FEDERAL BUDGET COMMENTARY 2011

Federal Finance Minister Jim Flaherty tabled his sixth Budget in the House of Commons on Tuesday, March 22, 2011, in a political atmosphere that was perhaps more tense and confrontational than at any time in recent Canadian history.

As expected based on pre-Budget statements, immediately following the Minister's speech both Liberal leader Michael Ignatieff and Bloc Quebecois leader Gilles Duceppe said their parties would reject the proposed Budget in Parliament. Somewhat less expected was that NDP leader Jack Layton also said his party would not support the Budget "as presented." Failing some compromise, Prime Minister Stephen Harper will likely be obliged to call a federal election, perhaps as early as within the next few days, in which case the Budget's proposals will not be enacted into law.

The Finance Minister described the Budget as "the next phase of Canada's economic action plan" and one that "supports job creation and continues to lay the foundation for sustainable economic growth." He stated that Canada has been able to "act boldly and effectively" to protect jobs and minimize the impact of the global recession on Canadians. "Canada has posted the strongest employment growth in the G-7 since mid-2009, and more Canadians are working today than before the recession," he said.

Most commentators characterized the Budget as a pre-election document aimed at demonstrating the government's ongoing fiscal prudence and "stay the course" approach to spending restraint and long-term deficit reduction. It predicted declining deficits from fiscal 2009 – 10 through 2013 – 14, leading to an essentially balanced budget in 2014 – 15 and a budget surplus in 2015 – 16.

The Budget does not propose any new taxes for individuals, and it reflects the government's continuing commitment to previously announced corporate tax reductions. Nor does it propose any major new programs of spending initiatives — in fact it proposes a comprehensive review of government program spending aimed at increasing efficiency and effectiveness. It does, however, propose numerous tax and non-tax benefits to both individuals and businesses that could be interpreted as "pre-election goodies." In addition, the political posturing may obscure the fact that the Budget proposes significant technical changes intended to eliminate tax loopholes.

In a news release, the CICA said it gave the government a "B plus" grade on the Budget. "This Budget charts a course that will help Canada be competitive in attracting investment while establishing a fiscal framework that sets the stage for sustainable recovery and economic growth," said Bruce Flexman, Chair of the CICA's Tax Policy Committee.

The CICA welcomed a number of positive business-related proposals in the Budget, including a two-year extension of the accelerated capital cost allowance rate for investment in manufacturing or processing machinery or equipment, and the provision of a temporary hiring credit for small businesses. However, Flexman said the Budget did not rate an “A” grade because it failed to address the need to reduce the complexity of Canada’s tax system. “This is another important factor in attracting investment,” Flexman said. “The system must eventually be simplified in order to lessen the burden of compliance and reduce complexity.”

Proposed benefits for individuals under the Budget include an enhancement of the Guaranteed Income Supplement (GIS) for low-income seniors; a new Family Caregiver Tax Credit; a new Children’s Art Tax Credit; and a one-year extension of the ecoEnergy Retrofit — Homes Program, at an estimated cost of some $870 million over the next two years. Also, doctors and nurses who practice in rural areas will be forgiven substantial student loans, while volunteer firefighters who perform at least 200 hours of service will receive additional tax credits.

Significant proposed spending initiatives include about $100 million over two years for R&D relating to clean energy and energy efficiency; $228 million over three years to repair federal bridges in Montreal; $150 million for an all-seasons road between Inuvik and Tuktoyaktuk; $148 million over five years for various public works infrastructure projects across Canada; $80 million over three years to help small businesses adopt information and communications technologies in collaboration with colleges; and a variety of initiatives and programs related to the environment, clean air and climate change. Forestry, agriculture and the “digital economy” also benefit from new spending proposals, including $100 million over five years to improve food inspection capacity, $60 million over two years to help forestry companies innovate, and $100 million per year to the Canadian Media Fund to create digital content across multiple platforms.

Significant tax-related and other proposals are discussed below.

Corporate Partnerships

Partnerships with less than six partners were previously not required to file Partnership Information Returns (T5013 Returns). Partnerships that exceed certain asset or revenue and expense thresholds, have one partner that is a corporation, or have a partnership as a partner must now file T5013 Returns. These previously-announced changes increase the visibility of partnerships. The Budget adds another significant change.

Where even one partner of a partnership is an individual, other than a testamentary trust, the partnership’s fiscal year-end must be December 31. This 1995 measure prevents individuals from deferring income earned by the partnership to the subsequent calendar year. A partner corporation that is a professional corporation is also required to have a December 31 year-end. A corporate partnership still had deferral opportunities.

The rules will now apply to each corporate partner that alone, or together with all affiliated (as defined) and related (as defined) persons was entitled to more than 10% of the partnership’s income (or assets in the case of a wind-up) at the end of the last partnership year-end that ended in the corporation’s fiscal period. Such affiliated and related persons do not have to be corporations.

The new rules will apply to corporate fiscal periods that end after Budget Day. To be clear, if a corporation has a March 23, 2011 or later year-end, the new rules will apply.

Where a partnership of corporations is established, it is common to set the year-end of the partnership on a date that is after the year-ends of the corporate partners. For example, if the corporate partners have March 31 year-ends, the partnership would generally be given an April 30 year-end in order to defer 11 months of income. This deferral opportunity will no longer be available. Henceforth, each corporate partner will be required to include stub period income in its current fiscal period rather than in the subsequent period. The following example provides a broad overview of the new rules for the aforementioned corporate partners.

The new rules apply to all corporate partners (other than professional corporations) even if other members of the partnership are individuals or professional corporations.

Before the Budget, each corporate partner would have included in its March 31, 2011 income, only its share of the partnership's April 30, 2010 income. Subject to the transitional rules described below, the Budget will require an additional income inclusion equal to 11/12ths of that April 30, 2010 income. This approach is referred to as the formulaic approach. This stub period inclusion is then deducted in arriving at the partner's March 31, 2012 income and a new income inclusion equal to 11/12ths of the April 30, 2011 income is added to the March 31, 2012 income.

A corporate partner can elect to include a lesser amount of stub period income if it estimates that the pro-rated portion of the actual April 30, 2011 income will be lower. There does not appear to be a rule that requires a corporation to use the formulaic or estimated approach consistently from year to year. In all circumstances, the corporation deducts the income inclusion in the following year.

If it is subsequently determined that the formulaic inclusion is greater than the estimated inclusion, the corporation must include an additional income inclusion in its March 31, 2012 fiscal period, which additional inclusion will include an interest component. If the shortfall is greater than 25% of the lesser of the estimated inclusion or the formulaic inclusion, the additional inclusion will include a penalty equal to 50% of the amount that exceeds such 25%.

The requirement to suddenly include 23 months of income in March 31, 2011 can be burdensome. Therefore, a transitional reserve is available to allow the stub period income to be brought into income over five years. The maximum reserve in the first fiscal period is 100%. The maximum reserves available in subsequent fiscal periods are 85%, 65%, 45%, 25% and 0%.

Partnerships all of the members of which are corporations other than professional corporations, will be allowed a one-time election to change the partnership year-end if it desired to align the year-end of the partnership with that of one or more of its partners. The transitional relief described above will apply if this election is made.

There are numerous other technical rules to review. These will include provisions that deal with, for example, partnerships that have other partnerships as members, situations involving a first year corporate partner where no partnership year-end falls within the partner's fiscal period, partnerships with resource expenses, and where more than one partnership year-end falls within one corporate fiscal period.

Stop Loss Rules

There are stop-loss rules which reduce the capital loss on the redemption of shares by the amount of dividends received. There are circumstances where a corporation can receive a tax-free intercorporate dividend and realize a capital loss on a redemption of shares even though there is no economic loss on the redemption. The Budget limits the situations in which this may apply. The new rules will not apply to private corporations that receive redemption proceeds on other private corporation shares.

Accelerated Capital Cost Allowance (CCA)

MANUFACTURING AND PROCESSING (M&P) EQUIPMENT

M&P equipment acquired before 2012 included in Class 29, is eligible for a 50% straight-line CCA rate, subject to the half year rule. The Budget has extended Class 29 treatment to eligible M&P equipment acquired before 2014. Eligible M&P equipment acquired after 2013 will be included in Class 43, which is subject to a 30% declining balance CCA rate.

Clean Energy Generation Equipment

Eligible clean energy generation and conservation equipment, included in Class 43.2, is subject to a 50% declining balance CCA rate. The Budget expands Class 43.2 to include equipment that generates or conserves energy by using a renewable energy source (such as wind or solar), using fuels from waste, or making efficient use of fossil fuels.

Qualifying Environmental Trusts (QETs)

Regulators may require an operator of a mine, quarry or waste disposal site to pre-fund, by means of a trust, the costs of reclaiming or restoring a site. This is done by way of a QET. Future reclamation costs relating to pipeline abandonment will now be eligible for QETs.

The Budget will expand the eligible investments for QETs for 2012 and subsequent taxation years for trusts created after 2011. The Budget will also change the tax rate applicable to QETs from the top personal rate to the corporate rate generally applicable to the 2012 and subsequent taxation years.

Employee Profit Sharing Plans (EPSPs)

The government is undertaking a review of EPSPs and will have consultations to ensure that EPSPs are being used appropriately and the tax rules are also appropriate.

DONATIONS

Over the past number of years, the government has significantly expanded the opportunity for Canadians to make tax-deductible charitable contributions. Along with this enhanced opportunity, there have been a number of issues which the government feels have impacted the "regulatory regime" and "fairness" of the current system. The Budget has proposed a number of changes to deal with these issues.

Qualified donees

A qualified donee is a person eligible to issue a tax-deductible receipt and will include registered Canadian amateur athletic associations (the rules for these organizations have been expanded to generally conform with other charitable entities), municipalities and certain municipal public bodies in Canada, housing corporations which exclusively provide low-cost housing for the aged, universities outside Canada, the student bodies of which ordinarily includes students of Canada, and certain charitable organizations outside Canada. Each qualified donee now is required to be included on a publicly available list maintained by the Canada Revenue Agency (CRA).

If a qualified donee does not comply with the following requirements, the CRA may suspend receipting privileges, revoke qualified donee status or assess monetary penalties:

- **Official receipts**
  A receipt must be in accordance with the rules set out in the Income Tax Act and its regulations.
- **Books and records**
  A qualified donee must maintain proper books and records.
- **Good governance**
  The Minister of National Revenue may review the status of any director, trustee, officer or any person who controls or manages the operations of a charity. If any such individual is determined to have been found guilty of a criminal offence or to have been involved in other specified inappropriate activities, whether involving the charity concerned or another organization, the Minister may require the organization to take remedial action or risk revocation of its registration, including its authority to issue donation receipts.

Returned gifts

Where a qualified donee returns a gift with a value greater than $50 to a donor, the donee will be required to issue a revised receipt and the donor's original tax return will be reassessed accordingly.

Specific provisions will determine other tax consequences depending on whether or not the original "gift" is considered to have been a gift.

Gifts of non-qualifying securities (NQS)

A taxpayer is not able to claim a charitable donation of a NQS (e.g., shares of or debt obligations issued by the taxpayer or a person that is not at arm's length from the taxpayer) unless the donee disposes of the security within five years after the date of the gift. The amount of the donation is deemed to have been made in the year of the disposition, for an amount not exceeding the proceeds realized by the donee.

Granting of options to qualified donees

Prior to the Budget, a qualified donee could issue a receipt equal to the value of an option to acquire property of the donor that the donor granted to the donee. The donee must now acquire the property in order to issue a receipt.

Donations of publicly listed flow-through shares

The current legislation provides that when a taxpayer makes a gift of publicly listed shares, the taxpayer will receive a donation receipt equal to the value of the shares and will not be required to include any resultant capital gain in the computation of income. In the case of a donation of publicly traded flow-through shares, the tax cost of the shares is often reduced to nil by virtue of the flow-through of deductions and credits. Therefore, the resultant capital gain, which is equal to the value of the share, is not taxed under the existing rules. The combination of the flow-through deduction and the elimination of the capital gain significantly reduce the after-tax cost of the donation. The Budget proposes that only the capital gain in excess of the original cost of the flow-through share will be exempt from tax.
The rules will apply to flow through shares issued pursuant to an agreement entered into after Budget Day.
An anti-avoidance rule will apply to the donation of property acquired on a rollover.

Children's Arts Tax Credit

For 2011 and subsequent taxation years, a Children's Arts Tax Credit was introduced to provide a 15% non-refundable credit, based on an amount of up to $500 of eligible expenses per child paid in a year. An eligible expense includes artistic, cultural, recreational or development activities. However, in order to avoid duplication of claims, expenses which are eligible for purposes of the Child Care Expense Deduction, the Children's Fitness Tax Credit or the Medical Expense Tax Credit will not be eligible for this tax credit. In addition, registration or membership fees will not be eligible to the extent that they are paid for the rental or purchase of equipment for exclusive personal use, or for travel, meals and accommodation.

The credit will be available for the enrolment of a child, who is under 16 years of age at the beginning of the year, in an eligible program. A credit will also be available for a child who is eligible for the Disability Tax Credit and who is under 18 years of age at the beginning of the year. The credit may be claimed on an additional $500 disability supplement amount when a minimum of $100 is paid in eligible expenses.

An eligible program will be either a weekly program lasting a minimum of eight consecutive weeks or, in the case of children's camps, a program lasting a minimum of five consecutive days. The full cost of the child's membership in an organization will be eligible for the credit if more than 50% of the activities offered by the organization include a significant amount of eligible activities. In addition, where the participant in the program can select from various activities, the full cost will eligible for the credit if either more than 50% of the activities offered include a significant amount of eligible activities or more than 50% of the available program time is devoted to eligible activities.

The credit can be claimed by either parent, or can be shared between the parents.

Volunteer Firefighters Tax Credit

For 2011 and subsequent taxation years, a Volunteer Firefighters Tax Credit was introduced to provide a 15% non-refundable credit based on a flat amount of $3,000. A volunteer firefighter will qualify for this credit if they perform at least 200 hours of volunteer firefighting services in a taxation year for one or more fire departments. Eligible volunteer firefighting services consist primarily of responding to and being on call for firefighting, attending meetings held by the fire department and participating in required training. However, such eligible services do not include firefighting services provided to the fire department otherwise than as a volunteer.

In order to claim this credit, written certification must be obtained from the chief or delegated official of the fire department in order to confirm the number of eligible volunteer firefighting hours. This written certification must be provided to CRA when requested.

A volunteer firefighter who claims this credit will not be eligible for the existing tax exemption of up to $1,000 for honoraria paid by a government, municipality or public authority in respect of firefighting duties. In addition, such payments must be reported to the CRA as part of the annual reporting of remuneration paid.

Family Caregiver Tax Credit

For 2012 and subsequent taxation years, a Family Caregiver Tax Credit was introduced to provide a 15% non-refundable credit, based on a flat amount of $2,000. This credit will assist caregivers of dependants with a mental or physical infirmity, including spouses, common-law partners and minor children. Caregivers will be able to claim an enhanced amount for an infirm dependant under one of the existing dependency-related credits. Consequently, this enhancement would apply to one of the following credits: Spousal or Common-Law Partner Credit, Child Tax Credit, Eligible Dependant Credit, Caregiver Credit or Infirm Dependant Credit.

A dependant who is a minor will be considered to be infirm only if he or she is likely to be dependant on others for significantly more assistance when compared generally to persons of the same age for a long a continuous period of indefinite duration. This test will apply to dependants who are under age 18 at the end of the year and who are claimed for purposes of the Child Tax Credit or the Eligible Dependant Credit.

The threshold at which the Infirm Dependant Credit begins to be phased out will be increased so that the enhanced amount is fully phased out at the same income level as the 2012 enhanced Spousal or Common-Law Partner Credit. The $2,000 Family Caregiver Tax Credit amount will be indexed for 2013 and subsequent taxation years to account for inflation.

Medical Expense Tax Credit for Other Dependants

Individuals may generally claim a Medical Expense Tax Credit in respect of eligible expenses paid for themselves , their spouse or common-law partner or their children under age 18. Caregivers may also claim this credit for a dependant relative if the caregiver pays their medical or disability-related expenses. A dependant for this purpose includes a child under age 18 or older, a grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew who is dependant on the individual for support.

Currently, the maximum claim by a caregiver for such a dependant is limited to $10,000 for a year. The Budget proposes to remove this $10,000 maximum for 2011 and subsequent taxation years.

Child Tax Credit Eligibility

The annual claim for the Child Tax Credit is currently limited to one individual in respect of the same domestic establishment. Consequently, where two or more families share a home, only one individual is entitled to claim the Child Tax Credit. The Budget proposes to eliminate this restriction for 2011 and subsequent taxation years. Consequently, the sharing of a home would no longer restrict otherwise eligible parents from claiming this credit.

Tuition Tax Credit — Examination Fees

For 2011 and subsequent taxation years, amounts eligible for the Tuition Tax Credit will include fees paid to an educational institution, professional association or provincial ministry to take an examination that is required to obtain a professional status or to be licensed or certified in order to practice a profession or trade in Canada. Ancillary fees and charges, such as examination material used during the examination and certain prerequisite study materials, will also be eligible for the credit. However, eligible ancillary fees and charges will not include the cost for travel, parking or equipment. Also, fees in respect of examinations taken in order to begin study in a profession or field, such as a medical college admission test, will not qualify.

The total of tuition and examination fees paid to the institution or association must exceed $100 to be eligible.

Education Tax Measures — Study Abroad

A Tuition Tax Credit is currently available to a Canadian student in full-time attendance at a university outside Canada to the extent that the tuition fees are paid in respect of a course of at least 13 consecutive weeks. The Education Tax Credit and the Textbook Tax Credit are also subject to this rule. In addition, a Canadian student can currently receive educational assistance payments ("EAPs") from an RESP for enrolment in such a program.

The Budget proposes to reduce the minimum course duration requirement to three consecutive weeks, from 13 consecutive weeks, for purposes of claiming the Tuition, Education and Textbook credits. In addition, for EAP purposes, the minimum course duration is proposed to be reduced to three consecutive weeks when the student is enrolled at a university in a full-time course.

RESPs — Asset Sharing Among Siblings

For 2011 and subsequent taxation years, the Budget proposes to allow for transfers between individual RESPs for siblings, without tax penalties and without triggering the repayment of Canada Education Savings Grants, provided the beneficiary of the plan receiving the transfer of assets had not attained age 21 when the plan was opened. This Budget proposal will provide subscribers of separate individual plans with the same flexibility to allocate assets among siblings as currently exists for subscribers of family plans.

Registered disability savings plans (RDSPs) — Shortened Life Expectancy

The current RDSP tax rules require the repayment of all Canada Disability Savings Grants and Canada Disability Savings Bonds received in the 10 years prior to a withdrawal or termination of the plan. However, subject to specified limits and certain conditions, the Budget proposes to allow RDSP beneficiaries with a life expectancy of five years or less to withdraw more of their RDSP savings by permitting annual withdrawals without triggering the 10 year repayment rule.

In order to utilize this proposal, the holder of the RDSP must elect in prescribed from and submit the election with the medical certification completed by the medical doctor to the RDSP issuer. A plan holder will also be permitted to reverse this election in the future.

This proposal will apply after 2010 to withdrawals made after the enacting legislation receives Royal Assent.

RRSPs — Anti Avoidance Rules

The Budget proposes to enhance the current RRSP anti-avoidance rules to address concerns regarding the use of RRSPs in tax planning schemes, including "RRSP strips", by introducing rules similar to the anti-avoidance rules which currently apply to Tax-Free Savings Accounts (TFSAs). This proposal deals with the advantage rules, the prohibited investment rules and the non-qualified investment rules.

The current RRSP advantage rules will be expanded to apply a tax on the annuitant equal to the fair market value of the advantage, or in the case of a debt, the amount of the debt. The proposed RRSP advantage rules will include benefits derived from transactions which would not have occurred in a regular open market between arm's length parties. In addition, these advantage rules will apply to payments made to an RRSP on account of or in lieu of payments for services.

A special tax of 50% of the fair market value of a "prohibited investment" will apply to an RRSP annuitant. A prohibited investment, based closely on the TFSA rules, will generally include debt of the RRSP holder and investments in entities in which the RRSP holder, or non-arm's length person, has a significant interest, which is generally considered to be 10% or more. In addition, income, including capital gains, earned from such prohibited investments will be treated as an advantage and therefore subject to the 100% tax.

A special tax on the annuitant of 50% of the fair market value of a non-qualified investment will replace the current income inclusion and 1% per month penalty tax. This special tax will apply at the time that a non-qualified investment is acquired by the RRSP or at the time the investment becomes non-qualified. This tax will be refundable to the annuitant if the RRSP disposes of the investment by the end of year following the year in which the tax applied.

The Minister of National Revenue will have the authority to waive or cancel all or part of the tax with respect to all of the above proposed anti-avoidance rules if the Minister considers it just and equitable to do so in the circumstances.
These new anti-avoidance rules will generally apply to transactions occurring, and investments acquired, after March 22, 2011. Investment income generated after March 22, 2011 on previously acquired investments will be considered to be a transaction occurring after March 22, 2011.

INDIVIDUAL PENSION PLANS (IPPS)

The Budget has proposed two new measures with respect to IPPs. The first proposal will require annual minimum withdrawal amounts, similar to the current rules for RRIFs, once a plan member reaches age 72. In addition, contributions to an IPP which relate to past years of employment will have to be funded first out of a plan member's existing RRSP assets or by reducing the individual's accumulated RRSP contribution room before new deductible contributions for past service may be made.

These new measures will apply to a defined benefit Registered Pension Plan with three of fewer members if at least once member is related to an employer which participates under the pension plan. In addition, these new measures may apply to a designated plan, where at least 50% of the total pension adjustments of plan members in a year belong to individuals who are "connected" to the employer or who are highly compensated employees. A designated plan will be subject to these measures if it is reasonable to conclude that the rights of one or more members under the plan exist primarily to avoid this new definition.

The minimum withdrawal rules will apply to the 2012 and subsequent taxation years. For those IPP members who reached age 72 in 2011 or earlier, the required withdrawals will commence in 2012. For those IPP members who reach age 72 after 2011, the required withdrawals will commence in the year they reach age 72.

The Budget proposal with respect to past service contributions will apply to such contributions made after March 22, 2011, unless the past service was credited to an IPP member before March 22, 2011 under the terms of an IPP submitted for registration on or before March 22, 2011.

"KIDDIE TAX" ON CAPITAL GAINS

The tax on split income (the "kiddie tax") applies to certain income received by a minor child with a parent resident in Canada. Split income currently includes taxable dividends received in respect of unlisted shares of Canadian and foreign corporations and partnership or trust income derived from providing property or services to a business carried on by a person related to the minor child. However, split income does not currently apply to capital gains realized by the minor child.

The Budget has proposed a measure to extend the kiddie tax to capital gains realized as a result of income-splitting techniques which have been developed to avoid such tax. One such income-splitting plan generally works as follows:

- A family trust, with a minor child as an income beneficiary, subscribes for common shares in the parent's corporation (Parentco).
- Parentco pays a stock dividend on these common shares to the trust. The stock dividend consists of preference shares with a high fair market value, but low paid-up capital (PUC) and adjusted cost base. The taxable amount of this dividend is equal to the low PUC of the preference shares.
- The trust sells the preference shares to the parent at fair market value and realizes a capital gain. This capital gain is paid to the minor child. Consequently, the trust has no net income for tax purposes and the minor child is taxed on the capital gain. In addition, the child may potentially be able to utilize their capital gains exemption with respect to this capital gain.

- The parent sells the preference shares of Parentco to his or her holding company for a promissory note. Consequently, the parent is able to access corporate funds on a tax-free basis in order to pay for the preference share purchase.

As a result of the kiddie tax not currently applying to capital gains, the minor child is subject to tax on the capital gain at his or her marginal tax rate rather than the maximum personal rate. The Budget proposes to extend the kiddie tax to capital gains realized by a minor from a disposition of shares of a corporation to a person who does not deal at arm's length with the minor, if taxable dividends on the shares would have been subject to the kiddie tax. Such capital gains will be treated as dividends, included in the minor's split income and subject to the kiddie tax. In addition, because the gains are treated as dividends, they will not qualify for the capital gains exemption.

This proposal will apply to capital gains realized after March 22, 2011.

Mineral Exploration Tax Credit

Flow-through shares allow companies to renounce or "flow through" tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses. The Mineral Exploration Tax Credit provides an additional incentive to individuals who invest in flow-through shares. The credit is equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. This credit was scheduled to expire at the end of 2011.

The Budget proposes to extend this credit to flow-through share agreements entered into on or before March 31, 2012. Under the existing "look-back" rule, funds raised with the credit in the first three months of 2012 can be spent on eligible exploration until the end of 2013.

Canada Child Tax Benefit (CCTB)

The CCTB is a non-taxable amount paid monthly to assist eligible families with the cost of raising children under age 18. Under the existing rules, an individual is not required to notify the Minister of National Revenue of a change in marital status. The Budget proposes to require an individual who receives the CCTB to notify the Minister of National Revenue of a change in marital status before the end of the month following the month in which the change in status occurs. Any applicable revised entitlement will be effective in the first month following the month of the change of status.

This measure will apply to marital status changes which occur after June, 2011.

Advance Payment Amounts

Amounts can currently be issued as advance payments once per year to an individual in lieu of monthly payments for the purposes of the CCTB, and in lieu of quarterly payments for the purposes of the GST/HST credit. These advance payments are made when each monthly CCTB amount is expected to be less than $10 and when each quarterly GST/HST credit entitlement is expected to be less than $25.

The Budget proposes to increase the advance payment threshold for the CCTB to $20 per month and for the GST/HST credit to $50 per quarter in order to enhance administrative efficiency.

CHILDREN'S SPECIAL ALLOWANCES ACT

The Budget proposes to amend the Children's Special Allowances Act and its regulations to provide for the payment of a special allowance to a child protection agency in respect of a child who is a former Crown ward when the child is placed in the custody of a legal guardian, tutor or similar individual and the agency provides financial assistance for the maintenance of that child. This measure will apply to special allowances payable for months after December, 2011.

CUSTOMS TARIFF MEASURES

Simplification For Business

In this Budget the government is continuing its efforts to facilitate trade by business through further simplification of the Customs Tariff.

These improvements will include:

- Reduction of administrative burden by business particularly as it relates to classification of imported goods
- Restructure the customs tariff to make tariff treatments applicable to imports more transparent
- Updates to the Customs Tariff to remove expired or redundant provisions.

Low Value Imports

Imports of $500 or less arriving by post or courier will now be subject to the generic Most-Favoured-Nation tariff rates currently used for goods imported by travellers. Tariff rates of 0%, 8% or 20% will apply depending on the description of the good being imported. This measure is expected to have a minimal impact on tariff revenues but will increase the Canada Border Service Agency's efficiency when dealing with such imports.

Expanding and Facilitating Trade

The government is continuing its ambitious free trade agenda to provide new and diverse opportunities to Canadian companies. At the present time Canada has in place free trade agreements with eight countries. Negotiations are currently underway involving trade opportunities with 50 other countries including India and the European Union.

EXCISE TAX ACT MEASURES

This Budget introduces the measures to provide for GST/HST relief on the purchase of poppies and wreaths by Royal Canadian Legion branches and their Dominion or Provincial Command. The tax will be recovered by way of rebate and will apply to purchases after 2009.