extend these rollover provisions to include transfers to the child or grandchild's RDSP. The amount transferred to the RDSP would count against the RSDP beneficiary's lifetime $200,000 contribution limit, but these "rollover contributions" would not be eligible to receive the CDSG and would be taxable when withdrawn. These measures will be effective for deaths occurring on or after March 4, 2010. Special transitional rules will apply for deaths that occurred after 2007 (when RDSPs became available) and before 2011, effectively allowing the proposed measure to apply as of January 1, 2008. To allow time for financial institutions and the government to adjust their RDSP systems, RDSP contributions benefiting from the proposed RRSP/RRIF rollover measures cannot be made before July, 2011.

➢Employee Stock Option

Budget 2010 proposes a number of changes as they relate to employee stock option benefits.

1. Changes to Stock Option Cash Out Deductibililty

Budget 2010 proposes to prevent both the stock option deduction and a deduction by the employer from being claimed for the same employment benefit. This means that in cases where an employee acquires securities under a stock option agreement, but the employee decides to give up his or her stock option rights for a cash payment from the employer, an employer must elect to forgo the deduction for the cash payment to the employee. Therefore, a decision must be made for either the employee to benefit from the stock option deduction (with the election), or the employer may benefit by claiming a deduction (without the election). As of 4:00 pm EST on March 4, 2010, the dual deduction is no longer allowed.

2. Repeal of the Tax Deferral Election on Employer Stock Options

Currently, an employee of a publicly-traded company who exercises his or her stock options may elect to defer the employment benefit on up to $100,000 of vested qualifying stock options each year, until the disposition of the optioned securities. The employment benefit is the dollar amount representing the difference in price between what the employee pays for the stock and the actual price of the stock on the open market. The repeal of the tax deferral election takes effect for any stock options exercised after 4:00 pm EST on March 4, 2010. Budget 2010 proposes to repeal the tax deferral election and to require the employer to withhold tax on the value of the employment benefit to ensure that the taxes triggered as a result of exercising the stock options will be remitted to the government.

3. Tax relief for “under-water” stocks obtained through a Stock Option

Budget 2010 also proposes to assist those who elected to defer their stock option benefits but the value of their stock has fallen below the deferred taxable employee benefit amount. Budget 2010 proposes to introduce a special elective tax treatment that will ensure that the tax liability on the deferred stock option benefit does not exceed the proceeds of disposition on the optioned stock. Although there is some tax relief resulting from the use of capital losses on the optioned securities against capital gains from other investments, this special elective tax treatment will help ease the tax burden for individuals who are currently in this position. The election must be filed before the filing due date for the 2010 tax year if optioned stocks were disposed of before 2010. If the optioned stocks have not yet been disposed, they must be disposed before the end of 2015 - and the election filed by no later than April 30, 2016.

➢Medical Expense Tax Credit

Budget 2010 proposes to exclude from eligibility for the Medical Expense Tax Credit, any expenses incurred for purely cosmetic procedures, such as liposuction, hair replacement procedures, botox injections, and teeth whitening.

A cosmetic procedure will only qualify for the medical expense tax credit if is required for medical or reconstructive purposes, such as a personal injury resulting from a car accident or disfiguring disease. This applies to expenses incurred after March 4, 2010.

➢Scholarship Exemption and Education Tax Credit

Budget 2006 introduced a full tax exemption for post-secondary scholarships, fellowships and bursaries. Budget 2010 proposes that a post-secondary program which primarily consists of research will be eligible for the Education Tax Credit, and the scholarship exemption, only if it leads to a specified diploma or degree (or an equivalent degree). Under these rules, however, post-doctoral fellowships will be taxable.

If a scholarship, fellowship or bursary amount is provided in connection with a part-time program, the Budget proposes to limit the scholarship exemption to the amount of tuition paid for the program (plus the costs of program-related materials), except under specific situations of part-time students entitled to the Disability Tax Credit, or having a mental or physical impairment. These measures will apply to the 2010 and subsequent taxation years.

➢U.S. Social Security Benefits

Currently, Canadian residents receiving social security benefits from the U.S. are subject to an 85 per cent inclusion rate, so therefore only 85 per cent of U.S. social security benefits are subject to Canadian income tax. Budget 2010 proposes to reduce the inclusion rate to 50 per cent for Canadian residents who have been receiving U.S. Social Security benefits since before January 1, 1996 as well as for their spouses and common-law partners who are eligible to receive survivor benefits. This measure will apply to U.S. Social Security benefits received on or after January 1, 2010.

➢Mineral Exploration Tax Credit

The mineral exploration tax credit is available to investors in flow-through shares. This credit is equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. Budget 2010 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2011.

Under the current "look-back" rule, funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the following calendar year. For example, funds raised with the credit during the first three months of 2011 can support eligible exploration until the end of 2012.

➢On-line Notice of Assessment

Budget 2010 proposes to allow for the electronic issuance of Notices of Assessment of tax, and other notices such as GST/HST and other taxes. This measure will be effective upon certain legislative amendments receiving Royal Assent.