

## Harvey, Lister & Webb Incorporated

*is pleased to provide you with CGA-Canada's commentary and analysis of the 2009 Federal Budget.*

## Budget Highlights

The 2009 federal budget contains a number of measures designed to stimulate the economy and encourage spending by individuals and businesses. Some of the proposals affecting individuals and businesses include:

- Increased non-refundable tax credits
- Increase in top end of two lowest personal tax brackets
- Home Renovation Tax Credit (HRTC)
- Increase in the maximum amount that first-time homebuyers may withdraw from their Registered Retirement Savings Plan
- Increased capital cost allowance rate on eligible computers and software purchased before February 2011
- Increase in the small business amount to \$500,000
- Extension of the temporary 50% straight-line accelerated capital cost allowance on manufacturing and processing machinery and equipment acquired before 2011.

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## What this Budget Means for Individuals

The budget will put a few more dollars into the pockets of individuals in 2009 by increasing the basic personal amount and the top ends of the two lowest tax brackets.

The basic personal amount has been increased to \$10,320, an increase of \$220 from the already scheduled \$10,100 for 2009. In addition, the top end of the two lowest tax brackets, already scheduled to increase to \$38,832 and \$77,664 respectively, are further increased to \$40,726 and \$81,452. Under the new amounts, an individual with taxable income of \$40,726 in 2009 will pay \$165 less than already scheduled. An individual with taxable income of \$81,452 will see their federal

taxes reduced by \$317. Compared to 2008, the same individuals will pay \$307 and \$534 less federal tax in 2009.

Seniors will also see the Age Credit amount increase by \$1,000 for 2009 and subsequent taxation years. The Age Credit amount for 2009 will be \$6,408 and provide tax relief of up to \$961 for eligible seniors.

One of the more innovative proposals affecting individuals in the budget is the Home Renovation Tax Credit (HRTC).

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## What this Budget Means for Individuals

This new credit will be available to individuals who incur renovation expenses between January 27, 2009 and February 1, 2010. The non-refundable credit will equal 15% of costs exceeding \$1,000 to a maximum of \$10,000, for a maximum credit of \$1,350 against federal taxes. The credit is not available if the contract for the renovations was made prior to January 27, 2009.

The credit is "family-based" meaning that a family unit is limited to a maximum credit of \$1,350. A family unit is considered to be an individual, the individual's spouse or common-law partner, and children under the age of 18 in 2009. While it is expected that one family member will claim the credit, any unused credit may be transferred to another family member. If more than one family unit share an eligible dwelling, each family will be eligible for a credit in their own right.

The credit applies to renovations made to eligible dwellings. An eligible dwelling is a dwelling used for personal purposes such as a house, a cottage, a condominium unit and a co-operative housing unit. Renovations to the common areas of condominiums or co-operative housing units will be considered eligible for the credit. If a portion of the dwelling is used for business purposes or rented, the credit will only be available to renovations done to the personal-use areas of the dwelling.

Eligible expenses include the cost of labour and professional services, materials, fixtures, equipment rentals and permits. The types of renovations envisioned are those that are of an enduring nature and are integral to the dwelling. This would include kitchen renovations, new decks, new flooring, painting, gutters, new roofs etc. Not eligible are

routine maintenance expenditures that are done on a yearly or more frequent basis, appliances or audio-visual electronics. Financing costs associated with the renovation are not eligible for the credit.

The HRTC is not reduced by any other tax credit. For example, an individual who makes renovations to their home that qualifies for the Medical Expense Tax Credit will be able to claim both credits in respect of the expenditure.

The underground economy is very active in Canada, particularly in the construction industry. The HRTC may have the effect of reducing this as homeowners wishing to take advantage of the credit may opt out of under-the-table deals.

Another innovative proposal in the budget is the First-Time Home Buyers' Tax Credit. This is another non-refundable tax credit and is based on an amount of \$5,000 for first-time home buyers who acquire a qualifying home after January 27, 2009. The credit itself is limited to \$750 against federal tax and may be transferred to the individual's spouse or common-law partner to the extent that the individual is unable to use it. A first-time homebuyer is an individual and spouse or common-law partner who have not owned and lived in a home in the year of acquisition or in the previous four calendar years. A qualifying home is one that is currently eligible for the RRSP Home Buyers' Plan, and must be occupied not later than one year after purchase. The credit will also be available to an individual eligible for the disability tax credit for certain home acquisitions and not subject to the first-time home buyer restrictions.

## Other Personal Measures Include

The amount that an individual may withdraw from their Registered Retirement Savings Plan under the Home Buyers Plan is increased from \$20,000 to \$25,000. The repayment requirements remain unchanged.

In the year of death, the fair market value of investments held in a Registered Retirement Savings Plan or Registered Retirement Income Fund are included in the deceased income unless the beneficiary is a spouse or common-law partner. Any subsequent increase in the value is included in the income of the beneficiaries upon distribution. There are no provisions for losses in the fair market value of the plan between the date of death and the distribution. The budget proposes to allow losses incurred in the period from the date of death to the date of distribution to be applied to the deceased's date of death return.

The Mineral Exploration Tax Credit scheduled to end March 31, 2009 has been extended to March 31, 2010.

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## What this Budget Means for Business

When considering what this budget means for business, there is a tendency to look at the income tax changes affecting business. However, income tax provisions are only useful if a business is profitable to the extent that it pays tax which, given the current economy, is not always the case. The true measure of what the budget means for business is what it does to boost economic activity.

With that in mind, the \$12 billion infrastructure spending announced in the budget should result in some economic activity, which will benefit the business community since goods, and services are required for these projects. Proposals which provide easier access to financing may result in businesses expanding or being able to weather the current storm. To quote the finance minister: "Well-run businesses find it harder to finance the purchase of machinery. This shortage of financing can make a difficult economic situation much worse." The construction industry may benefit from the HRTC as homeowners look to take advantage of the tax credit by having renovations done on their homes. The hard hit real estate industry may

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## What this Budget Means for Business

benefit from the first-time home buyer's tax credit and the increase to the amount that may be withdrawn under the Home Buyers' Plan.

On the tax side of things, the Small Business Limit on qualifying active business of Canadian controlled private corporations (CCPC) increases to \$500,000 from \$400,000 effective January 1, 2009. The small business limit reduces the federal corporate income tax to 11%. Corporations not having a calendar taxation year will have to pro-rate the increased deduction. There is also a proposal for a temporary 100% Capital Cost Allowance rate for eligible computers and software acquired after January 27, 2009 and before February 2011. The new rate will not be subject to the half-year rule. Qualifying computers and software are those that are:

- Situated in Canada
- Acquired by the taxpayer
  - For use in a business carried on by the taxpayer in Canada or for the purpose of earning income from property situated in Canada, or
  - For lease by the taxpayer to a lessee for the use by the lessee in a business carried on by the lessee in Canada or for the purpose of earning income from property situated in Canada, and
- Has not been used, or acquired for use, for any purpose before it is acquired by the taxpayer for use in Canada.

## Other Business Measures Include

- Extension of the temporary 50% straight-line accelerated capital cost allowance on manufacturing and processing machinery and equipment acquired before 2011.
- Simplification of the GST/HST for the direct selling industry.
- Repeal of the proposed restriction on the deductibility of interest on funds borrowed to fund a foreign affiliate.



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For more news and analysis of the 2009 federal budget, please visit [www.cga.org/canada/budget2009](http://www.cga.org/canada/budget2009)