

# The J Thomas McCallum Letter

advancing the understanding of income tax and valuation matters

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Federal Budget Edition January 2009

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This special release reviews only the income tax measures contained in today's federal budget. It also ignores the items already announced and re-iterated in the budget. Those interested in other aspects of the budget can download the budget document from <http://www.budget.gc.ca/2009/home-accueil-eng.html>

## Personal Tax Changes

### Basic Personal Amount

In 2009 the basic personal amount, the spouse amount, and the equivalent dependant amount, increases to \$10,320.

While these were \$9,600 in 2008, they were already scheduled to be \$10,100 in 2009, so the increase is really only \$220.

### Personal Tax Brackets

For 2009 the lowest tax bracket (15%) income ceiling increases to \$40,726 [\$37,885], the middle tax bracket (22%) income ceiling increases to \$81,452 [\$75,770], and the third tax bracket (26%) income ceiling will be \$126,264 [\$123,184]. Note: [x] = the 2008 amounts.

While the increases in the two lower brackets are about 7.5%, these would have increased, in any event, by about 2.5% because of the CPI changes.

### Age Credit

In 2009 the base amount for the age credit increases to \$6,408, from \$5,276 in 2008. This includes the already scheduled CPI increase.

### Home Renovation Tax Credit

A new, non-refundable tax credit of 15% of eligible expenses for home renovations will be available **for 2009 only**. The eligible expenses must have been incurred from January 28, 2009 to January 31, 2010. Only expenses in excess of \$1,000, to a maximum of \$10,000 are eligible; so the maximum tax credit is \$1,350 (15% of \$9,000).

Only one credit is available to a family (taxpayer + spouse or common-law partner + children under 18), although it can be split within the family. Only expenses on a property eligible to be a taxpayer's principal residence qualify for the credit. The budget documents contain a list of expenses which are/aren't eligible.

### **Home Buyers' Plan**

After January 27, 2009 the maximum amount that can be withdrawn from a RRSP under the HBP is increased to \$25,000 (from \$20,000).

### **First Time Home Buyer Tax Credit**

First-time buyers who purchase a qualifying home after January 27, 2009 will be entitled to a non-refundable tax credit of 15% of \$5,000 (can be shared with a spouse or common-law partner).

If the home is purchased jointly, the credit can be claimed by either purchaser, or shared, **but there is only one \$750 credit.**

The credit will also be available where the home is purchased by, or for the benefit of, a person eligible for the disability tax credit.

### **RRSPs and RRIFs**

**Finally!** When a taxpayer dies, the fair market value of their RRSP/RRIF is income. The budget proposes that where on final distribution of the RRSP/RRIF, the actual amount realised is less than the previous fair market value, the decrease can be carried back to the deceased's terminal tax return to reduce the amount first included in income. This measure applies where the final distribution is after 2008.

To be eligible for this "carry back" it will generally be necessary that the last payment from the RRSP/RRIF be received not later than the year following the year of death.

### **Mineral Exploration Tax Credit**

The METC was scheduled to expire at the end of March 2009. It has, once again, be extended for another year.

### **Working Income Tax Benefit**

The WITB will be enhanced, but the details of the changes have not been determined.

## **Business Tax Changes**

### **Small Business Limit**

Effective January 1, 2009 the annual limit for the small business tax rate is increased to \$500,000 from \$400,000.

### **Capital Cost Allowance**

Budget 2007 introduced an accelerated straight line basis of CCA for machinery and equipment used in manufacturing/processing, provided the assets were acquired before 2009. Budget 2008 extended this to assets acquired before 2010 and modified the declining balance basis CCA rates for assets acquired in 2010 and 2011.

This 2009 Budget rescinds the proposed changes for 2010 and 2011 and extends

the accelerated straight line basis CCA (25% - 50% - 25%) to assets acquired in 2010 and 2011.

Computers (and eligible software) acquired after January 27, 2009 and before February 2011 will be eligible for a 100% CCA rate with no half-year rule. In effect, taxpayers can write off their entire computer purchase.

### Changes in Control

The deeming rule regarding the timing of an acquisition of control of a corporation is to be amended to ensure that it does not affect the status of a corporation as a CCPC at the time of the transaction causing the change of control. This amendment will apply to acquisitions of control **after 2005**.

### Electronic Filing

Beginning with taxation years ending after 2009, corporations (with certain exceptions) with revenue in excess of \$1 million will be required to file their tax returns electronically. There will be a penalty for failing to file electronically, starting with the 2011 tax year (\$250 in 2011, \$500 in 2012, and \$1,000 thereafter).

After 2009 the number of information returns required before a taxpayer *must* file those electronically is reduced to 50 from 400.

The information return late-filing penalty is being modified after 2009, and a penalty for failure to file these returns electronically (where required) is introduced. It is also being 'capped' at between \$1,000 and \$7,500, depending on which return and how many returns are required.

## International Tax

The controversial section 18.2 of the *Act*, which constrained the deductibility of interest on money borrowed to finance a foreign affiliate, was to come into effect in 2012. **It has been repealed.**

### *The J Thomas McCallum Letter*

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