



2011 Budgets – Measures Affecting Your Business

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All of the 2011 provincial, territorial, and federal Budgets have been tabled over the past few months. There are measures across all jurisdictions which may impact your business tax planning for the next few years, which are noted below.

Even though the federal Budget died on the table after the collapse of the government on March 25th, 2011, there are still a few resolutions that are worth noting, as they may be reintroduced by the next federal government. Most provincial Budgets were minor, with little or no new tax measures or tax changes introduced. There were no new tax measures or tax changes in Prince Edward Island, the Northwest Territories, Nunavut, or the Yukon.

Federal

The federal Budget tabled on March 22, 2011 contained several resolutions in the Income Tax Notice of Ways and Means Motion, relating to avoidance issues or perceived abuses which will likely be reintroduced by the next government.

Resolution 40 targets an exception to

the stop-loss rules on the disposition of shares on which a tax-free dividend was received. The exception applies if (i) the share is held by the shareholder for 365 days or more; and (ii) the shareholder (together with all persons who do not deal at arm's length with the shareholder) owns 5% or less of the class of shares upon which the dividend is received. Resolution 40 proposes to narrow the existing exception and thus broaden the application of the stop-loss rules to any deemed dividend arising on the redemption of shares held by a corporation (whether the shares are held directly or indirectly through a partnership or trust).

Resolution 41 of Budget 2011 proposes to completely eliminate the tax deferral opportunities for a corporate partner that holds a "significant interest" in a partnership, effective for taxation years of corporate partners that end after March 22, 2011.

British Columbia

Despite the previous announcement to reduce the small business rate to 0% by April 1, 2012, there were no substantial business measures introduced in the 2011 Budget tabled on February 15, 2011. Effective February 16, 2011, a credit was provided for blends of biomethane and natural gas sold under qualifying contracts by registered retail dealers of natural gas. Eligible purchasers will receive the credit on their natural gas bills.

Manitoba

The Budget was presented on April 12, 2011. A new 15% refundable Cultural Industries Printing Tax Credit was introduced for Manitoba printers. The credit is based on eligible printing costs incurred and paid after April 12, 2011 and before 2015, in the production of eligible books.

The Budget also introduced a new 30% Neighbourhoods Alive! Tax Credit, available to corporations who partner with charitable organizations to establish new social enterprises, including hiring hard-to-employ Manitobans facing multiple barriers to employment. Eligible donations must be made after April 12, 2011 and before 2020. The maximum credit will be \$15,000 per year, based on a minimum \$50,000 donation. Although the credit is non-refundable, unused credits can be carried forward up to ten years, or carried back up to three years, but no earlier than a tax year ending after April 12, 2011.

The Green Energy Equipment Tax Credit for manufacturers and purchasers of geothermal heat pumps will increase from 5% to 7.5%. The purchaser's tax credit for other geothermal heating equipment will also increase from 10% to 15%. These rate increases are effective for installations after April 12, 2011.

The Book Publishing Tax Credit, which was scheduled to expire at the end of 2011, will be extended to December 31, 2014. The tax credit will also be expanded to include non-refundable monetary advances and labour costs related to publishing electronic or digital versions of eligible literary works. In addition, the bonus for eligible books printed on recycled paper will be increased from 10% to 15%. These changes apply to printing expenses incurred and paid after April 12, 2011.

The Manufacturing Investment Tax Credit, which was scheduled to expire at the end of 2011, will be extended to December 31, 2014. In addition, taxpayers will be able to file an income tax election allowing them to renounce the credit, in whole or in part.

The Odour Control Tax Credit, which was also scheduled to expire at the end of 2011, will be extended to December 31, 2014. Taxpayers will also be able to renounce this credit, in whole or in part, by filing an income tax election.

The Budget introduced a capital tax exemption for banks and trust and loan corporations with taxable paid up capital under \$4 billion. The exemption is effective for fiscal years ending after April 12, 2011.

A number of temporary tax credits, which were scheduled to expire before the next budget, have been extended. More specifically, the Community Enterprise Development Tax Credit has been extended until December 31, 2014, several components of the Co-op Education and Apprenticeship Tax Credits have been extended until December 31, 2014, and the Mineral Exploration Tax Credit has been extended to flow-through share agreements entered into before April 1, 2015.

New Brunswick

On March 22, 2011, the Budget announced that effective July 1, 2011, the general corporate income tax rate will fall to 10%. The rate was scheduled to decrease annually until reaching 8% in 2012, but this plan was cancelled. Effective January 1, 2012, the small business corporate income tax rate will be reduced from 5% to 4.5%. The Budget also announced the phasing out of the New Brunswick Film Tax Credit in 2011-2012.

Newfoundland and Labrador

The Budget announced on April 19, 2011 that there would be no changes to income tax measures. Effective January 1, 2011, the payroll exemption threshold was raised from \$1 million to \$1.2 million. Approximately \$175 million will be spent in future business development programs and services. The Budget also outlined a multi-year plan for economic growth and stimulus.

Nova Scotia

The Budget was presented on April 5, 2011. The Budget reduced the rate of corporate income tax for small businesses from 4.5% to 4%, effective January 1, 2012, applicable on the first \$400,000 of taxable income. On July 1, 2011, the Large Corporations Tax on Capital of non-financial institutions will be reduced from 0.1% to 0.05% per the measures announced in the 2006-2007 Budget, with the elimination of the tax effective on July 1, 2012.

Ontario

The Budget, tabled on March 29, 2011, contained a proposal to extend the eligibility period for marketing expenditures qualifying for the Ontario Book Publishing Tax Credit (OBPTC), to a period beginning one year before and ending one year after the date of publication. Under current credit provisions, qualifying expenditures must be incurred within 12 months of the date of publication of an eligible work. The OBPTC provides a 30% refundable tax credit to Ontario book publishing corporations for qualifying expenditures incurred in the publication and promotion of eligible works written by Canadian authors. This proposed change to the eligibility period for qualifying marketing expenditures is to be effective for expenditures incurred after March 29, 2011.

Quebec

The Budget was presented on March 17, 2011. A new refundable tax credit was introduced of up to 15 cents/litre for a period beginning on March 18, 2011 and ending on March 31, 2018 for the production of cellulosic ethanol. The credit applies to an eligible corporation which produces eligible cellulosic ethanol in Quebec from renewable materials other

than kernel corn, eligible and sold in Quebec. The new refundable tax credit will parallel the existing refundable tax credit for the production of ethanol.

The parameters of the refundable tax credit for book publishing will be changed in order for the credit to apply to a digital version of an eligible book or a book that is part of an eligible group of books of a corporation. Also, the base of the credit will be extended to include the labour expenditure attributable to the digital version's publishing expenses of an eligible book or a book that is part of an eligible group of books. The amendments apply after March 17, 2011.

The parameters of the refundable tax credit for sound recording production will be expanded to include a sound recording sold in a format other than on a physical medium, such as a downloadable file. The amendment will apply to a sound recording for which an initial application for an advance ruling, or an application for a certificate where no application is filed, is filed with SODEC after March 17, 2011.

Many amendments will be made to the legislation governing investment corporations which support the demands of the development of Quebec entities. Some of the changes include the recognition of investments made for business

succession, better recognition of investments in local venture capital funds, a rise in the strategic investments limits, changes to the definition of major investments made by the Fonds de solidarité FTQ and an increase in the available capital of the Capital régional et coopératif Desjardins.

Saskatchewan

On March 23, 2011, the Budget announced that the small business corporate income tax rate will be reduced from 4.5% to 2%, effective July 1, 2011. The dividend tax credit on dividends received from small business corporations will be reduced from 6% to 5% for 2011 and to 4% in 2012. The government also announced the change in treatment of smaller financial institutions subject to capital tax on financial institutions. The Budget will convert the threshold to a tax bracket, effective for taxation years ending on or after October 31, 2009, for all financial institutions that have previously qualified for the lower rate. Under the new rules, smaller financial institutions will pay capital tax at a rate of 0.7% on the first \$1.5 billion of taxable capital and 3.25% on taxable capital above that threshold.