

February 26, 2008 FEDERAL BUDGET TAX HIGHLIGHTS **February 19, 2008 B.C. BUDGET TAX HIGHLIGHTS**

The highlights of the **proposed** tax changes from the recent Federal and B.C. budgets are outlined below.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. Please contact our tax group if you have any questions on the impact of these proposed changes.

INDIVIDUALS

Tax-Free Savings Accounts (“TFSA”) – 2008 Federal Budget

- Starting in 2009, Canadian resident individuals 18 years of age and older can contribute up to \$5,000 annually to their TFSA. Contributions will not be deductible; however, any income or gains earned and all withdrawals will not be taxable.
- Interest on money borrowed to make contributions will not be deductible.
- The \$5,000 annual contribution limit will be indexed to inflation. Unused contribution room can be carried forward indefinitely and any withdrawals of previous contributions will be added to the contribution room for the following year effectively allowing for re-contribution to the account.
- The TFSA can generally hold the same qualified investments as Registered Retirement Savings Plans (RRSPs); however, investments in non-arm’s length entities will not be permitted.
- An individual can use funds provided by his or her spouse to make a contribution and any income earned will not attribute to the spouse.

Mineral Exploration Tax Credit for Flow-Through Shares – 2008 Federal Budget

- The mineral exploration tax credit equals 15% of specified mineral exploration expenses incurred in Canada. The budget extends the credit by one year to flow-through share agreements entered into before April 1, 2009. Therefore, the credit is available for expenditures that are incurred before 2010, or in 2010 pursuant to the "look-back" rules.

Donations – 2008 Federal Budget

- The budget proposes to eliminate tax on capital gains realized on the exchange of unlisted shares and partnership units for publicly traded securities if the publicly traded securities are then donated within 30 days of the exchange. The unlisted securities must include, at the time of issuance, a condition allowing them to be exchanged for publicly listed securities.
- This change applies to donations made on or after February 26, 2008.



2008 FEDERAL AND B.C. BUDGET TAX HIGHLIGHTS

Dividends

- As a result of recently enacted federal corporate income tax rate reductions, the 2008 Federal Budget adjusts the dividend gross-up factor and the dividend tax credit rate for eligible dividends starting in 2010. These adjustments are intended to ensure that the combined corporate and personal tax on business income earned through a corporation is roughly equal to the tax payable by an individual earning the income directly.
- Effective January 1, 2009, B.C.'s dividend tax credit rates on eligible and non-eligible dividends will be reduced to reflect the 1% reduction in both the general and small business corporate income tax rates.
- The combined top federal and B.C. tax rate on Canadian dividends will be:

Taxation year	Eligible Dividends	Non-Eligible Dividends
2007 and 2008	18.47%	31.58%
2009	19.92%	32.71%

Other Personal Tax Changes

2008 Federal Budget:

- **Registered Education Savings Plans (“RESPs”)** – The number of years for which contributions can be made after a plan is entered into is extended to 31 years (from 21 years), and to 35 years (from 25 years) for plans of beneficiaries eligible for the disability tax credit. The deadline for terminating the plan is the year that includes the plan's 35th anniversary (formerly 25th anniversary), or 40th anniversary (formerly 30th anniversary) for plans of beneficiaries eligible for the disability tax credit. No contributions will be allowed for family plans for beneficiaries 31 years of age or older (up from 21 years of age or older).
- **Medical Expense Credit** – Commencing 2008, the budget expands the list of expenses eligible for the medical expense tax credit. In addition, the budget clarifies the medical expense tax credit provisions to ensure that after February 26, 2008, vitamins, supplements and other drugs that can be purchased without a prescription will be ineligible for the credit even if prescribed by a medical practitioner.

2008 B.C. Budget:

- **B.C. Personal Tax Rates** – for 2008, the lowest personal rate will drop to 5.24% (from 5.35%) for taxable income up to \$35,016 (indexed to inflation), and to 5.06% for 2009 and later years. The second lowest rate will drop to 7.98% (from 8.15%) for taxable income from \$35,017 to \$70,033 (indexed to inflation), and to 7.70% for 2009 and later years.
- **Climate Action Dividend** – The government proposes to allocate some of its current fiscal surplus to pay a one-time “Climate Action Dividend” of \$100 to each person resident in B.C. on December 31, 2007. Most British Columbians should expect to receive their one-time payment in June 2008.
- **Climate Action Tax Credit** – To assist low-income individuals, the government proposes to introduce a new climate action tax credit of up to \$100 per adult and \$30 per child annually, to be paid together with GST credit payments, starting in July 2008. The credit will not be available to individuals earning more than \$35,000 annually and families earning more than about \$45,000 annually.

2008 FEDERAL AND B.C. BUDGET TAX HIGHLIGHTS

BUSINESS

CCA Rate Increases – 2008 Federal Budget

- The budget proposes various CCA rate increases and program extensions relating to manufacturing and processing machinery, clean energy generation equipment, carbon dioxide pipelines, and related pumping and compression equipment.

Scientific Research and Experimental Development (“SR&ED”) – 2008 Federal Budget

- The budget proposes to issue an improved claim form and guide in addition to enhancing the tax incentives to SR&ED for medium-sized Canadian controlled private corporations (CCPCs) by:
 - increasing the maximum qualified expenditures on which investment tax credits (ITCs) can be earned at the enhanced rate of 35% to \$3 million (from \$2 million),
 - increasing the upper phase-out limit for prior-year taxable income for accessing the enhanced ITC rate to \$700,000 (from \$600,000), and
 - increasing the upper phase-out limit for prior-year taxable capital to \$50 million (from \$15 million).
- **SR&ED carried on outside Canada** — Eligibility for SR&ED ITCs is extended to eligible salaries and wages in respect of Canadian-resident employees carrying on SR&ED activities outside Canada, provided those activities are directly undertaken by the taxpayer and done solely in support of SR&ED carried on by the taxpayer in Canada. Eligible salary and wages will be limited to 10% of the taxpayer’s total SR&ED salary and wages carried on in Canada in the year. This measure applies to salary and wages incurred on or after February 26, 2008 (prorated for tax years straddling that date).

Corporate Income Tax – 2008 B.C. Budget

- **Corporate income tax rate reductions** – To help make the carbon tax revenue neutral, the government proposes to reduce the general corporate tax rate to 11% (from 12%), as of July 1, 2008, with further possible reductions as shown below.

General Active Business Rates						
	2007	2008	2009	2010	2011	2012
Federal rate	22.12%	19.50%	19.00%	18.00%	16.50%	15.00%
B.C. rate	12.00%	11.50%	11.00%	10.50%*	10.00%*	10.00%*
Total rate – B.C.	34.12%	31.00%	30.00%	28.50%	26.50%	25.00%
* Planned reduction; assumes calendar year.						

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The small business corporate rate will drop to 3.5% (from 4.5%) as of July 1, 2008, with further planned reductions as shown below.

Small Business Rates						
	2007	2008	2009	2010	2011	2012
Federal rate	13.12%	11.00%	11.00%	11.00%	11.00%	11.00%
Provincial rate	4.50%	4.00%	3.50%	3.00%*	2.50%*	2.50%*
Total rate	17.62%	15.00%	14.50%	14.00%	13.50%	13.50%
* Planned reduction; assumes calendar year.						

Film Tax Credits – 2008 B.C. Budget

- The budget proposes changes to increase regional film tax credit rates for certain regions outside the Lower Mainland and to tighten the definition of “B.C.-resident individual” for purposes of determining eligibility for the province’s film tax credits. Both changes have effect for film productions starting principal photography after February 19, 2008.

OTHER TAX CHANGES

B.C.’s New Carbon Tax

- Effective July 1, 2008, the B.C. government proposes to introduce a tax on the purchase or use of fossil fuels including gasoline, diesel fuel, natural gas, home heating fuel, propane and coal. The carbon tax will operate as a consumption tax like the motor fuel tax and the provincial sales tax. The B.C. government intends for the carbon tax to be revenue neutral and is proposing various business and personal tax reductions to offset the revenue anticipated to arise from the carbon tax.

Carbon Tax Rates * : July 1, 2008 and July 1, 2012		
Type of fuel	Rate as of July 1, 2008	Target rate as of July 1, 2012
Gasoline	2.41 cents/litre	7.24 cents/litre
Diesel fuel	2.76 cents/litre	8.27 cents/litre
Natural gas	49.88 cents / gigajoule	149.64 cents / gigajoule
* Partial listing of carbon tax rates		

B.C. Property Tax and Home Owner Grants

- Property Transfer Tax** – Effective for registrations after February 19, 2008, the fair market value threshold for eligible residential property under the First Time Home Buyers’ Program will be increased to \$425,000 (from \$375,000). In addition, first-time buyers are no longer required to have registered financing to be eligible for the exemption.
- Home Owner Grant** – For the 2008 and subsequent taxation years, the threshold for the phase-out of the home owner grant is increased to \$1,050,000 of assessed value (from \$950,000).