

The J Thomas McCallum Letter

advancing the understanding of income tax and valuation matters

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Tax Changes Announced In Today's Economic Statement

General Federal Corporate Income Tax Rates

	2007	2008	2009	2010	2011	2012
Existing	22. 12%	20.5%	20.0%	19.0%	18.5%	18.5%
Proposed	22. 12%	19.5%	19.0%	18.0%	16.5%	15.0%

- 2007 includes the 4% surtax (1.12% rate on income) which is already announced as eliminated in 2008
- these rates do not apply to small business or investment income of Canadian-controlled Private Corporations

Potential Related Changes Not Yet Announced

The Economic Statement documents indicate that the announced corporate tax rates may lead to changes in the dividend tax credit on eligible dividends as it might now be too generous. Other possible tax accounts requiring change or adjustment include the General Rate Income Pool (GRIP). *Stay tuned!*

Small Business Federal Corporate Income Tax Rate

	2007	2008	2009
Existing	13.12%	11.5%	11.0%
Proposed	13.12%	11.0%	11.0%

- 2007 includes the 4% surtax (1.12% rate on income) which is already announced as eliminated in 2008
- there is no change to the \$400,000 annual income limit to which these rates apply

Lowest Personal Federal Income Tax Rate

The 15.5% personal tax rate, which in 2007 applies on taxable income up to \$37,178, is reduced to 15% *retroactive to January 1, 2007*. Amazingly, this 15% is the same rate put in place in 2005 by the former Liberal government which the [new] Conservative government increased to 15.5% almost immediately on taking office. This 15% rate will also be used for the various personal tax credits and for Alternative Minimum Tax.

Federal Basic Personal Amount *Plus*

The basic personal amount, which was to be \$8,929 in 2007, is increased to \$9,600 for 2007 and 2008, and to \$10,100 in 2009. It appears that these amounts will *not* be adjusted until 2010 for changes in the Consumer Price Index. While the 2007 and 2008 increases are new, the 2009 amount was already scheduled to be at least \$10,000. So there is some 'smoke and mirrors' here. These same amounts will also be used as the base for the spouse/common-law-partner and equivalent dependant tax credit.

GST Reduction

The government is making good on its election promise to reduce the GST, and it'll be cut to 5% on January 1, 2008.

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