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Terlesky Braithwaite Janzen is pleased to provide you with CGA-Canada's commentary and analysis of the 2006 Federal Budget.

Budget highlights

This budget contains many tax measures affecting a wide range of individual and corporate taxpayers including:

- ✓ One per cent reduction in GST, effective July 1, 2006
- ✓ Increased basic personal amount for individuals
- ✓ Increased pension income tax credit
- ✓ Full tax exemption of all scholarship, bursary and fellowship income
- ✓ Introduction of the Canada Employment Credit
- ✓ Gradual reduction of corporate tax rates by 2010
- ✓ Elimination of corporate surtax, effective January 1, 2008
- ✓ Increased amount of eligible small business income to \$400,000 from \$300,000, as of January 1, 2007
- ✓ Extended carry-forward period for non-capital losses to 20 years
- ✓ Elimination of federal capital tax
- ✓ New Apprenticeship Job Creation Tax Credit

What this budget means for individuals

GST rate reduction, from 7 to 6 per cent, effective July 1, 2006.

New Canada Employment Credit, effective July 1, 2006:

- Amount equal to the lesser of \$500 and individual's employment income
- Increased to \$1,000 for 2007 and future years

Introduction of a new Universal Child Care Benefit, effective July 1, 2006:

- \$1,200 per year for each child under 6
- Payable as a monthly \$100 credit

The \$500,000 capital gains deduction will now be available when disposing of fishing property. A tax deferral

mechanism is also introduced for the transfer of fishing property to a child.

Introduction of a new tax credit for textbook costs in favour of post-secondary students. The credit will be:

- \$65 per month for full time studies
- \$20 per month for part time studies

Full tax exemption of scholarship, bursary and fellowship income.

Increase, from \$1,000 to \$2,000, of the pension income credit.

New non-refundable tax credit for the cost of public transit passes, effective July 1, 2006.

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What this budget means for individuals

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Effective May 2, 2006, donations of publicly listed securities to public charities are exempt from capital gains tax.

As announced in November 2005, dividends will be eligible for an enhanced gross-up and dividend tax credit of 45 and 19 per cent respectively (of the grossed-up amount).

What this budget means for business

- Small business limit increased from \$300,000 to \$400,000 effective January 1, 2007. Corporate year ends straddling the January 1, 2007 date will have to pro-rate the amount of \$300,000 applicable to the part of their fiscal year occurring prior to January 1, 2007 and pro-rate the amount of the \$400,000 applicable to the part of their year occurring after January 1, 2007. For example, a corporate taxpayer with an August 31 year end would have a \$366,666 small business limit for their fiscal year ended August 31, 2007. This is calculated as follows:

$$\begin{array}{r} \$300,000 * 4/12 = \$100,000 \\ \$400,000 * 8/12 = \underline{266,666} \end{array}$$

$$\text{August 31, 2007 limit} = \$366,666$$

(4/12 represents the number of months prior to 01/01/07 divided by 12 months in the fiscal year and 8/12 represents the number of months after 01/01/07 in the fiscal year)

- Along with the increased small business limit, the tax rate applicable to active small business income will be reduced from 12 per cent to 11.5 per cent in 2008 and further to 11 per cent in 2009.
- Associated companies must continue to share the \$400,000 limit and the phase-out of the limit for CCPCs having between \$10 million and \$15 million of taxable capital employed in Canada remains the same.
- CCPCs are now eligible for an enhanced 35 per cent ITC rate on up to \$2 million of scientific research and development expenditures annually.
- The carry-forward period for non-capital losses and unused ITCs has been increased from 10 years to 20 years effective for losses incurred and ITCs earned in taxation years that end after 2005.
- The federal capital tax that was initially slated to be eliminated starting in 2008 has been moved forward two years and has been eliminated as of January 1, 2006.
- The general corporate income tax rate (after the 10 per cent abatement for income earned in a province) will be reduced from 21 per cent to 19 per cent by 2010. The rate will be 21 per cent in 2006 and 2007; 20.5 per cent in 2008; 20 per cent in 2009 and finally down to 19 per cent in 2010.

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What this budget means for business

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- The corporate surtax elimination for small and medium sized enterprises starting in 2008 has already been legislated. Budget 2006 eliminates the corporate surtax for all other corporations not affected by the previous legislation. As with the previous legislation, this surtax elimination will be effective January 1, 2008.
- Apprenticeship Job Creation Tax Credit developed to encourage hiring of new apprentices in eligible trades. Eligible employers will receive a non-refundable tax credit equal to 10 per cent of the salaries and wages paid to qualifying apprentices to a maximum of \$2,000 per year per apprentice.
- The 100 per cent write-off for tools costing \$200 or less has been modified to allow the 100 per cent write-off for tools costing up to \$500 effective for purchases made on or after May 2, 2006.
- The excise duty on vintners has been eliminated on the first 500,000 litres of wine produced per year and made from 100 per cent Canadian-grown agricultural products. For small brewers there is relief available on the excise duty depending on the level of production. See the official budget documents for the specifics of the volume rates and reduced excise duties applicable.
- The excise tax imposed on jewelry, clocks and articles made of semi-precious stones has been repealed, effective for deliveries or importation of such items on or after May 2, 2006.

Other measures of interest to tax practitioners

Canada Revenue Agency will be able to collect or offset immediately on taxes owing instead of the current requirement of waiting 90 days after a Notice Of Assessment to commence collection activities.

The government confirms its intention to proceed with certain measures contained in Budget 2005:

- Tax credit for adoption expenses
- Responding to recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities regarding eligibility criteria for the disability tax credit and the expenses eligible for the disability supports deduction
- Expanding list of expenses eligible for medical expense tax credit
- Doubling the amount of disability related medical expenses claimable by a caregiver
- Implementing changes to the Capital Cost Allowance system for certain assets.

Tax practitioners should consult the official budget documents at www.fin.gc.ca.

The Certified General Accountants Association of Canada represents 64,000 members and students in Canada and abroad.

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