TAXTICS

February 2008

2008 Federal Budget

Finance Minster Jim Flaherty tabled the Conservative Government's third full budget on February 26th, 2008. The budget proposals are somewhat modest when compared with those of prior years, perhaps reflecting current economic uncertainty. Liberal Leader Stéphane Dion, although critical of the budget, indicated that there was not enough in the budget to justify an early election.

Tax-free Savings Account (TFSA)

To improve the taxation of savings, Budget 2008 proposes to introduce the TFSA. Starting in 2009, individuals over 18 years of age will acquire $5,000 of TFSA contribution room each year. The $5,000 limit will be indexed to inflation and unused contribution room will be carried forward indefinitely.

Contributions to a TFSA will not be deductible in computing income for tax purposes. Investment income earned within a TFSA, as well as amounts withdrawn, will not be included in computing income for tax purposes or taken into account in determining eligibility for income-tested benefits.

Amounts withdrawn, which can be for any purpose, from an individual's TFSA in a year, will be added to the individual's contribution room for the following year. This will give individuals who access their TFSA savings the ability to re-contribute an equivalent amount in the future.

An individual can take advantage of the TFSA contribution room available to them using funds provided by their spouse without having to worry about the attribution rules on investment income.

quotes…

"In many ways, a Tax-Free Savings Account is like an RRSP for everything else in your life."

Jim Flaherty, Finance Minister

"I'd give it a B-plus"

Kevin Dancey, President of the Canadian Institute of Chartered Accountants

"one mile wide and one inch deep"

Stéphane Dion, Liberal leader

"There aren't significant gains for Quebec in this budget"

Gilles Duceppe, Bloc leader

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Eligible Dividends

Budget 2008 proposes to adjust the dividend gross-up factor and dividend tax credit rate for eligible dividends as follows to reflect the federal corporate income tax rate reductions from 19% in 2008 to 15% by 2012. This serves to integrate the personal and corporate tax systems at the federal level on income taxed at the general corporate rate.

	2008	2009	2010	2011	2012
Existing:					
Enhanced DTC	19	19	19	19	19
Gross-Up	45	45	45	45	45
Proposed:					
Enhanced DTC	19	19	18	16.5	15
Gross-Up	45	45	44	41	38

Extending Assistance for Canada's Manufacturing Sector

In recognition of the exceptional circumstances facing the manufacturing sector, Budget 2007 announced a temporary two-year 50-per-cent straight-line accelerated CCA rate for investment in manufacturing or processing machinery and equipment undertaken before 2009. This temporary measure provides an incentive for manufacturing and processing businesses to accelerate or increase capital investments.

Budget 2008 proposes to extend accelerated CCA treatment for investment in machinery and equipment in the manufacturing and processing sector for three additional years. This will include a one-year extension of the 50-per-cent straight-line accelerated CCA treatment, followed by a two-year period during which the accelerated treatment will be provided on a declining basis.

Scientific Research and Experimental Development Tax Incentive Program

Small businesses can face challenges in accessing capital to finance their R&D investments. Enhanced benefits that are available to small and medium-sized businesses are phased out at rather modest levels of taxable capital and taxable income. The budget proposes measures to address these issues. Several administrative changes are also proposed.

Late Remittances of Source Deductions

Currently, the Income Tax Act provides that, if a remittance is late, the remitter must pay a penalty equal to 10 per cent of the amount required to be remitted, or 20 per cent if the failure to remit is made knowingly or in circumstances that amount to gross negligence.
The penalty applies in full even if the remittance is only one day late. In addition, interest is charged on both until the remittance and the related penalty are paid.

In 2003, the Canada Revenue Agency (CRA) created a "pilot project" for payroll remittances that replaces the 10 per cent fixed penalty with a graduated penalty ranging from 3 per cent to 10 per cent of the amount required to be remitted, depending on the lateness of a remittance.

The government proposes to enact the graduated penalty regime described above, effective for remittances that are due on or after February 26, 2008.

Mandatory Remittances of Source Deductions to Financial Institutions

Large remitters are subject to the existing penalties described above if they fail to remit their withholdings directly to a financial institution.

The enforcement of the mandatory financial institution remittance requirement has resulted in certain unintended effects. In particular, remitters may be penalized for remitting their withholdings directly to the CRA, even if they do so well before the due date—in which case there will ordinarily be no question of delay arising with respect to the deposit in the Government's account.

In response, the government is proposing that a remittance that is received by the CRA at least one full day before the due date will be considered to be in compliance with the requirement that it be remitted to a financial institution. The graduated penalties regime described above will also apply to late remittances under this rule. These changes apply to remittances due on or after February 26, 2008.