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2011 Federal Budget March 22, 2011

Highlights



The Honourable Jim Flaherty, Minister of Finance, today tabled a budget plan that launches the Next Phase of Canada's Economic Action Plan. This is Minister Flaherty's sixth budget in a minority parliament. It has been widely speculated that this budget and other issues

will cause the government to fall leading to a federal election in early May. Should that happen the matters included in the budget may not become law until after the election, if ever.

This is a relatively complex budget, and both tax and non-tax measures have been introduced. This release is not intended to be a complete analysis of the budget, however, it can be used as a starting point in discussions with professional advisors. Tax rates have not been increased, however, it is complex because several "loopholes" have been either closed or have become much more restrictive. Some incentives introduced for businesses are applicable to very few businesses. Many personal tax and some non-tax measures have been introduced which encourage specific activities or to assist individuals and /or their caregivers who are elderly, disabled, or attempting to improve their prospects for employment.



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Succeeding Together

DNTW is a firm of Chartered Accountants with offices in principal cities across Canada. Our clients include individuals, non-profit organizations, small public companies, and owner-managed businesses. Our clientele operate in a variety of industries.

Our firm is new on the national horizon, however, our individual offices have a long history dating back as early as 1912 with staff having many years of experience providing accounting and tax solutions for our clients. Working together we are able to offer our clients the resources of a national firm with all of the benefits associated with local offices.

At Your Service

DNTW provides a wide variety of professional services designed for our clientele. Whether you operate a sole proprietorship, a small to mid-size company, a public company, or just need your personal taxes completed, we provide the value-added services to meet your specific needs. The services available to our clients go above and beyond basic accounting and taxation issues. At DNTW we also provide you with assurance on your financial situation, business decision making assistance, and accounting software help.

Each DNTW office offers a no cost, no commitment conference where together, we determine your needs and how we might best address those needs for you.

Solutions tailored for you

As you know, tax impacts almost every major business decision you will make. While there are many traps and pitfalls in our current taxation environment, there are often opportunities present as well.

At DNTW our approach is to provide integrated tax advice to our clients with an emphasis on tax planning and services customized to meet your needs. We keep you up to date with the latest tax changes that affect you

Many of the measures are listed below and explained briefly later in this release.

Business Income Tax Measures

- Manufacturing and Processing Sector: Accelerated Capital Cost Allowance
- Clean Energy Generation Equipment: Accelerated Capital Cost Allowance
- Qualifying Environmental Trusts
- Intangible Capital Expenses in Oil Sands Projects
- Stop-Loss Rules on the Redemption of a Share
- Partnerships – Deferral of Corporate Tax
- Mineral Exploration Tax Credit

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- Recover Tax Assistance for Returned Gifts

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- Canada Student Loans and Grants
- Forgiving Loans for New Doctors and Nurses in Under-Served Rural and Remote Areas



The budget includes a number of matters that will affect business including the following.

Corporate tax rate

While there were no new corporate rate reductions announced, the minister confirmed previous initiatives would be continued. The enacted Canadian federal corporate income tax rates are summarized below.

	2011	2012
General corporate rate	16.5%	15%
Small business rate	11%	11%

Corporate Partnerships

The income or loss of a partnership is allocated to its partners, who include the amount in calculating their own taxable income. Under current tax rules, income earned by a corporation as a member of a partnership is included in the corporation's income for the corporate taxation year in which the fiscal period of the partnership ends. If a corporation carries on a business through a partnership that has a fiscal period that ends after the end of the corporation's taxation year, taxation of the partnership earnings can be deferred by up to one year. This tax deferral can be multiplied several times through the use of a tiered structure. The budget proposes to

force corporations to eliminate this tax deferral. Some transitional relief is provided over a five year period where the income inclusion in the first year following the budget would result in the inclusion of significant incremental partnership income.

M&P Accelerated Capital Cost Allowance (CCA)

Machinery and equipment acquired by a taxpayer, after March 18, 2007 and before 2012, primarily for use in Canada for the manufacturing or processing of goods for sale or lease is currently eligible for a temporary accelerated CCA rate of 50% on a straight line basis (subject to the application of the "half-year rule") under Class 29. The budget proposes to extend this temporary incentive, for two years, to eligible machinery and equipment acquired before 2014. Thereafter, such equipment will be required to be included in Class 43 for which a 30% declining balance CCA rate applies.

Clean Energy – Accelerated CCA

Class 43.2 provides for accelerated CCA of 50% on a declining balance basis for specified clean energy and conservation equipment. The budget proposes to expand Class 43.2 to include equipment that generates electricity using waste heat.

Stop-Loss Rules Extended

Generally, a corporation is entitled to a deduction that offsets the corporation's income inclusion in respect of dividends received by it from taxable Canadian corporations. The rules that implement this deduction are complemented by "stop-loss rules", which reduce the amount of a loss otherwise realized by a corporation on a disposition of shares by the amount of certain dividends received prior to the disposition. The budget proposes to extend the application of these stop-loss rules to eliminate what amounted to a double deduction under the existing rules.

EI Credit – Small business

The budget provides a one-time Hiring Credit for Small Business of up to \$1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010. This new credit will be only be available to employers whose total EI premiums were at or below \$10,000 in 2010.

Mineral Exploration Tax Credit

The mineral exploration tax credit is available to eligible taxpayers who invest in flow-through shares, equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. The budget proposes to extend eligibility for the credit for one year, to flow-through share agreements entered into on or before March 31, 2012.

Qualifying Environmental Trusts ("QET")

Certain regulatory regimes require the operator of a mine, quarry or waste disposal site to pre-fund, by means of a trust, the costs of reclaiming or restoring the site. Under existing rules contributions to a QET are deductible, withdrawals are taxable and the

income of the QET is taxed at the trust level. The budget proposes to expand the list of trusts that qualify for this treatment to include certain Pipeline Trusts that are established in the context of pipeline abandonment.

Intangible Capital Expenses in Oil Sands Projects

In the conventional oil and gas sector, the cost of acquiring rights to explore for, drill or extract oil or natural gas, or to acquire an oil or natural gas well or other resource property, is treated for tax purposes as Canadian oil and gas property expense (COGPE). COGPE is deductible at the rate of 10% per year on a declining balance basis. By contrast, the cost of acquiring oil sands leases and other oil sands resource property generally can be treated as Canadian development expense (CDE), which is deductible at the rate of 30% per year on a declining balance basis. The budget proposes that the cost of oil sands leases and other oil sands resource property be treated as COGPE and thus be eligible for deduction at 10% per year.

Development expenses incurred for the purpose of bringing a new oil sands mine into production in reasonable commercial quantities are treated as Canadian exploration expense (CEE), which can be deducted in full in the year incurred. Similar expenses in conventional oil and gas wells are treated as CDE. The budget proposes to treat the oil sands development expenses as CDE.

Transitional relief is provided for those companies that are adversely affected by these changes.





Guaranteed income Supplement (GIS) Top Up

Effective July 1, 2011, seniors with little or no income other than Old Age Security (OAS) and the GIS will receive additional annual benefits of up to \$600 for single seniors and \$840 for couples. Single recipients with an annual income (other than the OAS and the GIS) of \$2,000 or less, and couples with an annual income of \$4,000 or less, will receive the full amount of the benefit. Above these

income thresholds, the amount of the top-up will be gradually reduced and will be completely phased out at an income level of \$4,400 for singles and \$7,360 for couples.

Children's Arts Tax Credit

A non-refundable 15% tax credit will be available for a wide range of activities that contribute to a child's development, and that are not eligible for the Children's Fitness Tax Credit. The credit will be provided on up to \$500 of eligible fees per child in respect of qualifying children's programs, and will otherwise be based on eligibility conditions for the Children's Fitness Tax Credit. In this regard, the credit will be available for children under the age of 16 years for registration costs associated with participation in qualifying supervised activities. In respect of children eligible for the Disability Tax Credit, the age limit will be raised by two years and the credit can be claimed on additional \$500 of expenditures.

Volunteer Firefighters Tax Credit

The budget announces a 15-per-cent non-refundable Volunteer Firefighters Tax Credit on up to of \$3,000 of expenses incurred by volunteer firefighters. This credit will be available to volunteer firefighters who perform at least 200 hours of service for their communities during a year. Eligible volunteer firefighters who currently receive honoraria in respect of their duties as volunteer firefighters will be able to choose between the new tax credit and continuing to be entitled to the existing tax exemption of up to \$1,000 for honoraria.

Family Caregiver Tax Credit

Beginning in 2012, a tax credit to caregivers of dependants with a mental or physical infirmity, including spouses, common-law partners and minor children will be available. This 15-per-cent non-refundable credit will be based on an amount of \$2,000. Where the dependant is a minor, this credit will only be available if the dependant is likely to be, for a long and continuous period of indefinite duration, dependent on others for significantly more care and assistance, when compared generally to persons of the same age. This test will apply to dependants who are under 18 years of age at the end of the year and who are claimed for purposes of the Child Tax Credit or the Eligible Dependant Credit.

Medical Expense Tax Credit for Other Dependents

Caregivers may also claim the Medical Expense Tax Credit in respect of eligible expenses incurred in respect of a “dependent” relative if the caregiver pays medical or disability related expenses of the dependent relative. For this purpose, a “dependent” relative is defined as a child who is 18 years of age or older, or a grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew, who is dependent on the taxpayer for support. This credit existed before but has been enhanced because the amount of eligible expenses is no longer limited to \$10,000.

Child Tax Credit Eligibility

This amendment permits, where there are effectively two or more families living in the same residence (example is two sisters, each with children under 18), both families to claim a child tax credit.

Tuition Tax Credit – Examination Fees

This change allows the Tuition Tax Credit to recognize fees paid to an educational institution, professional association, provincial ministry or other similar institution to take an examination that is required to obtain a professional status recognized by federal or provincial statute, or to be licensed or certified in order to practice a profession or trade in Canada.

Ancillary fees and charges paid in respect of occupational, trade or professional examinations will also be eligible for the credit. Eligible ancillary fees could include the cost of examination materials used during the examination, such as identification cards that must be purchased and worn on examination day and certain prerequisite study materials.

Eligible ancillary fees and charges will not include costs for travel, parking, equipment (such as lab coats, calculators, computers or other items of enduring value), or other costs that are currently ineligible for the Tuition Tax Credit.

Education Tax Measures – Study Abroad

Many programs at foreign universities are based on semesters shorter than 13 weeks, with the result that many Canadian students are denied tax recognition of education costs that would otherwise be eligible for the credits or are denied access to Educational Assistance Payments from a Registered Education Savings Plan (RESP). The budget proposes to reduce the minimum course-duration requirement to 3 weeks.

RESPs – Asset Sharing Among Siblings

To provide subscribers of separate individual plans with the same flexibility to allocate assets among siblings as exists for subscribers of family plans, the budget proposes to allow transfers between individual RESPs for siblings, without tax penalties and without triggering the repayment of Canada Education Savings Grants (CESG), provided that the beneficiary of a plan receiving a transfer of assets had not attained 21 years of age when the plan was opened. This will allow transfers of

amounts between siblings where people other than parents or grandparents contributed to the plans, for example, uncles and aunts.

RDSPs – Shortened Life Expectancy

An beneficiary of a Registered Disability Savings Plan (RDSP) who is considered to have a shortened life expectancy under current rules will be eligible for more flexibility to withdraw funds. These rules require a medical doctor to certify in writing that the beneficiary's state of health is such that, in the doctor's opinion, the beneficiary has a life expectancy of five years or less. Under the new rules, the taxpayer may, subject to filing the appropriate election, receive more income than would normally be permitted from the plan without triggering the repayment of Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) received as contributions were made to the plan.

RRSPs – Anti-Avoidance Rules

The rules in this area have been enacted to tax income from, and to prohibit certain investments from being acquired by a Registered Retirement Savings Plan (RRSP). Such investments are subject to a 50% tax which may be recoverable in certain circumstances. Income from such investments is also taxable.

Individual Pension Plans (IPPs)

Significant changes to these plans will greatly reduce the amount which can be contributed to an IPP and the ability to defer income using IPPs.

“Kiddie” Tax on Split Income – Extended to Some Capital Gains

In order to address complex tax planning approaches, the tax on split income will be extended to transactions involving capital gains of a minor child on the sale of shares of a corporation to a person who does not deal at arm's length with the child if dividends on those shares would be subject to the tax on split income.



Charity Matters - Administration

There are administrative procedures put into place to better define requirements for the Charitable Sector, including organizations which are not registered charities but are able to issue charitable receipts. This has greatly increased CRA's ability to take action where organizations are susceptible to activities which would not commonly be seen as fair by the general public.

Recovery of Tax Assistance for Returned Gifts

On occasion a charity, or other qualified donee, returns donated property to a donor. To ensure that donation tax credit or deduction is not improperly retained by the donor, the budget proposes to permit reassessments to disallow a donor's claim for a credit or deduction, as the case may be, where property is returned. Other consequential adjustments may also be required.

Gifts of Non-Qualifying Securities

Where a taxpayer has donated a non-qualifying security to a charity or other qualified donee, the budget proposes to defer any charitable tax credit or deduction until such time, within five years of the donation, as the charity disposes of the non-qualifying security.

Granting of Options to Qualified Donees

The budget proposes that the Charitable Donations Tax Credit not be available to a taxpayer in respect of the granting of an option to a qualified donee to acquire a property of the taxpayer until such time that the donee acquires property of the taxpayer that is the subject of the option. The taxpayer will be allowed a credit or deduction at the time of acquisition by the donee based on the amount by which the fair market value of the property at that time exceeds the total of amounts, if any, paid by the donee for the option and the property. Consistent with previously proposed measures concerning split receipting, a Charitable Donations Tax Credit generally will not be available to the taxpayer if the total amount paid by the qualified donee for the property and the option exceeds 80% of the fair market value of the property at the time of acquisition by the donee. This measure will apply in respect of options granted on or after March 22, 2011.

Donations of Publicly Listed Flow-Through Shares

Prior to the budget, flow-through shares were treated as having a cost of zero. If the flow-through shares were donated to charity the result would often be that the investor could acquire the shares at little after-tax cost. The budget proposes to increase the cost of donated flow-through shares to take into account the original cost and prior capital gains in order to reduce the tax benefit resulting from the donation.

Agri-Québec

Québec has introduced a program to supplement the federal AgriInvest program that provides income stabilization for farmers. The budget proposes amendments to provide

Administrative Changes



the same income tax treatment for the Agri-Québec program as are currently provided under the federal AgriInvest program.

Canada Student Loans and Grants

The budget proposes to help full-time students to earn more money by doubling the in-study income exemption from \$50 per week to \$100 per week.

The eligibility threshold for loans will be increased and harmonized with the threshold used in calculating need for full-time students. For example, for a single, part-time student from Ontario, this means that the annual income threshold will increase from \$26,100 to \$40,235.

Forgiving Loans for New Doctors and Nurses in Under-Served Rural and Remote Areas

New Family Physicians will have up to \$40,000 in student loans forgiven and Nurses or Nurse Practitioners will have up to \$20,000 in student loans forgiven if they locate in an underserved rural or remote community.

Extension of the ecoENERGY Retrofit –Homes program

This is basically an extension of the current program which assists homeowners to make their homes more energy efficient.

