15261 RUSSELL AVENUE
WHITE ROCK, B.C. V4B 2P7
WEBSITE: www.knv.com

KNV
CHARTERED ACCOUNTANTS LLP

TELEPHONE: (604) 536-7614
1-800-761-7772
FAX: (604) 538-5356

JANUARY 27, 2009

KNV TAX MEMO

FEDERAL BUDGET 2009

Budget 2009 included tax and other measures intended to help Canada stimulate economic growth. The tax measures contained within the budget are largely changes to the brackets and thresholds at which certain tax rates and credits are applied. Other changes were relatively few in number; the more significant changes are discussed below.

PERSONAL TAX CHANGES

PERSONAL AMOUNTS AND INCOME TAX BRACKETS

The budget proposes that, effective January 1, 2009, the personal amount (i.e. the basic personal tax credit) will increase by 7.5% to $10,320, from $9,600 in 2008. This increase will also apply to the spousal and common-law partner amounts and the eligible dependant amount, and will be indexed for inflation in 2010 and subsequent years.

The upper limit of the first federal personal income tax bracket (i.e. the 15-per-cent federal income tax rate) will also be increased by 7.5% to $40,726 in 2009, from $37,885 in 2008, and the upper limit of the second federal personal income tax bracket (i.e. the 22-per-cent federal income tax rate) will increase by 7.5% to $81,452 in 2009, from $75,769 in 2008. These bracket increases will also be indexed for inflation in 2010 and subsequent years.

HOME RENOVATION TAX CREDIT

The budget proposes to introduce a temporary Home Renovation Tax Credit (HRTC). Individuals will be able to claim a 15-per-cent non-refundable tax credit for eligible expenditures made in respect of dwellings eligible to be claimed as principal residences (i.e. that are owned and ordinarily inhabited by the individual). The credit will apply to expenditures in excess of $1,000, but not more than $10,000, resulting in a maximum credit of $1,350 ($9,000 x 15%).

The credit will only apply to the 2009 taxation year for work performed or goods acquired after January 27, 2009 and before February 1, 2010.

Family members (i.e. spouses or common-law partners and their children under 18) will be subject to a single $10,000 limit based on pooled expenditures.

Only expenditures relating to renovations ‘of an enduring nature and integral to the eligible dwelling’ (such as capital improvements) will qualify for the HRTC. Eligible expenditures may include labour and professional services, building materials, fixtures, equipment rentals and permits. Expenditures that will <u>not</u> be eligible include routine repairs and maintenance, financing costs, furniture or draperies, or other items that retain value independent of the renovation (e.g. tools).

Expenditures will not be eligible if the related goods and services are provided by a person not dealing at arm's length with the individual, unless that person is registered for goods and service tax. Any eligible expenditure claimed for the HRTC must be supported by receipts.

FIRST-TIME HOME BUYERS' TAX CREDIT

The budget proposes to introduce a new first-time home buyers' tax credit. An individual will be considered a first time home buyer if neither the individual nor their spouse has owned and lived in another home in any of the preceding four years. The tax credit will be calculated by reference to the lowest personal income tax rate based on an amount of $5,000.

For first-time home buyers who acquire a qualifying home after January 27, 2009 the tax credit will result in $750 ($5,000 x 15%) of federal tax savings.

OTHER CHANGES

- The amount on which the Age Credit (for Canadians 65 years of age an older) is calculated will be increased by $1,000 to $6,408, effective January 1, 2009. This change will provide seniors with $150 of additional federal income tax relief each year. The 'clawback' threshold remains the same, meaning that seniors earning over $32,312 in 2009 will have all or a portion of their age credit eliminated.
- The Home Buyer's Plan (HBP) allows first-time homebuyers to withdraw amounts from their Registered Retirement Savings Plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal. The budget proposes to increase the HBP withdrawal limit to $25,000 in 2009, from $20,000 in 2008.

BUSINESS TAX CHANGES

SMALL BUSINESS LIMIT

Budget 2009 proposes to increase, as of January 1, 2009, the "small business limit" to $500,000 from its current level of $400,000. Income under the small business limit is taxed, at the corporate level, at 13.5% in B.C. in 2009 as opposed to 30.0% for income in excess of the small business limit. Corporate year ends in 2009 that do not coincide with the calendar year end will have a small business limit pro-rated between $400,000 and $500,000.

Consistent with the above proposal, the $3million expenditure limit for Scientific Research and Experimental Development ("SR&ED") at the 35% enhanced rate is proposed to be reduced where taxable income is above $500,000 and would be fully eliminated where taxable income in the previous year is $800,000 or more.

TAX COMPLIANCE

Budget 2009 proposes to require that all corporations with revenues over $1million file corporate tax returns electronically. A $250 penalty for non-compliance in 2009 would gradually be raised to a $1,000 penalty for non-compliance for returns with year ends after December 31, 2012.

The budget also proposes to require corporations filing more than 50 of any particular type of information return (such as T4's) to file those information returns electronically. For example, companies with more than 50 employees will generally be required to file their T4's electronically.

In addition, penalties for information returns filed late are proposed to be reduced. The maximum penalty for late-filing an information return will be reduced to $1,000 from the current $2,500.

Penalties for filing information returns in an incorrect format will range from $250 to $2,500 depending on the number of information returns the taxpayer is required to file.

CAPITAL COST ALLOWANCE ("CCA")

The Budget proposes a temporary 100% CCA rate for eligible computers and software acquired between January 28, 2009 and January 31, 2011. This temporary CCA rate will not be subject to the half-year rule (a rule generally allowing only one-half of the CCA otherwise calculated in the year of the acquisition of an asset). In other words, it is proposed that purchases of eligible computers and software acquired between January 28, 2009 and January 31, 2011 will be fully deductible in the year of acquisition.

The Budget also proposes to extend the 50% straight-line CCA treatment currently available to manufacturing and processing equipment for an additional two years to 2011. The half-year rule will apply.

OTHER MEASURES

- The budget proposes to allow "network sellers" (direct selling organizations that employ commissioned sales people to sell goods directly to the final customer) meeting certain criteria to use a simplified GST accounting method for fiscal years after 2009.
- The government announced its intention to continue to work with aboriginal groups in encouraging Aboriginal governments to exercise direct taxation powers.
- Section 18.2 of the Income Tax Act, which was seen by some as discouraging foreign investment by Canadians, is proposed to be repealed. Section 18.2 limits interest deductibility in certain situations where a Canadian corporation finances a foreign affiliate with borrowed funds and can simultaneously claim a second interest deduction in the foreign jurisdiction.

Further details on the 2009 Federal Budget are available on the Department of Finance's Website at http://www.budget.gc.ca/2009/home-acceuil-eng.htm or contact your KNV advisor.