

# The J Thomas McCallum Letter

advancing the understanding of income tax and valuation matters

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Federal Budget Edition March 2010

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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/2010/home-accueil-eng.html>

## Personal Tax Changes

### UCB, CCTB and GST/HST Credit

Starting in July 2011 joint-custody parents can now each receive their own half-share of these tax credits.

As of 2010 a single parent will be given an option to include all their UCBs in the income of the dependant for whom they claim the eligible dependant credit. If the parent isn't eligible to claim that credit they can opt to include the UCBs in the income of one of the children for whom the UCB is paid.

### Medical Expenses

Medical expenses incurred after March 4, 2010 for purely cosmetic procedures *will not* qualify for the medical expense tax credit. Cosmetic procedures required for medical or reconstructive purposes, or related to congenital

abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease will continue to be eligible.

### RRSPs At Death

For deaths after March 4, 2010 RRSPs can be "rolled over" into the RDSPs (Registered Disability Savings Plans) of financially dependent infirm children/grandchildren. The maximum amount which can be rolled over can't exceed the beneficiary's available RDSP contribution room.

There is an additional element of retroactivity to this proposal in that where the death occurred after 2007 there is a transitional process whereby the rollover can be made before 2012. In effect then the measure applies as of January 1, 2008.

### Scholarship Exemption and Education Tax Credit

A post-secondary program that consists principally of research will be eligible for this deduction/credit only if it leads to a college or CEGEP diploma, or a bachelor, masters or doctoral degree (or an equivalent degree). Accordingly, post-doctoral fellowships will be taxable.

For part-time programs the scholarship exemption will be limited to the amount of tuition paid for the program plus the costs of program-related materials, except if the part-time program is undertaken by a student entitled to the Disability Tax Credit or a student who cannot be enrolled on a full-time basis because of a mental or physical impairment.

Both of these measures begin in 2010.

### **American Social Security**

Starting in 2010 only 50% (rather than 85%) of US social security (including spouse or common-law partner survivor benefits) will be included in income *if* the social security first began to be received before January 1, 1996.

### **Mineral Tax Credit**

The mineral tax credit has (yet again) be extended for one year.

### **Stock Options**

The election to defer the recognition of a stock option benefit as income is repealed.

Employers will now be required to remit a withholding tax on the income benefit.

Employees who cash-in their option for a cash payment from their employer will continue to be allowed a stock option

deduction *provided* the employer elects *not* to claim a deduction for the cash payment.

Taxpayers who have elected under the 'old' deferral rules will be eligible for a new special elective tax treatment. The tax payable on the option cannot exceed the proceeds received for the optioned securities. This will provide relief to those who have seen the value of the securities decline.

If the security was disposed of before 2010 the taxpayer will have to elect this special treatment before their filing deadline for their 2010 income tax return.

Individuals who dispose of their securities after 2010 will have to dispose of them before 2015 to access this special treatment.

### **Other Measures**

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

*The J Thomas McCallum Letter*

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