



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Summary of 2011 Key Budget Points for IIAC Members

The following summary draws from the federal government's "budget-in-brief", available online at <http://www.budget.gc.ca/2011/glance-aperçu/brief-bref-eng.html>.

The budget "...reaffirms the Government's plan to return to balanced budgets without raising taxes, cutting transfers to persons, including those for seniors, children and the unemployed, or cutting transfers to other levels of government that support health care and social services, Equalization, and the gas tax transfer to municipalities". This will be accomplished by:

- Identifying savings of over \$500 million annually from the 2010 round of strategic reviews which, with measures to restrain the growth of National Defence spending will result in more than \$2.8 billion in ongoing savings.
- Closing tax loopholes.
- Launching a further one-year Strategic and Operating Review aimed at improving the efficiency and effectiveness of government operations and programs to ensure value for taxpayer money.

The expiration of stimulus measures and the savings measures announced in this budget are expected to lower program spending from 16.0 % of gross domestic product (GDP) in 2009-10 to 12.9 % of GDP in 2015-16, in line with its pre-recession level. The federal debt is projected to decline to 29.7% of GDP in 2015-16, broadly returning to its pre-recession level.

The Budget forecasts a deficit of \$40.5 billion for 2011, decreasing to \$29.6 billion in 2012 and to \$19.4 billion in 2013, followed by a balanced budget in 2015 and a surplus that can be used to start reducing debt the year after.

The summary below focuses on portions of the Budget that may be of particular interest to IIAC members.

Proposed tax relief for Canadian business:

- Extending the temporary 15% Mineral Exploration Tax Credit for an additional year until March 31, 2012, which will support eligible exploration until the end of 2013.

- Extending the accelerated capital cost allowance treatment for investments in manufacturing and processing machinery and equipment for two years.
- Aligning deduction rates for intangible capital expenses in oil sands projects with rates in the conventional oil and gas sector.
- Reducing red tape to lessen the compliance burden on small businesses through the Red Tape Reduction Commission [*Note: IIAC has made representations to this commission to reduce unnecessary compliance costs for not only smaller but all IIAC members; they are largely in the tax reporting area*].
- Providing a temporary 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.
- Extending work-sharing agreements by up to 16 weeks so companies can avoid layoffs by offering EI benefits to workers willing to work a reduced work week while their company recovers.
- Renewing the Best 14 Weeks and Working While on Claim EI pilot projects for one year.
- Providing \$20 million over two years to help the Canadian Youth Business Foundation to support young entrepreneurs.
- Providing \$80 million in new funding over three years through the Industrial Research Assistance Program to help small and medium-sized businesses accelerate their adoption of key information and communications technologies through collaborative projects with colleges.

Improving registered savings and investment programs:

- Introducing anti-avoidance rules for Registered Retirement Savings Plans (RRSPs) matching (generally for effect after Budget Day) the advantage, prohibited investment, and non-qualified investment rules that apply to Tax-Free Savings Accounts (TFSA). [*Note: In discussions with Finance officials in the lock-up, it was noted that the industry may want to reconfirm the CRA's ruling regarding advantages for commission rebates*].
- Increasing flexibility to access Registered Disability Savings Plan (RDSP) assets for beneficiaries with shortened life expectancies (for effect after 2010) and following through on the commitment to review the RDSP in 2011. [*Note: The latter should allow IIAC to press for simplification of a number of measures*]
- Providing up to \$10 million a year in tax relief by allowing transfers between subscribers in individual plans of siblings with the same flexibility as for subscribers in family plans have for Registered Education Savings Plans (RESPs) and in assistance to Canadian post-secondary students who study abroad (for effect after 2010).
- Bringing Individual Pension Plan (IPPs) rules more in line with Registered Retirement Income Funds (RRIFs) for effect 2012 and subsequent years.
- Applying tax on split income (capital gains) on or after Budget Day in certain cases.
- Consulting on Employee Profit Sharing Plans (to the extent that they may be being used by some companies to void making Canada Pension Plan contributions).

- Making additional tax avoidance changes (e.g., with respect to deferral of corporate taxes by use of partnerships, the stop-loss rules on the redemption of a share).
- *[Note: No additional details regarding pooled registered pension plans were provided in the budget; Finance staff in the lock-up confirmed that no changes to eliminate payroll taxes on contributions to Group RRSPs had been announced but suggested that the IIAC make its representations in this regard to Finance in its upcoming submission on the PRPPs.]*

Strengthening the Canadian retirement income system:

- Enhancing the Guaranteed Income Supplement (GIS) for those seniors who rely almost exclusively on their Old Age Security and the GIS and may therefore be at risk of experiencing financial difficulties, providing a new top-up benefit of up to \$600 annually for single seniors and \$840 for couples, improving the financial security of more than 680,000 seniors across Canada.
- Changing federal rules to eliminate the mandatory retirement age for federally regulated employees.

Regarding the financial sector:

- Introducing legislation to reinforce the stability of Canadian housing finance and strengthen the mortgage insurance regime.
- Moving forward on the recommendations of the Task Force on Financial Literacy, and announcing the Government's intention to appoint a Financial Literacy Leader to promote national efforts.
- Enhancing consumer protection by banning unsolicited credit card cheques and developing measures related to network-branded prepaid cards.

For individual Canadians:

- Providing nearly \$870 million over two years (\$400 million in 2011/12) to address climate change and air quality, including extension of the ecoENERGY Retrofit – Homes program; more information will follow from the federal government.
- Introducing a new 15% non-refundable Family Caregiver Tax Credit on an amount of \$2,000 that will provide tax relief to caregivers of all types of infirm dependent relatives including spouses, common-law partners and minor children.
- Removing the limit on the amount of eligible expenses that caregivers can claim under the Medical Expense Tax Credit in respect of financially dependent relatives.
- Introducing a new 15% Children's Arts Tax Credit, provided on up to \$500 of eligible expenses for programs associated with children's artistic, cultural, recreational and developmental activities.
- Enhancing the Wage Earner Protection Program to cover more workers affected by employer bankruptcy or receivership.
- Extending the Targeted Initiative for Older Workers.

- Enhancing and expanding eligibility for the Canada Student Loan and Grant Program for part-time and full-time post-secondary students.
- Helping apprentices in the skilled trades and workers in regulated professions by making occupational, trade and professional examination fees eligible for the Tuition Tax Credit.
- Improving the regulatory framework of the charitable sector to give confidence to Canadians who make donations.

Other measures that had been announced before the budget are part of the Ways and Means Motion (e.g., GST/HST changes for financial services, increase in limits contributed to the Saskatchewan Pension Plan, foreign affiliate rules. Also referenced in the budget include: investing in innovation, education and training; a digital economy strategy; public safety, security and justice; protecting the environment; strengthening Canada's research advantage; fostering commercialization and business innovation; and sectoral initiatives aimed at the environment/clean energy, export development, infrastructure and forestry.

For the sports fans among us, \$5 million is being provided toward celebrating each of the 100th anniversaries of the Grey Cup and the Calgary Stampede.

Please refer to the Federal Budget for additional details:

<http://www.budget.gc.ca/march-mars-2011/home-accueil-eng.html>