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tax & business **Alert**

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NEW BUDGET HIGHLIGHTS:

- Lifetime Capital Gains Tax Exemption raised to $800,000.
- The CRA to pay rewards for information resulting in assessments over $100,000.
- Dividend Tax Credit lowered

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FEDERAL BUDGET 2013

The Minister of Finance, James M. Flaherty, presented his budget in the House of Commons this afternoon. The budget expects a deficit of $25.9 billion for 2013, falling to $18.7 billion for 2014, $16.6 billion for 2015 and a surplus of $0.8 billion by 2016. The budget's main focus is on jobs and the economy, and includes many targeted tax measures aimed at addressing what the government considers tax “loopholes” in the Canadian tax system. The following is a summary of the measures contained in the budget.

Businesses

HELPING MANUFACTURERS AND BUSINESSES

To help Canadian businesses in key sectors of the economy, such as manufacturing and create high-paying, value-added jobs, the budget proposes:

- To extend the temporary accelerated capital cost allowance for new investment in machinery and equipment in the manufacturing and processing sector for an additional two years. Currently scheduled to expire at the end of 2013, the 50 per cent straight line depreciation rate will be extended for two years to include investment in eligible manufacturing or processing machinery and equipment in 2014 and 2015.
- To expand and extend for one year the temporary Hiring Credit for Small Business. This temporary credit would provide up to $1,000 against a small firm's increase in its 2013 Employment Insurance (EI) premiums over those paid in 2012 to employers with total EI premiums of $15,000 or less in 2012.

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Individuals

COMBATING INTERNATIONAL TAX EVASION AND AGGRESSIVE TAX AVOIDANCE

To combat tax evasion, the budget proposes:

- Require certain financial intermediaries including banks to report international electronic funds transfers of $10,000 or more to the CRA.
- A Canadian-resident individual, corporation or trust that, at any time during a year, owns specified foreign property costing more in total than $100,000 must file a Foreign Income Verification Statement (Form T1135) with the CRA. Specified foreign property generally includes most types of income earning property held outside of Canada, other than personal property and property used in carrying on an active business. Form T1135 must also be filed by certain partnerships that hold specified foreign property.

  Budget 2013 proposes to extend the normal reassessment period by three years for a taxpayer who has failed to report income from a specified foreign property

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- To increases support for small business owners, farmers and fishermen by raising the Lifetime Capital Gains Exemption to $800,000 and indexing the new limit to inflation, at a cost of $110 million over five years.

Increasing the Restricted Farm Loss Deduction Limit

The budget proposes to increase the limit that restricts the deductibility of farming losses in some cases.

The restricted farm loss income tax rules apply to part-time farmers. These tax rules limit the amount of farm losses that can be applied against income from other sources. The budget proposes to increase the current limit of $8,750 to $17,500.

Tax Simplification and Compliance

The budget announces the following measures:

- The Canada Revenue Agency (CRA) will make improvements to help taxpayers meet their filing obligations with respect to Form T1135 (the Foreign Income Verification Statement).
- New administrative monetary penalties and criminal offences to deter the use, possession, sale and development of electronic suppression of sales software that is designed to falsify records for the purpose of tax evasion.
- To improve the effectiveness of tax compliance programs by giving the Minister of National Revenue the authority to withhold GST/HST refunds to businesses until all the required business identification information is provided to the CRA.

Scientific Research and Experimental Development Tax Incentive Program

The budget proposes a number of measures:

- New funding of $5 million over two years will be provided to the Canada Revenue Agency to conduct more direct outreach with first-time SR&ED program claimants. A new in-person service will be implemented to ensure that new claimants have access to information about the SR&ED program's eligibility requirements, the required supporting documentation, and any other information needed to facilitate the filing of their SR&ED program claim.
- The Canada Revenue Agency will also receive new funding of $15 million over two years to focus more resources on reviews of SR&ED program claims where the risk of non-compliance is perceived to be high and eligibility for the SR&ED program unlikely. The CRA will also more frequently apply penalties for false statements or omissions, where appropriate. In addition, in order to enable better risk assessment, SR&ED program claim forms will be revised to require more detailed information. To enforce this new requirement, the budget proposes that a new penalty be applied in instances where the new required information is missing, incomplete or inaccurate.

Closing Tax Loopholes

The Government is committed to closing tax loopholes that allow a select few businesses and individuals to avoid paying their fair share. The budget proposes to improve the integrity of the tax system by:

- Further extending the application of Canada's thin capitalization rules— which limit the amount of Canadian profits that can be distributed to certain non-resident shareholders as deductible interest

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on their annual income tax return and failed to properly file the Foreign Income Verification Statement (Form T1135).

- Form T1135 currently requires only general information regarding where specified foreign property is located and what income it generates. To improve the usefulness of Form T1135 to the CRA in determining whether taxpayers are correctly reporting foreign income, the CRA will revise Form T1135. The revised form will require taxpayers to provide more detailed information regarding each specified foreign property, including:
    - the name of the specific foreign institution or other entity holding funds outside of Canada;
    - the specific country to which the property relates; and
    - the foreign income generated from the property.
- Streamline the process for the CRA to obtain information concerning unnamed persons from third parties such as banks.

TARIFF RELIEF FOR CANADIAN CONSUMERS

The budget proposes to eliminate all tariffs on baby clothing and sports and athletic equipment. The latter includes products such as ice skates, hockey equipment, skis and snowboards, golf clubs and other equipment to promote physical fitness and healthy living.

FIRST-TIME DONOR'S SUPER CREDIT (FDSC)

The budget proposes a new temporary First-Time Donor's Super Credit (FDSC) designed to encourage new donors to give to charity.

The Charitable Donations Tax Credit (CDTC) provides an individual with a non-refundable tax credit of 15 per cent for the first $200 of annual charitable donations and a credit of 29 per cent for the portion of donations that exceeds $200. As an administrative practice, the Canada Revenue Agency permits an individual to claim donations made by either the individual or the individual's spouse or common-law partner.

To encourage charitable giving by new donors, Budget 2013 proposes to introduce a temporary First-time Donor's Super Credit (FDSC). The FDSC will supplement the CDTC with an additional 25-per-cent tax credit for a first-time donor on up to $1,000 of donations. Accordingly, a first-time donor will be entitled to a 40-per-cent federal credit for donations of $200 or less, and a 54-per-cent federal credit for the portion of donations over $200 but not exceeding $1,000. Only donations of money will qualify for the FDSC.

An individual will be considered a first-time donor if neither the individual nor the individual's spouse or common-law partner has claimed the CDTC or FDSC in any taxation year after 2007. For the purpose of this determination, an individual's spouse or common-law partner will be the individual's spouse or common-law partner on December 31 of the taxation year in respect of which the FDSC is claimed. First-time donor couples may share the FDSC in a taxation year. However, the total amount that may be claimed by the individual and his or her spouse or common-law partner cannot exceed the amount that would be allowed if only one were to claim the FDSC.

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STOP INTERNATIONAL TAX EVASION PROGRAM

Under this program, the CRA will pay rewards to individuals with knowledge of major international tax non-compliance when they provide information to the CRA that leads to the collection of outstanding taxes due.

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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payments— to Canadian resident trusts and non-resident entities.

- Enhancing corporate anti-loss trading rules to address planning that avoids these rules.
- Eliminating unintended tax benefits relating to leveraged insured annuities.
- Eliminating unintended tax benefits relating to leveraged life insurance arrangements, commonly known as 10/8 arrangements.
- Clarifying that the income reserve for future services cannot be used by taxpayers for amounts received for the purpose of funding future reclamation costs (e.g., the costs of reclaiming land previously used for waste disposal purposes, or for addressing pipeline abandonment).
- Responding to the recent Federal Court of Appeal decision in the Sommerer case to restore the intended tax policy result in relation to non-resident trusts.
- Clarifying that reports, examinations and other services that are performed for a non-health-care-related purpose do not qualify for the GST/HST exemption for basic health care services.
- Clarifying that commercial paid parking is subject to GST/HST when supplied by a municipality, hospital, university, public college, school or any entity established by one of these bodies.
- Permitting the CRA to collect up to 50 per cent of amounts in dispute in respect of tax shelter claims that involve a charitable donation.
- Clarifying the restricted farm loss rules to ensure that, in order for a farmer to be able to fully deduct farming losses against other sources of income, the other sources of income must be subordinate to farming.

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The FDSC will be available in respect of donations made on or after Budget Day and may be claimed only once in the 2013 or a subsequent taxation year before 2018.

LIFETIME CAPITAL GAINS EXEMPTION

The income tax system currently provides an individual with a Lifetime Capital Gains Exemption (LCGE) on up to $750,000 of capital gains realized on the disposition of qualified property: qualified small business corporation shares, and qualified farm and qualified fishing property.

Budget 2013 proposes to increase the LCGE by $50,000 so that it will apply on up to $800,000 of capital gains realized by an individual on qualified property, effective for the 2014 taxation year.

In addition, the LCGE will be indexed to inflation for taxation years after 2014. The new LCGE limit will apply for all individuals, even those who have previously used the LCGE.

DEDUCTION FOR SAFETY DEPOSIT BOXES

Budget 2013 proposes to make the cost to a taxpayer of renting a safety deposit box from a financial institution non-deductible for income tax purposes.

This measure will apply to taxation years that begin on or after Budget Day.

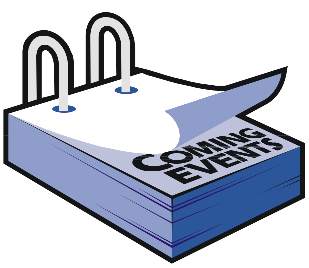
DIVIDEND TAX CREDIT

Budget 2013 proposes to adjust the gross-up factor applicable to non-eligible dividends from 25 per cent to 18 per cent and the corresponding DTC from 2/3 of the gross-up amount to 13/18. Expressed as a percentage of the grossed-up amount of a non-eligible dividend, the effective rate of the DTC in respect of such a dividend will be 11 per cent (down from 13.33%). The net result is that the federal effective tax rate on non-eligible dividends will be 21.22% (from 19.58%).

This measure will apply to non-eligible dividends paid after 2013.

Other Measures in the Budget

- Last year the Government announced that it will build a new bridge over the St. Lawrence River to replace the Champlain Bridge and associated infrastructure. The budget proposes to provide up to $124.9 million to build a bridge-causeway to ensure the safety of commuters between Nuns' Island and the Island of Montreal during the construction of



ALERT DATES

March 31, 2013	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2012 taxation year-end.
	Filing date for T-5013 of partnerships.
April 30, 2013	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2013	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, 2013	Third installment due for individuals required to make income tax installments.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered professional accountants that traces its origin in Montreal to 1970. 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 Professional 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.

OUR SERVICES

LEVI & SINCLAIR takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

LEVI & SINCLAIR has a strong basis in federal and provincial tax issues. Our tax group is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **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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