

Financial & Estate Planning Group

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2006 Federal Budget Summary

The 2006 federal budget contained a number of proposed changes to personal and corporate income tax, as follows.

Personal Tax

Personal Tax Rates

- As previously announced, effective January 1, 2005, the lowest personal income tax rate for taxable incomes up to \$35,595 was reduced from 16% to 15%.
- Effective July 1, 2006, the lowest personal income tax rate for taxable incomes up to \$36,378 will be increased to 15.5% from 15%, making the 2006 full-year effective rate 15.25%.

Basic Personal Amount, Credits, and other Deductions

- As previously announced, for the 2005 taxation year the **Basic Personal Amount** for an individual is increased by \$500 to \$8,648.
- For the first half of 2006 the **Basic Personal Amount** will be increased to \$9,039 and then on July 1, 2006, at the same time that the GST rate is reduced, it will be reduced by \$400 to \$8,639. Therefore, for 2006 the average annual Basic Personal Amount will be \$8,839. There will also be similar adjustments made to the spouse or common-law partner and wholly dependent relative amounts.
- Effective July 1, 2006, a **Canada Employment Credit** will be introduced. This will provide tax relief on the lesser of \$250 and an individual's employment income for 2006. For 2007 and subsequent years the employment income threshold will increase to \$1,000.
- Effective July 2006 a **Universal Child Care Benefit (UCCB)** will be introduced to provide all families with \$100 per month for each child under six years of age. The UCCB will be taxable to the lower-income spouse or common-law partner.
- For 2006 and subsequent years the **Pension Income Credit** amount will increase to \$2,000 from \$1,000.
- Starting in July 2006 the maximum annual **Child Disability Benefit** will be increased to \$2,300 from \$2,044. The Child Disability Benefit will also be extended to more families.
- For the 2006 taxation year the **Refundable Medical Expense Supplement** will be increased to \$1,000 from \$767. The maximum will be indexed to inflation for future years. The income threshold at which this supplement is reduced is being increased to \$22,140 for 2006.
- Effective for the 2007 tax year a **Children's Fitness Tax Credit** will be introduced to allow parents to claim a non-refundable tax credit of up to \$500 in eligible fees for enrolment of a child under 16 in an eligible physical activity.
- Effective July 1, 2006, an individual or the individual's spouse or common-law partner will be entitled to claim a non-refundable tax credit for the **cost of monthly public transit passes**. The credit will be calculated by reference to the lowest personal income tax rate.

Student Tax Initiatives

- For 2006 and future years, a non-refundable **textbook tax credit** will be introduced for post-secondary students. The credit will be calculated by reference to the lowest personal tax rate and will be in addition to the current education tax credit. Unused textbook tax credits will be subject to the same carry-forward and transfer rules as tuition fees and the education tax credit.
- For 2006 and subsequent tax years **scholarship, fellowship, and bursary** income will be fully exempt from tax with respect to post-secondary education and occupational training.

Employed Tradespersons

- Effective May 2, 2006, an **employed tradesperson** will be eligible to deduct up to \$500 for the cost of eligible new tools with a total cost exceeding \$1,000 for that year.

Lifetime Capital Gains Exemption

- Effective May 2, 2006, the \$500,000 lifetime capital gains exemption will be extended to dispositions of fishing property or qualified fishing property.

Donations of Securities and Ecologically Sensitive Land

- For donations of publicly listed securities to a public charity on or after May 2, 2006, the effective capital gains inclusion rate will be reduced to zero. There will be a similar reduction in the employment benefit inclusion rate for donations of listed publicly traded securities that were acquired with employee stock options.
- For donations of ecologically sensitive land on or after May 2, 2006, the effective capital gains inclusion rate will be reduced to zero.

Dividend Tax Credit

- Dividends paid after 2005 by public corporations (and other corporations that are not CCPCs) that are resident in Canada will be subject to a 45% gross-up and a federal dividend tax credit of 19% of the grossed up amount.

Non-Capital Losses

- Effective for all taxpayers for taxation years that end after 2005, an increase in the number of years a non-capital loss can be carried forward to 20 years from 10 years. The three-year carry-back remains. This increase also applies to farm losses, restricted farm losses, Canadian life investment losses, and losses applied under Part IV of the *Income Tax Act*.

Mineral Exploration Tax Credit

- A mineral exploration tax credit will be introduced for flow-through share agreements entered into on or after May 2, 2006, and before March 31, 2007.

Corporate Tax

General Corporate Tax

- A reduction in the general corporate income tax rate to 19% from 21% by 2010. The rate will be reduced to 20.5% effective January 1, 2008, and to 20% effective January 1, 2009. The rate for 2006 and 2007 will remain 21%.

Corporate Surtax

- The elimination of the corporate surtax on all corporate income, not just small and medium-sized corporations, which had already been legislated to take place in 2008. Prior to its elimination in 2008, the surtax for 2006 and 2007 will be 1.12%.

Small Business Limit and Tax Rate

- An increase in the annual amount of active business income eligible for the small business deduction to \$400,000 from \$300,000 effective January 1, 2007.
- A decrease in the small business tax rate to 11.5% from 12% effective January 1, 2008, and to 11% effective January 1, 2009.

Investment Tax Credits

- Effective for taxation years that end after 2005, an increase in the number of years a non-capital loss can be carried forward to 20 years from 10 years. The three-year carry-back remains. This increase also applies to farm losses, restricted farm losses, Canadian life investment losses, and losses applied under Part IV of the *Income Tax Act*.
- An increase in the number of years ITCs can be carried forward to 20 years from 10 years.

Federal Capital Tax

- The elimination of the federal capital tax effective January 1, 2006, two years earlier than originally scheduled.

Financial Institutions Capital Tax

- Effective July 1, 2006, the current rate of 1% on taxable capital between \$200 million and \$300 million will be eliminated. In its place, the threshold above which the federal capital tax applies to financial institutions will be raised to \$1 billion with an applicable rate of 1.25%.

Apprenticeship Job Creation Tax Credit

- Effective May 2, 2006, a non-refundable tax credit equal to 10% of the salaries and wages paid to qualifying apprentices to a maximum credit of \$2,000 per apprentice will be available to eligible employers in eligible trades. The credit will be available on up to \$20,000 of apprentices' salaries and wages.