Tax Memo

PRICEWATERHOUSECOOPERS

2007 Federal Budget – A Family Affair

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Introduction

Minister of Finance James Flaherty presented the minority government's second budget on March 19, 2007. The budget contains numerous tax measures, with a particular focus on the family, but no tax rate or bracket changes or other broad-based measures.

The principal measures affecting individuals include a new child tax credit, an increase in the spouse credit, changes to the registered education savings plan rules to provide more flexibility and an increase in the age limit from 69 to 71 for maturing registered retirement savings plans.

For corporations, most of the changes relate to the capital cost allowance system, including aligning rates with useful lives and a temporary incentive for manufacturing equipment. International tax changes curtail interest deductions for financing foreign affiliates, eliminate withholding tax on interest payments and modify the taxation of foreign affiliates.

Please contact your PricewaterhouseCoopers tax adviser or any of the individuals listed on page 12 for more information.

Personal Tax Measures

Top personal tax rates

The budget does not change top personal tax rates. Top combined 2007 personal tax rates on ordinary income, interest, capital gains and dividends are outlined below.

Top 2007 Personal Tax Rates (Taxable income above $120,887)	Ordinary income & interest	Capital gains	Dividends Eligible	Dividends Non-eligible
Federal only	29.00%	14.50%	14.55%	19.58%
Alberta	39.00%	19.50%	17.45%	25.21%
British Columbia	43.70%	21.85%	18.47%	31.58%
Manitoba	46.40%	23.20%	23.83%	36.75%
New Brunswick[1]	46.95%	23.48%	23.18%	35.40%
Newfoundland and Labrador	48.64%	24.32%	32.52%	37.32%
Non-resident	42.92%[2]	21.46%	21.53%[2]	28.98%[2]
Northwest Territories	43.05%	21.53%	18.25%	29.65%
Nova Scotia	48.25%	24.13%	28.35%	33.06%
Nunavut	40.50%	20.25%	22.24%	28.96%
Ontario	46.41%	23.20%	24.64%	31.34%
Prince Edward Island	47.37%	23.69%	24.44%	33.61%
Quebec	48.22%	24.11%	29.69%	36.35%
Saskatchewan	44.00%	22.00%	20.35%	30.83%
Yukon	42.40%	21.20%	17.23%	30.49%

1 New Brunswick's 2007 budget revised the top combined rates.
2 Non-resident rates for interest and dividends apply only in certain circumstances.

Child tax credit

Commencing 2007, parents will be able to claim a non-refundable tax credit of $2,000 for each child under the age of 18, resulting in personal tax savings of up to $310 per child for 2007.

Any unused portion of the credit can be transferred to the parent's spouse or common-law partner.

Spouse/equivalent to spouse credit

The budget increases the spouse/equivalent to spouse (or wholly dependent relative) personal amount to equal the basic personal amount, as follows:

		2006	2007	2008[1]	2009[2]
Personal amounts	Basic	$8,839	$8,929	$9,129	$10,000
	Spousal[3]	$7,505			

1 Personal amounts to further increase due to indexing in 2008.
2 Minimum amounts for 2009.
3 Commencing 2007, the spousal amount is reduced by any net income of the spouse or dependant (no threshold applies).

Lifetime capital gains exemption

The budget increases the lifetime capital gains exemption limit from $500,000 to $750,000 for gains realized on dispositions of qualified farm and fishing property or qualified small business corporation shares occurring after March 18, 2007. Transitional rules will apply for 2007.

Capital gains tax on charitable donations to private foundations

The 2006 budget provided a full exemption for the capital gains arising from the donation of publicly listed securities to public charities. Specifically excluded from the 2006 budget measure were donations made to private foundations.

Following public consultation regarding the development of self-dealing rules, for gifts made after March 18, 2007, the budget reduces:

- the capital gains inclusion rate from 50% to nil for donations of publicly listed securities to private foundations; and
- the inclusion rate from 50% to nil for donations to private foundations of publicly listed securities acquired through employee stock options.

Although not specifically addressed, presumably for qualifying donations of publicly listed securities by a Canadian-controlled private corporation (CCPC) to a private foundation, the untaxed portion of the capital gain will be added to the CCPC's capital dividend account.

Excess business holdings for private foundations

To address concerns regarding potential self-dealing opportunities for a private foundation and persons not dealing at arm's length with the foundation, the budget introduces an excess business holdings regime for private foundations that builds on measures introduced for charities in 2004 and will apply to private foundations' holdings of both publicly listed and unlisted securities.

This proposed regime will limit the private foundation's shareholdings and take into account the holdings of persons not dealing at arm's length with the private foundation. The regime will also significantly increase the annual information return reporting requirements for private foundations of their security holdings in a corporation when the foundation holds more than 2% of the outstanding shares of any class of shares of the corporation. Some of this additional information will be subject to public disclosure. When shareholdings of the private foundation and non-arm's length persons in combination exceed 20%, the foundation may be subject to divestment rules, including transitional provisions for excess business holdings at March 18, 2007. Penalty sanctions apply to private foundations in respect of excess business holdings that have not been divested as required.

Registered Education Savings Plans

The budget proposes several enhancements to the Registered Education Savings Plan (RESP) program. A summary of the proposals are outlined in the table below.

		Current	Proposed
Per-beneficiary amounts	Annual contribution limit	$4,000*	Eliminated*
	Lifetime contribution limit	$42,000	$50,000
	Maximum annual Canada Education Savings Grant (CESG)	$400	$500
	Maximum annual RESP contribution qualifying for the 20% CESG	$2,000	$2,500
	Lifetime CESG limit	$7,200	

* Annual contributions may be restricted or capped due to the lifetime contribution limit.

These changes will apply to RESP contributions made after 2006. However, the portion of any CESG entitlement that is attributable to the increased CESG limit will be paid to RESPs only after the legislation receives royal assent.

The budget also reduces the Education Assistance Payment eligibility requirements to accommodate certain part-time programs.

Retirement savings

The budget proposes a number of measures related to retirement savings arrangements.

Age limit for maturing RPPs and RRSPs

Tax rules currently require that an individual's registered retirement savings plan (RRSP) be converted to a registered retirement income fund (RRIF), or be used to acquire a qualifying annuity, by the end of the year in which the individual reaches 69 years of age. Similar rules generally require registered pension plan (RPP) payments to begin by the end of the year in which the plan member's age reaches 69.

To accommodate older workers who wish to continue working and saving, the budget proposes to extend these limits to 71 years of age, effective 2007. Minimum RRIF withdrawal rules will also be waived in 2007 and 2008 for RRIF owners turning 70 or 71 in 2007 or 71 in 2008. Contributions to RRSPs and RPPs will now be permitted, subject to available contribution room, based on these new age limits.

RRSP qualified investments

The list of qualified investments that can be held by RRSPs and other registered plans will be expanded, effective March 19, 2007, to include:

- any debt obligation that has an investment grade rating and that is part of a minimum $25 million issuance; and
- any security (other than a futures contract) listed on a "designated stock exchange" (see discussion on page 8 under the heading "Prescribed stock exchanges").

Phased retirement: Pension payments and accruals for older workers

Existing restrictions that prevent an employer from simultaneously paying a pension to an employee and providing the employee with additional pension benefit accruals will be relaxed. Under the budget proposals, beginning in 2008 certain employees aged 55 years and older who are entitled to an unreduced pension from a defined benefit plan will be permitted to receive up to 60% of their accrued pension while accruing additional current-service benefits in respect of continuing employment. This measure is intended to help retain older, more experienced workers in the labour force.

Registered Disability Savings Plan

Commencing 2008, the budget introduces a:

- Registered Disability Savings Plan (RDSP);
- Canada Disability Savings Grant (CDSG) program; and
- Canada Disability Savings Bond (CDSB) program.

An individual that qualifies for the disability tax credit (DTC), or his or her parent or other legal representative, can establish an RDSP for a DTC-eligible individual. The maximum lifetime contributions per beneficiary will be $200,000, with no annual limit. There are no restrictions on who can contribute to the RDSP and contributions are permitted until the end of the year in which the beneficiary attains 59 years of age.

Contributions to an RDSP will not be deductible. However, the investment income on contributions, CDSGs and CDSBs will accrue tax-free and only the income, CDSGs and CDSBs will be included in the beneficiary's taxable income when paid out of an RDSP.

Payments from an RDSP (subject to a maximum annual limit, which will be determined by reference to the life expectancy of the beneficiary and the fair market value of the plan property) are required to commence by the end of the year in which the beneficiary attains 60 years.

Only the RDSP beneficiary or the beneficiary's legal representative will be permitted to receive payments from the RDSP. Contributors will not be entitled to receive a refund of contributions.

Canada Disability Savings Grants

Commencing 2008, RDSP contributions made each year will qualify for a Canada Disability Savings Grant (CDSG) that will be paid to the RDSP as follows:

	Net family income	
	≤ $74,357[1]	> $74,357[1]
Matching rates on RDSP contributions	300% on first $500	100% on first $1,000
	200% on next $1,000	
Maximum annual CDSG[2]	$3,500	$1,000

1 The figures will be indexed for inflation in 2008 and subsequent years.

2 CDSGs are subject to a lifetime limit of $70,000 per RDSP beneficiary and can be earned until the end of the year in which the beneficiary attains 49 years of age.

Canada Disability Savings Bonds

Families with net family income not exceeding $20,883 can receive an annual $1,000 Canada Disability Savings Bond (CDSB) that will be paid to an RDSP. The CDSB will be phased out gradually if net family income is between $20,883 and $37,178 (indexed for 2008 and thereafter). The CDSB will not be contingent on RDSP contributions.

An RDSP will be eligible to receive CDSBs until the end of the year in which the beneficiary attains 49 years and the lifetime limit is $20,000 per beneficiary.

Death or cessation of disability

If the beneficiary ceases to be eligible for the DTC or dies, the remaining funds in the plan (net of certain CDSG and CDSB repayment requirements) must be paid to the beneficiary or to the beneficiary's estate and that amount (net of contributions) will be included in the beneficiary's or estate's taxable income.

Treatment of the RDSP for means-tested benefits

The budget proposes that payments from an RDSP will not be taken into account for the purpose of calculating income-tested benefits delivered through the income tax system nor will they affect Old Age Security or Employment Insurance benefits.

Further, the federal government will consult with the provinces and territories to ensure that the RDSP will not disqualify the plan beneficiary from receiving provincial or territorial income support, at least until the level of income support plus RDSP payments exceeds the Low Income Cut Off for the province or territory.

Public transit tax credit

The budget extends eligibility for the public transit tax credit to:

- electronic payment cards issued after 2006, if:
  - the card is used for at least 32 one-way trips during an uninterrupted period not exceeding 31 days; and
  - the transit authority can receipt and record sufficient detail to allow the Canada Revenue Agency to verify eligibility for the credit; and
- weekly passes valid for use after 2006 that provide unlimited public transit within a period of five to seven days if the individual purchases at least four consecutive weekly passes.

Tax exemption for elementary and secondary school scholarships

Under the current rules, scholarships and bursaries received by a student to attend elementary and secondary schools are included in the student's income to the extent that they exceed $500. Commencing 2007, the budget fully exempts these scholarships and bursaries from tax.

Working Income Tax Benefit

Commencing 2007, low-income individuals aged 19 or older will be able to claim a refundable Working Income Tax Benefit (WITB) tax credit. The WITB will equal 20% of each dollar of earned income (generally, employment and business income) exceeding $3,000 to a maximum credit of:

- $500 for single individuals (without dependants); and
- $1,000 for families (couples and single parents).

The WITB credit will be reduced by 15% of net family income (calculated on the same basis as the Canada Child Tax Benefit and the Goods and Services Tax Credit (GSTC)) exceeding:

- $9,500 for single individuals; and
- $14,500 for families.

Students, with no dependant children, who are enrolled full-time for more than three months in the year, will not qualify for the WITB.

The WITB maximum benefit levels will be indexed and commencing 2008, individuals and families who are eligible for the WITB and the GSTC can apply to the Canada Revenue Agency for a prepayment of one-half of their estimated WITB.

WITB supplement for persons with disabilities

Individuals that are eligible for the disability tax credit and the WITB will be able to claim an additional disability supplement. The WITB disability supplement will equal 20% of each dollar of earned income exceeding $1,750, to a maximum credit of $250. The disability supplement will be reduced by 15% of net family income exceeding:

- $12,833 for single individuals; and
- $21,167 for families.

Mineral Exploration Tax Credit for Flow-Through Shares

The mineral exploration tax credit equals 15% of specified mineral exploration expenses incurred in Canada. The budget extends the credit by one year to flow-through share agreements entered into before April 1, 2008. Therefore, the credit is available for expenditures that are incurred before 2009, or in 2009 pursuant to the "look-back" rules.

Meal expenses for truck drivers

The budget increases, over five years, from 50% to 80% the deductible portion of the cost of food and beverages consumed by long-haul truck drivers during eligible periods of travel, as follows:

	Food and beverages (deductible portion)
Before March 19, 2007	50%
After March 18, 2007	60%
January 1, 2008	65%
January 1, 2009	70%
January 1, 2010	75%
January 1, 2011	80%

Personal income tax instalments

Commencing 2008, the threshold above which individuals must pay income tax instalments is increased from $2,000 to $3,000 (from $1,200 to $1,800 for Quebec residents).

Tax Back Guarantee

The budget confirms the government's commitment to dedicate all interest savings from federal debt reduction to ongoing personal income tax reductions. Legislation to enact the Tax Back Guarantee will be forthcoming.

Business Tax Measures

International tax changes

Interest deductibility for financing investments in foreign affiliates

Under current rules, Canadian corporations do not pay Canadian income tax on foreign-source active business earnings ("exempt surplus") of a foreign affiliate. Canadian corporations are permitted to deduct interest expense on debt that is incurred for the purpose of acquiring shares or debt of a foreign affiliate.

The budget restricts the immediate deduction of interest expense on money borrowed or indebtedness incurred by corporations to invest in debt or equity of a foreign affiliate. Interest expense will be pooled for deduction (net of exempt surplus received) if those investments in the foreign affiliate generate non-exempt income for the corporation. In addition, the rule will ensure that indirect financing cannot be used to avoid the application of this policy.

The restriction on interest deductibility will apply to interest payable after 2007 on new borrowings or indebtedness incurred after March 18, 2007 (other than a borrowing or indebtedness pursuant to an agreement in writing entered into before March 19, 2007). For existing debt, the restriction will apply after the earlier of the expiry of its current term and December 31, 2008 (for non-arm's length debt) or December 31, 2009 (for arm's length debt).

Canada/U.S. tax treaty

Formal negotiations to update the Canada/U.S. tax treaty are expected to conclude in the very near future. Major elements that have been agreed to in principle include the elimination of withholding tax on interest, the extension of treaty benefits to U.S. limited liability companies, the harmonization of the tax treatment of pension contributions in the two countries and new rules to clarify the treatment of employee stock options.

Elimination of withholding tax on interest

Under the proposed agreement, once the changes are fully phased in, cross-border interest payments will no longer be subject to tax by the country where the payor of the interest resides. The Canada/U.S. tax treaty currently allows a withholding tax rate of up to 10%.

Under the proposed agreement, interest paid on arm's length debt will not be subject to withholding tax beginning in the first calendar year following the entry into force of the treaty changes. For interest payments to non-arm's length persons, the maximum withholding rate will be reduced to 7% in the first year following the entry into force of the treaty, to 4% in the second year, and eliminated for the third and subsequent years.

The budget proposes that Canadian withholding tax be eliminated on interest paid to all arm's length non-residents, regardless of their country of residence, once the Canada/U.S. tax treaty is ratified.

Active business income of a foreign affiliate

Under current rules, Canadian companies can in certain circumstances ensure that their foreign affiliates' passive income (royalties, interest, lease revenue, etc.) is recharacterized as active business income. The budget proposes that a Canadian taxpayer be required to have a qualifying interest (generally a direct or indirect economic interest of 10%) in the paying entity to have these payments treated as active business incomes. This change will apply for taxation years of foreign affiliates that begin after 2008.

Tax information exchange

Many countries are attempting to strengthen exchange of information by improving tax-treaty standards and adopting Tax Information Exchange Agreements (TIEAs) with non-treaty jurisdictions. To enhance Canada's network for the sharing of information, the budget proposes the following measures:

- all new tax treaties and revisions to existing treaties will include a requirement to exchange information;
- the existing exemption for dividends received out of active business income (exempt surplus) earned by foreign affiliates resident in treaty countries will be extended to include active business income earned by a foreign affiliate residing in a country that has agreed to a TIEA with Canada; and
- to provide incentives for countries to enter into TIEAs with Canada, active business income earned by foreign affiliates in non-TIEA, non-treaty countries will be treated as foreign accrual property income (FAPI).

Updating the scope of exempt surplus

As noted above, in addition to its existing application in respect of treaty countries, the exempt surplus exemption will be extended to active business income from non-treaty jurisdictions that agree to exchange tax information with Canada.

Foreign affiliate technical amendments

Proposals that would modify the taxation of foreign affiliates were released for public comment on February 27, 2004. These proposals will be reviewed and evaluated in light of the measures proposed in the budget.

Corporate tax rates

The budget does not change corporate tax rates, which will decrease as follows:

	General and M&P income[1]	CCPCs	
		Active business income up to $400,000	Investment income
2007	22.12%	13.12%	35.79%
2008	20.5%	11.5%	34.67%
2009	20%	11%	
2010	19%		
2011	18.5%[2]		

1 The rates do not apply to the income of certain credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

2 The rate for 2011 is proposed.

Temporary CCA acceleration for M&P machinery and equipment

The budget significantly enhances the annual capital cost allowance (CCA) deduction for investments in eligible manufacturing and processing (M&P) machinery and equipment made after March 18, 2007 and before 2009. This measure will be restricted to businesses engaged in M&P in Canada of goods for sale or lease. The following table summarizes the changes.

		Existing rule	Proposed rule
M&P machinery and equipment	CCA rate	30%	50%
	Method of calculating annual CCA	Declining balance	Straight-line
	Half-year rule applicable	Yes	

Enhanced CCA rates

The budget enhances the CCA rates for certain other depreciable assets acquired after March 18, 2007, as outlined in the following table:

		Existing rate	Proposed rate with additional allowance
Type of asset	Buildings used for M&P in Canada	4%	10%[1,2]
	Other non-residential buildings	4%	6%[1,2]
	Computer equipment	45%	55%[3]
	Natural gas distribution lines	4%	6%
	Liquefied natural gas facilities	4%	8%

1 To be eligible for the additional allowance (6% for M&P buildings and 2% for other non-residential buildings), the building must be placed into a separate class. Failure to do this will result in the application of the current 4% CCA rate. The half-year rule will apply to the additional allowance.

2 To qualify for the additional 6% or 2% allowance, at least 90% of the building (measured by square footage) must be used for the designated purpose at the end of the taxation year. Buildings used for M&P purposes that do not meet this requirement will be eligible for the additional 2% CCA allowance if at least 90% of the building is used for non-residential purposes at the end of the taxation year.

3 The budget extends the current exemption for computers from the specified leasing property rules to computer equipment eligible for the higher CCA rate, excluding any individual item with a capital cost exceeding $1 million. The budget also extends the computer software tax shelter property rules to computer equipment that is eligible for the 55% CCA rate.

Reduced CCA for oil sands projects

The budget phases out the accelerated CCA for oil sands projects, whether mining or in situ. No changes are proposed to the 25% CCA rate applicable to Class 41.

Under transitional relief, accelerated CCA will:

- continue to be fully available for assets acquired:
  - before March 19, 2007, and
  - before 2012 that are part of a project phase on which major construction began before March 19, 2007; and
- gradually be phased down for other assets from 2011 to 2015, as outlined in the table below:

		Allowable percentage of additional allowance
Year	2010	100%
	2011	90%
	2012	80%
	2013	60%
	2014	30%
	2015	Nil

Accelerated CCA for clean energy generation

A 50% accelerated CCA rate is provided under Class 43.2 to specified energy generation equipment. The budget extends the eligibility period of Class 43.2 to assets acquired before 2020, as well as to eligible assets acquired after March 18, 2007, relating to other emerging sources of renewable energy including:

- wave and tidal energy;
- active solar heating;
- photovoltaics;
- stationary fuel cells;
- production of biogas from organic waste; and
- pulp and paper waste fuels.

Eliminating provincial capital taxes

To support and encourage provinces to eliminate or accelerate the elimination of their capital taxes, the budget proposes to provide a financial incentive to provinces that, after March 18, 2007, enact legislation to eliminate their capital taxes before January 1, 2011. The incentive, to be based on expected federal corporate income tax gains resulting from the capital tax elimination, would also be available to provinces that restructure their capital tax on financial institutions into a minimum tax.

Scientific Research & Experimental Development

The budget comments that, over the coming year, the government will identify opportunities to improve the scientific research & experimental development (SR&ED) program, including its administration, to further encourage research and development within the business sector in Canada.

Investment tax credit for child care spaces

Taxpayers that carry on business in Canada will be eligible for a non-refundable tax credit equal to 25% of eligible expenditures incurred after March 18, 2007 to create licensed child care spaces for their employees' children and, potentially, for children in the surrounding community. The maximum credit is $10,000 per child care space created and unused credits can be carried back three years or carried forward 20. Taxpayers in the business of providing child care will not be eligible for the credit.

Eligible expenditures will include the cost of depreciable property (e.g., buildings, furniture, appliances, computer equipment) and specified start-up costs (e.g., playground landscaping costs, architect fees, initial licensing fees), acquired or incurred solely to create new child care spaces at a licensed child care facility. Costs to acquire a motor vehicle and ongoing operating costs are not eligible.

The credit will be fully or partially recaptured if the new child care space ceases to be available to the taxpayer or is converted to another use, within five years of its creation.

Donation of medicines

Corporations that make donations of medicines from their inventory to registered Canadian charities and other qualified donees are permitted to claim a charitable donations deduction equal to the fair market value (FMV) of the gifted property. When the donee meets certain criteria, the budget allows these corporations additional deductions equal to the lesser of:

- 50% of the amount by which the FMV of the donated medicine exceeds its cost; and
- the cost of the donated medicine.

This proposal applies to gifts made after March 18, 2007.

Prescribed stock exchanges

Certain Canadian and foreign stock exchanges are currently "prescribed," for the purpose of many tax provisions, by being listed in the *Income Tax Regulations*. The budget proposes to modify these listings by creating three categories of recognized stock exchanges to better accommodate the wide variety of purposes for which the exchanges are referenced. The changes will be effective upon royal assent of the amending legislation.

All stock exchanges that are currently "prescribed" will now be referred to as "designated stock exchanges." Additions to this category will be made by public notice given by the Minister of Finance, following appropriate review to ensure stringent criteria are met. This category will initially apply for all tax purposes that currently rely on the "prescribed stock exchange" reference, except as noted below.

A new category of "recognized stock exchange" will consist of stock exchanges (including all designated stock exchanges) located in Canada or another Organization for Economic Co-operation and Development (OECD) country that has a tax treaty with Canada. This category will apply to exempt a non-resident vendor of shares listed on one of these exchanges from the tax withholding requirements of section 116 of the *Income Tax Act*.

A third category of “stock exchange” will consist of any stock exchange (including all designated and recognized stock exchanges), regardless of where located, as defined for general legal and commercial purposes. This category will apply for the purposes of the securities lending rules.

Source deductions

Commencing 2008, the threshold above which employers must remit quarterly (instead of monthly) source deductions is increased from $1,000 to $3,000.

Corporate income tax instalments

The budget introduces measures to ease the instalment requirements faced by corporations, applicable to corporate taxation years beginning after 2007.

All corporations

The threshold above which corporations must pay income tax instalments will increase from $1,000 to $3,000.

Canadian-controlled private corporations

A Canadian-controlled private corporation (CCPC) will be required to remit instalments quarterly (rather than monthly) if:

- in either the current or previous year (on an associated group basis):
  - the taxable income did not exceed $400,000;
  - it qualified for the small business deduction; and
  - the taxable capital employed in Canada did not exceed $10 million; and,
- during the previous 12 months, it had no compliance irregularities under the *Income Tax Act* and Part IX of the *Excise Tax Act*.

CCPCs can use any of three methods to calculate quarterly instalments:

- each instalment equals one-quarter of the estimated tax payable for the current year;
- each instalment equals one-quarter of the tax payable for the previous year; or
- the first instalment equals one-quarter of the tax payable for the second preceding year, with the remaining instalments equal to one-third of the amount, if any, by which the tax payable for the previous taxation year exceeds the first instalment for the current year.

Quarterly instalments will be due on the last day of each quarter of the CCPC’s taxation year. A CCPC that fails to make a quarterly instalment by its due date will be required to make monthly instalment payments beginning with the following month.

Sales and Excise Tax Measures

Intangible personal property

To ensure that exports of intangible personal property (IPP) are not subject to GST/HST, supplies of IPP made after March 19, 2007, to non-residents who are not registered for GST/HST purposes will be zero-rated. This measure will also apply to supplies made before March 20, 2007, if GST/HST was not charged or collected in respect of the supply. However, it will not apply to a supply of IPP that:

- is made to an individual who is physically present in Canada when the supply is made;
- relates to real property situated in Canada or tangible personal property ordinarily situated in Canada;
- relates to a service the supply of which is made in Canada and is not a zero-rated export;
- may only be used in Canada; or
- is prescribed by regulations (no supply is currently envisaged to be prescribed).

GST/HST filing and remittance thresholds

To ease the GST/HST compliance burden of small and medium-sized businesses, for taxation years beginning after 2007:

- the taxable supplies threshold at or below which registrants can file an annual GST/HST return is increased from $500,000 to $1,500,000; and,
- the net tax threshold below which annual GST/HST filers can make one remittance is increased from $1,500 to $3,000.

Encouraging the purchase of fuel-efficient vehicles

To promote the purchase of fuel efficient vehicles, a new Vehicle Efficiency Incentive (VEI) will come into effect on March 20, 2007. The VEI will have three components:

- Rebate – Purchasers and lessors of new vehicles that meet specified city and highway fuel-efficient ratings will receive a maximum rebate of $2,000. The list of eligible vehicles will be established by Transport Canada. Initially, the rebate will apply to automobiles with a combined city and highway consumption rating of 6.5 litres or less per 100 kilometres and minivans, sport utility vehicles and other light trucks with a consumption rating of 8.3 litres or less per 100 kilometres.

- Neutral treatment – The treatment of average fuel efficiency vehicles will not change.
- Green Levy – Manufacturers and importers of new vehicles that have a weighted average fuel consumption of 13 litres or more per 100 kilometres will be subject to a Green Levy that ranges from $1,000 to $4,000, depending on the consumption level. An exemption will apply to pick-up trucks, which will not be subject to the levy.

Renewable fuels

The budget repeals the excise tax exemptions for renewable fuels delivered after March 31, 2008, including biodiesel and alcohol-based fuels. Instead, renewable fuels will be included within the excise tax structure that applies to gasoline and diesel fuel.

Diesel fuel

The budget proposes to clarify the legislative authority that underlies the Canada Revenue Agency's administrative practice of paying refunds to end-users of diesel fuel. This amendment will apply from the date on which the excise tax on diesel fuel was introduced, for end-user claims filed after that date. In addition, clarifications that apply to end-user refund claims filed after March 19, 2007, will ensure that if diesel fuel is sold on a tax-paid basis for use as heating oil or to generate electricity, only the end-user (or vendor of heating oil) will be entitled to claim a refund of excise tax.

Foreign convention and tour incentive program

To replace the Visitors' Rebate Program that the government proposed to eliminate in an announcement made on September 25, 2006, the budget proposes a new program of GST/HST relief for foreign conventions in Canada and the accommodation portion of non-resident tour packages. The new program will be effective starting April 1, 2007, to coincide with the elimination of the Visitors' Rebate Program.

Travellers' exemption

The travellers' exemption from duties or taxes is increased from $200 to $400 for Canadian residents who are out of the country at least 48 hours and return to Canada after March 19, 2007. For 24-hour and 7-day absences, the exemptions will remain $50 and $750, respectively. The alcohol and tobacco limits are also unchanged.

GST/HST remission – Certain school authorities

The budget confirms that the government's policy continues to be that the provision of student transportation services by school authorities constitutes an exempt activity under the GST/HST. In response to a recent court decision, the budget proposes to remit GST/HST paid in respect of student transportation services to certain school authorities that were reassessed pursuant to a measure that was announced in 2001 and enacted in 2003.

PST harmonization

The budget indicates that the government is "ready to work with" provinces that would like to eliminate their retail sales taxes in favour of a value-added tax that is harmonized with the federal goods and services tax (GST). No further details are provided in the budget.

Payment of PST by Federal Crown Corporations

Several federal Crown corporations are required to pay provincial taxes and fees, under certain agreements between the federal and provincial governments. The budget proposes to amend certain related legislation, with effect from July 1, 2000, to clarify that wholly-owned subsidiaries of these Crown corporations are also subject to the provincial taxes and fees.

Other Measures

Trust T3 information slips

In response to concerns regarding the due-date and process associated with the issuance of Trust T3 information slips, the government is working with the investment funds industry to develop a more efficient process for 2007 T3 slips.

Audit and enforcement

The budget pledges to provide the Canada Revenue Agency additional resources to:

- strengthen the enforcement of Canada's tax system relating to foreign income and cross-border transactions (emphasizing transfer pricing transactions and complex international tax avoidance cases); and
- verify and collect taxes owing on income and sales generated in Canada (the intent is to find and challenge taxpayers who participate in aggressive tax shelters, fail to report all of their income or make unsubstantiated GST/HST refund claims).

Aboriginal tax policy

The budget reaffirms the government's willingness to discuss and implement direct taxation arrangements with Aboriginal governments.

2010 Winter Games in Vancouver

The budget provides tax-relief to facilitate the 2010 Olympic and Paralympic Winter Games in Vancouver, by waiving non-resident withholding tax payable by the International Olympic Committee (IOC) and International Paralympic Committee (IPC), income taxes payable on Canadian-source income related to the Games by non-resident athletes, support staff, officials, media and IOC and IPC members and staff, and all or a portion of the customs duties, excise taxes and GST/HST on certain goods imported for the Games.

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