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Highlights of the November 2005 Federal Economic and Fiscal Update (aka “Mini-budget”)

The federal government unveiled \$39-billion in personal and corporate tax cuts and spending today in a mini-budget, or Economic and Fiscal Update.

Given the current government’s minority position, it should be noted that these proposals will only have effect once enacted by Parliament. Therefore, whether or not these proposed measures will ultimately come to pass either as proposed or in some altered form may depend on the results of the next federal election.

Highlights of the “Mini-budget” included the following income tax measures:

Personal Tax – Proposed Changes

- The 2005 fiscal update proposes to decrease the lowest federal personal tax rate to 15% (from 16%), retroactive to January 1, 2005. At the same time, the basic personal credit amount would increase by \$500 to \$8,649. In 2006, the basic personal credit would further increase by \$200 to \$8,849 (plus indexation).
- Further tax savings would be forthcoming for individuals earning approximately \$36,000 or more as a result of the following additional marginal tax rate reductions (proposed to take effect starting in 2010):
 - The current marginal rate of 22% would decrease to 21% for income between approximately \$36,000 and \$71,000.
 - The current marginal rate of 26% would decrease to 25% for income between approximately \$71,000 and \$116,000.
 - The threshold at which the top 29% tax Federal income tax rate begins to apply would increase to \$200,000

Business Tax – Proposed Changes

Corporate tax reductions reinstated

- The 2005 fiscal update proposes to reinstate the 2005 federal budget's 2% corporate tax rate reduction. The 2005 budget scheduled the reduction to be phased in starting in 2008 but the reduction was later removed from the budget legislation passed in Parliament.
- Also reinstated is the elimination of the corporate surtax for all corporations starting in 2008. Under current legislation, small and medium-sized businesses are already set to benefit from the elimination of the corporate surtax as of January 1, 2008. Therefore, this is effectively a measure for larger businesses only.

Elimination of federal capital tax accelerated

- In the 2003 Budget it was proposed that the federal capital tax would be eliminated by 2008. The federal capital tax has already been eliminated for smaller corporations with less than \$50 million in taxable capital. The update proposes to eliminate completely federal capital tax as of January 1, 2006 (two years ahead of schedule).

General – Proposed Changes

- The 2005 Mini-budget proposes to extend, beginning in taxation years ending in 2006, the carryforward period for non-capital losses to 20 years (it is currently 10 years). The extended carryforward period would also apply to Investment Tax Credits.

Further details are available on the Department of Finance Canada web site (<http://www.fin.gc.ca/ec2005/ec/eca4e.html>) or contact your KNV advisor.

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