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On **January 27, 2009** the Honourable **Jim Flaherty**, Minister of Finance, presented his **fourth Budget** to the House of Commons.

The **Government's fiscal positions** include deficits in the years 2008/2009 ($1.1 billion) and 2009/2010 ($33.7 billion). By 2012/2013 the Federal debt is proposed to increase to $542.4 billion from the deficit in 2007/2008 of $457.6 billion.

The Federal Government expects to spend $40 billion in the next two years to stimulate the economy including $8.3 billion for job re-training, $12.0 billion for infrastructure expenditures over two years, $7.8 billion for housing construction and energy retrofits, and $7.5 billion for regions hit by the global slowdown such as auto and forestry towns.

Also, $4.6 million will be spent for home renovation tax credits. In addition, employment insurance benefits are to be extended by five weeks, employment insurance premiums frozen for two years, protection provided for severance pay for employees of bankrupt companies, enhancements to invest in machinery, equipment and computer systems, and expenditures for items such as community arenas, seniors housing, VIA Rail, Parks Canada upgrades, and the Canadian Television Fund.

The personal exemption level for individuals will be increased to $10,320 from $9,600 and the two lowest income tax brackets are increased slightly resulting in tax savings for the average person of about $300 per year.

First-time homebuyers will receive tax relief of up to $750 ($5,000 @ 15%).

	Actual	Projection		
	2007-08	2008-09	2009-10	2010-11
Budgetary revenues	242.4	236.4	224.9	239.9
Program expenses	199.5	206.8	229.1	236.5
Public debt charges	33.3	30.7	29.5	33.2
Total expenses	232.8	237.5	258.6	269.7
Balance	9.6	(1.1)	(33.7)	(29.8)
Federal debt	457.6	458.7	492.4	522.2

HIGHLIGHTS

A. Personal Income Tax
B. Business Income Tax
C. Sales Tax
D. Other Tax
E. Previously Announced Measures
F. Improving Access to Financing

A. PERSONAL INCOME TAX

1. Personal Amounts and Income Tax Brackets

Budget 2009 proposes to increase the basic personal amount and the two lowest personal income tax brackets effective January 1, 2009.

• the basic personal amount, the spousal and common-law partner amount, and the eligible dependant amount will increase to $10,320 from $9,600 in 2008,

• the upper limit of the first personal income tax bracket will increase to $40,726 in 2009 from $37,885 in 2008, and

• the upper limit of the second personal income tax bracket will increase to $81,452 in 2009 from $75,769 in 2008.

Federal Budget Commentary 2009

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2. Canada Child Tax Benefit/National Child Benefit Supplement

The income levels on which income-testing of the base benefit under the Canada Child Tax Benefit (CCTB) and the National Child Benefit supplement (NCBs) are based, will be increased. Specifically, for the 2009–10 benefit year, the income level at which the phase-out of the CCTB begins will increase to $40,726, and the income level at which the phase-out of the NCBs begins will increase by $1,894 such that it is completely phased out by $40,726.

3. Working Income Tax Benefit (WITB)

Budget 2009 proposes to double this WITB relief (which is currently up to $510 for singles and $1020 for families) for the 2009 and subsequent taxation years.

4. Age Credit

The amount on which the Age Credit is based will be increased by $1,000 to $6,408, effective January 1, 2009.

5. Home Renovation Tax Credit

Budget 2009 proposes to introduce a temporary Home Renovation Tax Credit (HRTC).

Individuals will be able to claim a 15-per-cent non-refundable tax credit.

The credit will apply to expenditures made after January 27, 2009 and before February 21, 2010 in excess of $1,000, but not more than $10,000, resulting in a maximum credit of $1,350 ($9,000 x 15%).

Family members will be subject to a single limit based on their pooled expenditures.

Two or more families that share ownership of an eligible dwelling will each be eligible for their own credit.

In general, a housing unit is considered to be eligible if it is an individual's principal residence. This also includes condominiums and co-operative housing.

Individuals who earn business or rental income from part of their principal residence will be allowed to claim the credit for the full amount of expenditures made in respect of the personal-use areas of the residence.

Expenditures will qualify for the HRTC if they are incurred in relation to a renovation or alteration of an eligible dwelling (including land that forms part of the eligible dwelling).

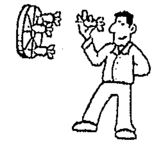
Expenditures **not eligible** for the credit include:

- routine repairs and maintenance,
- appliances and audio-visual electronics, and
- financing costs associated with a renovation.

6. Home Buyers Plan (HBP)

Budget 2009 proposes to increase the HBP withdrawal limit to $25,000 from $20,000. This increase will apply to the 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009.

7. First-Time Home Buyers' Tax Credit



Budget 2009 proposes to introduce a new non-refundable tax credit based on $5,000 for first-time home buyers who acquire a qualifying home after January 27, 2009 (i.e. the closing is after that date).

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years.

Budget 2009 also proposes that the credit be available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the disability tax credit (DTC).

Any unused portion of an individual's Tax Credit may be claimed by the individual's spouse or common-law partner. Where more than one individual is entitled to the Tax Credit (for example, where two individuals jointly buy a home) only one credit is allowed.

8. RRSP/RRIF Losses After Death

Budget 2009 proposes to allow the post-death decreases in value of the RRSP or RRIF to be carried back and deducted against the year-of-death RRSP/RRIF income inclusion. The amount carried back will generally be calculated as the difference between the amount in respect of the RRSP or RRIF included in

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the income of the annuitant as a result of the death of the annuitant and the total of all amounts paid out of the RRSP or RRIF after the death of the annuitant.

This measure will apply where the final distribution from the RRSP or RRIF occurs after 2008.

9. Mineral Exploration Tax Credit

Budget 2009 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2010. Funds raised with the credit during the first three months of 2010 can support eligible exploration until the end of 2011.

B. Business Income Tax

1. Small Business Limit

Budget 2009 proposes that the annual amount of active business income eligible for the reduced tax rate –generally referred to as the "small business limit" – be increased as of January 1, 2009 to $500,000 from $400,000.

The increase will be pro-rated for corporations with non-December 31 taxation years.

Consistent with the proposal to increase the small business limit, the $3 million expenditure limit for SR&ED will begin to be reduced at the proposed small business limit of $500,000 and will be fully eliminated where taxable income in the previous year is $800,000 or more. This change will apply where the previous taxation year ends after 2008.

2. Manufacturing and Processing: Accelerated Capital Cost Allowance (CCA)

Budget 2008 proposed a temporary 50-per-cent straight-line accelerated CCA incentive for eligible machinery and equipment acquired on or after March 19, 2007 and before 2010 that is used primarily in a manufacturing or processing activity.
Budget 2009 extends this until 2011.

3. Computers: Accelerated CCA

In general, computers acquired after March 18, 2007, are included in Class 50 and are eligible for a 55-per-cent declining-balance CCA rate.
Budget 2009 proposes a temporary 100-per-cent CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011. This 100-per-cent CCA rate will not be subject to the half-year rule.

Eligible computers and systems software must not have been used, or acquired for use, for any purpose before acquired by the taxpayer for use in Canada.

The 100-per-cent CCA rate will also apply to property that is currently included in CCA Class 29, that would otherwise be described in Class 50.

C. Sales Tax

1. Simplification of the GST/HST for the Direct Selling Industry

Budget 2009 proposes to allow network sellers who meet certain conditions to elect to use a special GST/HST accounting method to simplify GST/HST compliance in respect of fiscal years beginning after 2009.

A GST/HST registered network seller will generally be eligible to elect to use this special method for a fiscal year if all or substantially all of their sales are in qualified activities.

D. Other Tax

1. International Taxation

- **Interest Deductibility**
  Section 18.2 of the Income Tax Act, scheduled to come into force in 2012, constrains the deductibility of interest in certain situations where a Canadian corporation uses borrowed funds to finance a foreign affiliate and a second deduction for that interest is available in the foreign jurisdiction. It is proposed that **Section 18.2 be repealed.**

- **Non-Resident Trusts and Foreign Investment Entities**
  Outstanding proposals for non-resident trusts and foreign investment entities will be **further reviewed** before they are implemented.

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2. Acquisition of Control of a Corporation – Time of Acquisition

Budget 2009 proposes that the deeming rules regarding the timing of an acquisition of control of a corporation be amended to ensure that it does not affect the status of a corporation as a CCPC at the time of the transaction that caused the change of control. (Subsection 256(9))

This prevents the loss of the "capital gain exemption" on a technicality when shares are sold to non-residents or to public corporations.

This amendment will generally apply in respect of acquisitions of control that occur after 2005.

3. Canada Revenue Agency Strategic Review: Electronic Filing

Mandatory Electronic Filing

First, corporations that have annual gross revenues in excess of $1 million for a taxation year will generally be required to file their income tax returns for the year in electronic format. The CRA may provide exceptions for corporations such as non-resident corporations, insurance corporations, and corporations filing in a functional currency.

This will apply in respect of corporate income tax returns for taxation years that end after 2009.

Second, the number of any particular type of income tax information return that can be filed by a taxpayer before the taxpayer is, under an existing income tax provision, required to file those information returns electronically, will be reduced to 50 from 500. This measure will most often apply in practice in respect of T4 information returns for employment income.

This will apply in respect of information returns required to be filed after 2009.

Penalties

In addition to the new electronic filing requirements described above, Budget 2009 proposes these penalty changes:

- *Penalty for Filing a Corporate Income Tax Return in an Incorrect Format*

To ensure compliance with the new corporate electronic income tax return filing requirement, a new penalty for filing a corporate income tax return in an incorrect format will be introduced. However, no penalties will be introduced for failure to do so for returns required to be filed before 2011. The penalty for taxation years that end in 2011 will be set at $250, then increased to $500 for taxation years that end in 2012 and to $1000 for taxation years that end after 2012.

- *Penalty for Filing Information Returns Late or in an Incorrect Format*

There is an existing penalty that has general application to taxpayers who fail to comply with obligations under the Income Tax Act, including those who fail to file information returns as and when required. This penalty is calculated as the greater of $100 per failure and $25 times the number of days, not exceeding 100, during which the failure continues.

This penalty will be reduced, so that taxpayers who fail to file electronically under the electronic information return requirements, or who file information returns late, are not unduly penalized. The penalties will be calculated based on the number of any particular type of information return that is filed in the incorrect format or that is filed late.

This will apply to information returns required to be filed after 2009.

4. Arrivals Duty Free

The Government will undertake consultations with stakeholders and provinces on the desirability of implementing an Arrivals Duty-Free program at Canada's international airports.

5. Aboriginal Tax Policy

The Government is willing to discuss and to put into effect direct taxation arrangements with interested Aboriginal governments.

6. Tariff Reductions on Machinery and Equipment

Budget 2009 proposes to eliminate tariffs on a range of machinery and equipment. The reductions apply to 214 tariff items as currently listed in the Schedule to the Customs Tariff.

Budget 2009 also proposes that a number of tariff items be revoked and replaced by more general tariff items.

The tariff reductions are effective in respect of goods imported into Canada on or after January 28, 2009.

E. Previously Announced Measures

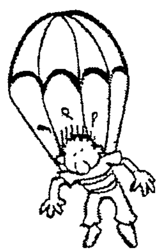
Budget 2009 confirms the Government's intention to proceed with the following previously announced tax measures, as modified to take into account consultations since their release:

- measures included in the Notice of Ways and Means Motion tabled on November 28, 2008, including the reduced 2008 minimum withdrawal amounts in respect of Registered Retirement Income Funds and variable benefits under a Registered Pension Plan;
- draft amendments released on November 10, 2008 relating to Functional Currency Tax Reporting;
- extension of the 2008 deadline for Registered Disability Savings Plan contributions, announced on December 23, 2008;
- modifications to the provisions relating to amateur athletic trusts, announced on December 29, 2008;
- improvements to the application of the GST/HST to the financial services sector announced on January 26, 2007; and
- modifications to the Customs Tariff to implement the results of GATT Article XXVIII negotiations regarding milk protein concentrates, announced on June 12, 2008.

F. Improving Access to Financing

Budget 2009 confirms the Government's intention to proceed with the following previously announced tax measures, as modified to take into account consultations since their release:

- committing an additional $50 billion to the Insured Mortgage Purchase Program,
- delivering $13 billion in additional financing by increasing the flexibility and capacities of the financial Crown corporations, the Canada Mortgage and Housing Corporation, Export Development Canada, and the Business Development Bank of Canada,
- increasing the maximum eligible loan amount a small business can access under the Canada Small Business Financing Program,
- creating the Canadian Secured Credit Facility, with up to $12 billion to support financing of vehicles and equipment for consumers and businesses,
- extending the deadline for issuing guaranteed instruments under the Canadian Lenders Assurance Facility, and
- establishing a new Canadian Life Insurers Assurance Facility to guarantee wholesale term borrowings for life insurers, modeled on the Canadian Lenders Assurance Facility.



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