



2009 FEDERAL BUDGET

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NOTICE TO READER

The following commentary has been prepared by Parker Garber & Chesney, LLP based on information available to the public on the date of publishing.

Readers are cautioned that this commentary is informational only and that any issues specific to the reader's needs be addressed with the appropriate tax professional.

The reader is cautioned that this document is not meant to provide advice specific to the reader's particular situation and that advice cannot be given in such a manner.

2009 FEDERAL BUDGET

Finance Minister Jim Flaherty introduced the Federal government's 2009 budget last night and, despite the fact that the NDP and Bloc announced over a week ago that they would not vote for the budget, sight unseen, it is likely to be passed by Parliament with the support of the Liberals. The bulk of the document addresses spending programs to provide stimulus to the Canadian economy buffeted by the global downturn. Since Canada is better positioned than any other G8 country to weather the storm we suspect that some of the measures introduced are an over-reaction meant to mollify the opposition parties and maintain the current minority government. If the government had a majority it is likely that the programs would not have been as far-reaching and the expected deficits would not be as severe.

Most of the initiatives introduced were related to program spending. Our comments will be limited to the tax changes.

PERSONAL TAX

TAX CREDITS

The budget proposes to increase the personal tax credits for 2009 to \$10,320 from \$9,600. It is also proposed that the age credit will be increased from \$5,408 to \$6,408 for 2009.

TAX BRACKETS

The limits for the tax brackets will be adjusted upwards for 2009 as follows:

15% tax rate moves from \$38,832 to \$40,726
22% tax rate moves from \$77,664 to \$81,452

These limits will be indexed for years after 2009.

CHILD TAX BENEFIT AND SUPPLEMENT

The claw-back limit for these benefits will be increased to \$40,726.

HOME RENOVATION TAX CREDIT

The budget proposes a 15% non-refundable tax credit for eligible home renovations for a principal residence. The renovations must be of an enduring nature, costs between \$1,000 and \$10,000 would be eligible for a maximum credit of \$1,350. Expenditures between January 28, 2009 and February 1, 2010 are eligible.



HOME BUYERS' PLAN

The funds eligible for withdrawal from a RRSP have been increased from \$20,000 to \$25,000 and still must be repaid over 15 years effective for withdrawals after January 27, 2009.

FIRST-TIME HOME BUYERS' TAX CREDIT

A credit of 15% of closing costs for first-time home buyers to a maximum of \$750 will be available for any purchase after January 27, 2009.

RRSP/RRIF LOSSES AFTER DEATH

Effective for a death occurring after December 31, 2008 any loss in the value of a RRSP or RRIF between the date of death and final distribution will be available to be carried back as a reduction of the income inclusion in the final tax return of the annuitant.

CORPORATE TAX**SMALL BUSINESS DEDUCTION**

The Federal small business limit has been increases, effective January 1, 2009 to \$500,000. This will match the limits set for Ontario and Saskatchewan. The amount will be pro-rated for periods straddling the effective date.

INTEREST DEDUCTIBILITY

The budget proposes to repeal the interest-denial rules for corporate borrowings related to foreign affiliates. This will help accommodate international financing for Canadian corporations.

CAPITAL COST ALLOWANCE

The capital cost allowance for manufacturing and processing equipment of 50% straight-line will be extended to apply to additions before 2012. Computer and software additions after the budget date and before February 2011 will be allowed a 100% rate with no half-year rule.

MANDATORY E-FILING

Effective for taxation years ending after 2009, corporations with gross revenue greater than \$1 million will be required to electronically file their corporate tax returns. In addition the previous limit of 500 forms such as T4 or T5 requiring electronic filing has been reduced to 50 effective for years after 2009. Penalties ranging from \$250 to \$7,500 will be imposed for failing to file or using improper formats.



OTHER TAX MEASURES

EMPLOYMENT INSURANCE

The maximum benefit period will be increased from 45 weeks to 50 weeks over the next two years. EI premium rates will be frozen for the next two years at \$1.73 per \$100.

The budget also proposes to consider allowing self-employed persons to qualify for maternity benefits.

MINING EXPLORATION TAX CREDIT

The qualifying period for expenditures has been extended for another year to expenses incurred prior to 2011.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED)

SR&ED credits for Canadian-controlled Private Corporations will be increased so that the reduction in credits begins at \$500,000 instead of \$400,000 and will be phased out at \$800,000 instead of \$700,000. This change is effective for taxation years ending after December 31, 2008.

