

March 29, 2012

# tax & business Alert

## NEW BUDGET

### HIGHLIGHTS:

- OAS program changes to delay recipient age to 67.
- Increased travel-er exemptions
- Hiring credit extended another year



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## FEDERAL BUDGET 2012



The Minister of Finance, James M. Flaherty, presented his budget in the House of Commons this afternoon. There are no tax increases contained in the budget, nor any changes to previously promised tax rate reductions. The budget expects a deficit of \$24.9 billion for 2012, falling to \$21.1 billion for 2013, \$10.2 billion for 2014 and to \$1.3 billion for 2015. The following is a summary of the measures contained in the budget.

### Corporations

#### SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) TAX INCENTIVE PROGRAM

Currently, eligible expenditures include most of the costs that are directly related to SR&ED, including salary and wages, materials, overhead, contracts and capital expenditures (other than most buildings).

Budget 2012 proposes to simplify the SR&ED program by removing capital from the expenditure base for capital expenditures incurred in 2014 and subsequent years.

Budget 2012 proposes two design improvements that affect the calculation of overhead expenditures and of arm's length contract payments, as follows:

- Budget 2012 proposes to gradually reduce the "prescribed proxy amount" that is used to compute overhead expenditures under the so-called "proxy method," from 65 per cent to 55% of direct labour costs. The 55% rate will be fully phased in as of January 1, 2014.

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### Individuals

#### OLD AGE SECURITY CHANGES

Budget 2012 proposes to gradually increase the age of eligibility for Old Age Security (OAS) and Guaranteed Income Supplement benefits from 65 to 67. This change will start in April 2023, with full implementation by January 2029, and will not affect anyone who is 54 years of age or older as of March 31, 2012.

Individuals will have the option to defer take-up of their OAS pension to a later time and subsequently receive an actuarially adjusted higher pension.

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### INCREASED TRAVELLERS' EXEMPTIONS

*Budget 2012 proposes to increase the value of goods that may be imported duty and tax free by Canadian residents returning from abroad after a 24-hour and 48-hour absence to \$200 and \$800, respectively, beginning June 1, 2012. The exemption for over 7 days is replaced with the 48 hour exemption.*

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- Budget 2012 proposes to allow only 80 per cent of non-arms length contract payments to be used for the purposes of calculating the SR&ED tax credits, effective as of January 1, 2013.

Budget 2012 also proposes a reduction in the general SR&ED investment tax credit rate. Effective January 1, 2014, the general SR&ED investment tax credit rate will be reduced from 20% to 15%.

#### EXTENDING THE HIRING CREDIT FOR SMALL BUSINESS

Budget 2012 proposes to extend the temporary Hiring Credit for Small Business announced in Budget 2011 for one year. A credit of up to \$1,000 against a small employer's increase in its 2012 EI premiums over those paid in 2011 would be provided.

This temporary credit would be available to employers, whose total EI premiums were at or below \$10,000 in 2011.

#### GST/HST STREAMLINED ACCOUNTING THRESHOLDS

Most small businesses and most public service bodies can elect to use the Quick or Special Quick Method of accounting respectively to determine the amount of GST/HST to remit. These companies can also elect to use the Streamlined Input Tax Credit Method, which provides a simplified process for determining input tax credits (ITCs).

The budget proposes to double the existing thresholds for this streamlined accounting as follows:

- The annual taxable sales threshold at or below which eligible businesses can elect to use the Quick Method will increase to \$400,000 (from \$200,000) of GST/HST-included taxable sales

- The annual taxable sales and taxable purchases thresholds at or below which eligible businesses or PSBs can elect to use the Streamlined Input Tax Credit Method and eligible PSBs can elect to use the Prescribed Method for Calculating Rebates will increase:

- To \$1 million (from \$500,000) of taxable sales, and
- To \$4 million (from \$2 million) of taxable purchases.

This measure will be effective in respect of a GST/HST reporting period of a person (or a claim period of a person, in the case of the Prescribed Method for Calculating Rebates) beginning after 2012.

#### BUDGET 2012 ANNOUNCED IT WILL ELIMINATE THE PENNY

The Mint will no longer distribute pennies as of Fall 2012. The penny will retain its value indefinitely and can continue to be used in payments. However, as pennies are gradually withdrawn from circulation, price rounding on cash transactions will be required. When pennies are not available, cash transactions should be rounded to the nearest five-cent increment in a fair and transparent manner. Rounding on cash transactions should only be used on the final bill of sale after the calculation of GST/HST.

#### BUILDING A NEW BRIDGE OVER THE ST. LAWRENCE

*The Government is building a new bridge to replace the existing Champlain Bridge in Montréal. It will span the St. Lawrence River to connect the Island of Montréal to the South Shore. The new bridge is expected to open in 2021-2022.*

*tax & business* ALERT has been prepared by LEVI & SINCLAIR, LLP for the general information of our clients, staff and other interested parties.

The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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### GROUPS SICKNESS OR ACCIDENT INSURANCE PLANS

The budget proposes to include the amount of an employer's contributions to a group sickness or accident insurance plan in an employee's income for the year in which the contributions are made to the extent that the contributions are not in respect of a wage-loss replacement benefit payable on a periodic basis. This measure will not affect the tax treatment of private health services plans or certain other plans.

This measure will apply in respect of employer contributions made on or after March 29, 2012 to the extent the contributions relate to coverage after 2012, except that such contributions made on or after March 29, 2012 and before 2013 will be included in the employee's income for 2013.

## OTHER PERSONAL TAX MEASURES

### MEDICAL EXPENSE TAX CREDIT

Expenses eligible for the Medical Expense Tax Credit will include blood coagulation monitors for use by individuals who require anti-coagulation therapy, including certain associated items, when they are prescribed by a medical practitioner. This measure will apply to expenses incurred after 2011.

### LIFE INSURANCE POLICY EXEMPTION TEST

The budget proposes to implement several changes regarding the life insurance policy exemption test which is the test that determines whether a life insurance policy is a tax-exempt policy.

## REGISTERED DISABILITY SAVINGS PLANS

The budget proposes several measures related to registered disability savings plans (RDSPs), including:

### PLAN HOLDERS

Certain family members (spouse, common-law spouse, common-law partner, or parent of the disabled individual) may, on a temporary basis, become plan holders of a registered disability savings plans (RDSPs) for an adult individual who might not be able to enter into a contract. Currently, a plan holder must be either the beneficiary or their guardian or legal representative. This measure applies from the date of Royal Assent of the enacting legislation until the end of 2016.

### PROPORTIONAL REPAYMENT RULE

Under current rules, Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) paid into an RDSP in the preceding 10 years must be repaid to the government under certain conditions (the "10-year repayment rule"), including when an amount is withdrawn from an RDSP. The budget proposes to introduce a proportional repayment rule that will apply when a withdrawal is made from an RDSP. Generally, for each \$1 withdrawn from an RDSP, \$3 of any CDSGs or CDSBs paid into the plan in the 10 years preceding the withdrawal must be repaid.

### MAXIMUM AND MINIMUM WITHDRAWALS

The budget proposes changes to the maximum and minimum withdrawals from RDSPs. These changes will apply after 2013.

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**Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by Parliament, may be altered to some degree.**

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## Other Measures in the Budget

- Proposal to expand health-related tax relief under the GST/HST and income tax systems;
- Proposal to enable a single designated partner of a partnership to be empowered to waive, on behalf of all its partners, the three-year time limit for making a determination (assessment) of any income, loss, deduction or other amount in respect of the partnership

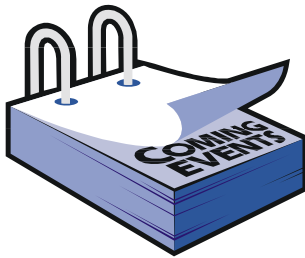
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### **ALERT DATES**

March 31, 2012	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2011 taxation year-end.  Filing date for T-5013 of partnerships.
April 30, 2012	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2012	Second installment due for individuals required to make income tax installments.  Filing date for individuals reporting business income including professional income and their spouses
September 15, 2012	Third installment due for individuals required to make income tax installments.

## **ABOUT LEVI & SINCLAIR**

**LEVI & SINCLAIR** is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

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- **Sarbanes-Oxley 404 audits**
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- **Training on fraud awareness and prevention**
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- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
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- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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