

# The J Thomas McCallum Letter

advancing the understanding of income tax and valuation matters

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Federal Budget Edition March 2011

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This special release reviews only the more commonly applicable income tax measures contained in today's federal budget. Those interested in other aspects of the budget can download the budget document from <http://www.budget.gc.ca/2011/plan/to-c-tdm-eng.html>

## Personal Tax Changes

### Children's Arts Tax Credit

Starting in 2011 there will be a non-refundable children's arts tax credit of 15% of eligible expenses (\$500 maximum) for children under 16 years of age at the beginning of the year. A supplement of 15% of \$500 (\$100 minimum spending) will be available for children under 18-years of age who are eligible for the disability tax credit. This new tax credit more-or-less mirrors Ontario's existing Activity Tax Credit.

### Volunteer Firefighters Tax Credit

Starting in 2011 eligible volunteer firefighters will be entitled to a non-refundable tax credit of 15% of \$3,000. An "eligible" volunteer is someone who performs at least 200 volunteer firefighting hours in the year. There is a requirement for a written certification

of those hours. Also, if this tax credit is claimed, the firefighter will not be entitled to the existing \$1,000 honoraria income exemption.

### Family Caregiver Credit

Beginning in 2012 there will be a 15% of \$2,000 non-refundable tax credit for caregivers with a mentally or physically infirm dependant (spouses, common-law partners and minor children).

This tax credit will be delivered by an increase to the infirm dependant amounts under one of the existing dependency-related credits.

Also, the infirm dependant income thresholds will be revised so that this new tax credit will be phased out on the same basis as that for spouses and common-law partners.

### Medical Tax Credit for Other Dependants

Beginning in 2011, the \$10,000 'cap' on a dependant relative's medical expenses is scrapped.

### Child Tax Credit

Starting in 2011 the current limit of one child tax credit per domestic establishment is scrapped.

### **Tuition Tax Credit**

Starting in 2011, the tuition tax credit will be expanded to include fees paid for an examination required to obtain professional status recognized by federal or provincial statute, or to be licensed/certified to practice a trade or profession.

Also, the existing 13-week requirement for foreign education programs is replaced by a three-consecutive weeks requirement.

### **RESPs**

Changes, effective in 2011, will allow transfers between individual RESPs for siblings without tax penalties and without triggering repayment of Education Grants. This change will level the playing field for taxpayers, such as aunts/uncles, to a more-or-less equivalent of a family plan RESP.

### **RDSPs**

RDSP beneficiaries with a shortened life expectancy will be allowed to withdraw (by an election) RDSP savings without triggering the 10-year Grants/Bonds repayment rules.

### **RRSPs**

The anti-avoidance rules (designed to prevent things like RRSP “strips”) will be substantially enhanced. Subject to some transitional allowances, these rules will apply to transactions and investments after today’s date.

### **IPPs**

Changes will be made to Individual Pension Plans to require a minimum annual withdrawal along with revisions to past-service contribution allowances.

### **“Split-Income” (AKA “Kiddie-Tax”)**

The split-income rules will be extended to capital gains realized (on or after today) by, or included in the income of, 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 tax on split income. Capital gains that are subject to this measure will be treated as dividends and, therefore, will not benefit from capital gains inclusion rates nor qualify for the lifetime capital gains deduction.

### **AgriInvest**

Investments made (in 2011 on) under the new Agri-Quebec equivalent will receive the same tax benefits as the AgriInvest program.

### **Other**

The mineral exploration tax credit is, once again, extended for another year.

The marital status change notification requirements for the GST/HST credit is extended to the Canada Child Tax Benefit (effective for marital changes after June 2011).

The requirement for “official” donation receipts is extended beyond registered charities to include a number of other organizations who accept donations. This will apply after January 1, 2012 (or Royal Assent, if later). A number of other rule changes relative to charities are proposed.

Lump-sum payments to members of underfunded pension plans that are being wound-up due to employer insolvency and which are in lieu of the member’s right to dental/health coverage, will not be taxable.

## **Business Tax Changes**

### **CCA on M&P Equipment**

The accelerated capital cost allowance (50% straight-line) is extended to include equipment acquired before 2014.

### **Corporate Partnerships**

In a highly complex proposal, corporate partners in a partnership with a fiscal year-end different from the partner’s, will be required to “accrue” partnership income in their own year end. This is similar to the Adjusted Business Income determination for individuals who have non-December 31<sup>st</sup> year ends.

### **Stop-Loss Rules**

The stop-loss rules will be extended to include dividends on share redemptions *other than private corporation to private corporation.*

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The Budget contains other proposals, such as CCA changes on environmental equipment. As these not of wide interest they have not been included here.

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#### *The J Thomas McCallum Letter*

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