



The 2009 Federal Budget – January 27, 2009

Summary of the Key Tax Measures That Have a Direct Impact on You

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On January 27, 2009, against the backdrop of a global recession and the threat that the opposition parties will bring down the Conservatives' minority government, Federal Finance Minister Jim Flaherty delivered the Conservative government's fourth budget containing a significant stimulus plan for the Canadian economy.

Key highlights of the budget that have a direct impact on you include:

- Increases in tax bracket thresholds and the basic personal amount
- New home renovation tax credit
- New deduction for RSP/RIF losses after death
- Increase to Small Business Limit
- Home Buyer's Plan enhancements

Please note: There is an element of risk in proceeding with a tax planning strategy that is based on any proposals contained in the budget that have not yet been enacted into law. Historically, the process through which budget proposals become law is a multi-step process that may take a few months to a few years to complete. It is also possible that a budget proposal will never become law. Due to Canada's challenging economy, if the opposition parties feel the budget does not provide an appropriate stimulus plan to improve the Canadian economy, there is a possibility that the minority Conservative government may fall.

While it has been the long-standing practice of Canada Revenue Agency (CRA) to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under the current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.

Personal Income Tax Changes

A TAX BREAK FOR ALL

While the budget proposes to target tax reductions at the two lowest tax brackets, Canada's tiered income tax rates allow higher income Canadians to benefit from these changes as well. The upper limit of the first tax bracket for 2009 will increase from the previously set 2009 rates of \$38,832 to \$40,726. The upper limit of the second tax bracket for 2009 will increase from the current level of \$77,664 to \$81,452. This measure will save a person earning at least \$81,452 approximately \$285 in federal taxes for 2009 and subsequent years compared to previously set 2009 rates.

BASIC PERSONAL AMOUNT

The budget proposes to increase the basic personal amount on which no tax is payable from the previously set 2009 amount of \$10,100 to \$10,320. This measure will result in a tax savings of approximately \$33.

ENHANCED AGE CREDIT PROVIDES ADDITIONAL TAX SAVINGS TO SENIORS

The budget proposes to provide extra tax relief to low- and middle-income seniors aged 65 and older by increasing the age credit by \$1,000 to \$6,408, effective for 2009 and indexed thereafter. The net income threshold at which the age credit begins to be phased out will remain unchanged at \$32,312 while the income threshold at which the credit is fully phased out will be increased from \$68,365 to \$75,032.

The enhanced age credit provides a maximum federal tax savings of approximately \$961, which is an increase of \$150 over the previously set 2009 tax credit.

NEW HOME RENOVATION TAX CREDIT

The 2009 budget proposes to introduce a temporary Home Renovation Tax Credit (HRTC) to encourage Canadians to invest in home improvements. A non-refundable tax credit of 15% will apply to eligible expenditure over \$1,000 up to \$10,000 resulting in a maximum credit of \$1,350 ($\$9,000 \times 15\%$). If you are not able to use the entire credit the unused portion may be claimed by your spouse, common law partner or minor child living at home, provided you do not exceed the single \$1,350 maximum credit. This credit will only apply to the 2009 taxation year for eligible expenditure made after January 27, 2009 and before February 1, 2010 and supported by receipts. The credit will not apply to home improvement expenses that are based on an agreement entered into before January 28, 2009.

Costs for renovations or alterations of an enduring nature to a qualified principal residence will qualify for the HRTC. This means that if you have both a home and a recreational property that can qualify as a principal residence, you can claim the HRTC for renovation expenses on one, the other, or both. Such costs will include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits. Alterations such as furniture, appliances, audio-visual electronics, routine repairs and maintenance and financing costs associated with a renovation would not qualify for the HRTC.

NEW DEDUCTION FOR RSP/RIF LOSSES AFTER DEATH

The budget proposes to allow post-death decreases in the value of an RSP or RIF to be carried back and deducted on the deceased's final tax return. This proposed measure would apply where the last payment out of the deceased annuitant's RSP/RIF occurs after 2008.

For example, if an individual's RSP/RIF is valued at \$100,000 at date of death, but has declined in value to \$70,000 at the time the RSP/RIF assets are distributed, the \$30,000 loss can be used to offset income on the deceased's final tax return. The post-death decrease in value cannot be carried back to a year previous to the year of death.

In order to qualify for this deduction without ministerial approval, the final distribution of property from the RSP/RIF must occur no later than the end of the year following the year of death. For example, if an individual passed away in 2009, the last payment from their RSP/RIF must be on or before December 31, 2010 in order to qualify for the deduction. In addition, the deduction will be denied if at any time post-death the RSP/RIF held a non-qualified investment unless ministerial approval is received.

Due to this time limit, there is a window of opportunity to make a final distribution from a deceased annuitant's RSP/RIF. As a result, an executor of an estate may wish to consider the timing of the distribution of property from the RSP/RIF to take advantage of these proposed measures.

CHILD TAX BENEFIT / NATIONAL CHILD BENEFIT SUPPLEMENT

The budget proposes to increase the income levels for income-testing for the Canada Child Tax Benefit (CCTB) and the National Child Benefit supplement (NCBs).

For the CCTB, the budget proposes to increase the income level at which the benefit phase-out begins from \$37,885 to \$40,726.

For the NCBs, the phase-out of the benefit currently begins if the family net income exceeds \$21,287. The budget proposes to increase this income level by \$1,894 to \$23,181. The benefit is fully phased out at \$40,728.

WAGE-EARNER PROTECTION PROGRAM IMPROVEMENTS

The Wage Earner Protection Program (WEPP) currently provides protection to eligible employees who are owed wages and vacation pay from a bankrupt employer. The WEPP currently provides payments for wages and vacation pay up to a maximum of \$3,254 (which is equal to four weeks of insurable earnings under the Employment Insurance Act). The 2009 budget proposes to extend the WEPP to also cover severance and termination pay subject to the same maximum of \$3,254. This will provide some additional protection to individuals losing their jobs because of an employer's bankruptcy.

Business Income Tax Changes

INCREASE TO SMALL BUSINESS LIMIT

The budget proposes to increase the "small business limit" from \$400,000 to \$500,000 effective January 1, 2009. The small business limit is the amount of active business income of a Canadian Controlled Private Corporation (CCPC) that is eligible for a reduced tax rate. The federal small business tax rate is 11% compared to 19% on income above the small business limit.

This initiative will save eligible CCPCs federal tax of \$8,000 where their annual income is \$500,000 or more.

In addition to federal taxes, the provinces also apply a favourable tax rate ranging from 1% to 8% on income below the small business limit. The provincial small business limit for each province ranges from \$400,000 to \$500,000.

ACCELERATED CAPITAL COST ALLOWANCE (CCA)

The budget proposes to extend the temporary increase in the CCA rate for manufacturing and processing equipment and to temporarily increase the CCA for certain computer equipment. This provides faster deductions for businesses with qualifying assets.

Other Proposed Measures

INCREASED HOME BUYERS' PLAN WITHDRAWAL LIMIT

To encourage home ownership and home construction, the budget proposes to increase the Home Buyers' Plan (HBP) withdrawal limit to \$25,000. Currently, the HBP allows you to borrow up to \$20,000 tax-free from your RSP to purchase or build your first home. This increase in the HBP withdrawal limit will apply to the 2009 and subsequent calendar years for withdrawals made after January 27, 2009.

NEW FIRST-TIME HOME BUYERS' TAX CREDIT

The budget proposes to introduce a new non-refundable tax credit for first-time home buyers who acquire a qualifying home after January 27, 2009 (a qualifying home is one that is currently eligible for the Home Buyers' Plan).

First-time home buyers will be able to claim a 15% non-refundable tax credit on an amount of \$5,000, for a maximum credit of \$750 in the year the home is purchased. If a home is purchased jointly, the total credit that may be claimed by all purchasers combined is \$750. The credit will also be available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the disability tax credit (DTC).

MINERAL EXPLORATION TAX CREDIT

“Super” flow-through shares which are eligible for the mineral exploration tax credit of 15% will be extended to flow-through share agreements entered into on or before March 31, 2010.

CDIC AND THE TFSA

Tax-Free Savings Accounts (TFSAs) will be considered a separate category of deposits insurable by the Canada Deposit Insurance Corporation (CDIC). The coverage provided will be similar to the \$100,000 coverage provided for your registered accounts (RSPs and RIFs). CDIC deposit insurance insures Canadian savings to protect against the event of bankruptcy of a CDIC member bank or other financial institution. CDIC only covers bank deposits and GICs. Bonds, equities and mutual funds are not covered by CDIC.

POTENTIAL INCREASED ACCESS TO AUTOMOBILE FINANCING

By creating the Canadian Secured Credit Facility, the government will allocate up to \$12 billion to purchase term asset-backed securities backed by loans and leases on vehicles and equipment from federally regulated financial institutions and certain provincially regulated financial institutions. The goal of this provision is to make financing for vehicle purchases and leases more accessible.

EXTENSION FOR FUNDING SOLVENCY DEFICITS OF FEDERALLY REGULATED PRIVATE PENSION PLANS

The budget re-introduces a measure from the November 2008 Economic and Fiscal Statement to temporarily allow 2008 solvency deficits of federally regulated private pension plans to be funded over 10 years instead of 5 years. A longer timeframe to fund solvency deficits can impact the safety and stability of a member's pension, especially in the event their employer goes bankrupt at a time the pension is under-funded.

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