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2007 FEDERAL BUDGET COMMENTARY

March 19, 2007

OVERVIEW

Budgets from minority governments can usually be described as “pre-election,” and federal Finance Minister Jim Flaherty’s second Budget, tabled March 19, generally warrants this description. In a Budget speech entitled “Aspire to a stronger, safer, better Canada,” the Minister proposed a variety of tax-reduction measures along with substantially higher payments to the provinces and increased spending on environmental programs and health care.

Most of the proposed income tax measures relate to lower- and middle-income working taxpayers. They include a Working Income Tax Benefit of up to \$500 for individuals and \$1,000 for families; a new non-refundable child tax credit of \$310 per child; an increase in the spousal amount; raising the age limit for converting RRSPs from 69 to 71; allowing phased retirement in defined situations; expanding qualified investments for RRSPs; increasing the age credit amount; amending the rules for registered education savings plans; and increasing the lifetime capital gains exemption for farmers, fishers and small business owners.

The Minister estimated that 90 percent of Canadian families will benefit from the new Child Tax Credit, with 180,000 taxpayers being removed from the tax rolls as a result, and that 1.2 million low-income taxpayers will benefit from the Working Income Tax Benefit. Proposed tax changes are discussed later in this report.

In a press release, the CICA gave the Budget a “solid B” grade as “a step in the right direction,” according to the President and CEO Kevin Dancey, FCA. “There are some significant benefits for individual Canadians and business, yet we are disappointed it does not include broader based tax reductions for individuals and businesses that would help sustain Canada’s economic health for future generations,” Dancey said. The CICA is also pleased that the government is committing \$9.2 billion to debt reduction this year and \$6 billion over the next two years, but is

concerned that both program spending and departmental operating costs are increasing at a faster rate than inflation and economic growth. "What is needed now is for the government to commit to lowering personal and businesses taxes even more, and fully commit to controlling program spending," Dancey said.

The Minister said that by reducing the federal debt by \$9.2 billion in 2006-07 and \$3 billion in each of the next two years, the government remains on target to lower the federal debt-to-GDP ratio to 25 percent by 2012-13. The Budget also proposes to fulfill an election campaign promise by legislating the direction of debt interest savings – roughly \$1 billion a year – to ongoing personal income tax reductions. The Minister noted that private-sector forecasts expect real GDP growth of 2.3 percent in 2007 and 2.9 percent in 2008, and said that consumer confidence remains high and business financial positions are healthy.

A major thrust of the Budget is aimed at restoring fiscal balance by investing an additional \$39 billion over the next seven years, including strengthened equalization payments, an additional \$16 billion in Gas Tax based funding for infrastructure programs in municipalities, \$800 million a year for post-secondary education, \$500 million a year for labour market training and \$250 million per year for child care. The Budget also proposes investments of \$4.5 billion in environmental measures, including \$1.5 billion to the Canada ecoTrust for Clean Air and Climate Change, \$2 billion over seven years for the production of renewable fuels, \$36 million over two years to get older polluting vehicles off the road, and providing rebates of up to \$2,000 for the purchase of new fuel-efficient or alternative-fuel vehicles while imposing a Green Levy on so-called gas-guzzlers.

Health-care proposals include an additional \$400 million for Canada Health Infoway to support early movement towards patient wait-time guarantees and \$621 million to support jurisdictions that have made commitments to implement wait-time guarantees.

PERSONAL TAX MEASURES

Lifetime Capital Gains Exemption

The lifetime capital gains exemption will be increased from \$500,000 to \$750,000 for gains realized on dispositions after March 18, 2007 of qualified farm and fishing property and qualified small business corporation shares, subject to transitional rules for 2007. This proposal can benefit individuals who own qualifying property, whether or not they have previously utilized any of the \$500,000 exemption.

Age Limit For Maturing RPPs And RRSPs

The Budget proposes to increase the age at which Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) mature from the end of the year in which the RRSP annuitant or RPP member turns 69 to 71. This proposal will benefit individuals who turn 69, 70 or 71 in 2007 or subsequent years in that they will be able to make contributions in 2007 and 2008 where contribution room is available.

The minimum annual withdrawal from a Registered Retirement Income Fund (RRIF) will be waived for 2007 and 2008 for annuitants who turn 70 in 2007 and for 2007 for annuitants who turn 71 in 2007. A RRIF annuitant who is 71 or younger at the end of 2007 will be able to reconvert the RRIF to an RRSP, as long as this RRSP is converted back into a RRIF before the end of the year in which the annuitant turns 71.

Existing registered plan annuities will be permitted to be amended to reflect the later conversion age. Employers will also be allowed to amend their RPPs to allow benefits to accrue and contributions to be made in respect of employees who are 71 or younger at the end of 2007.

Phased Retirement

The Income Tax Regulations will be amended to allow an employee to receive pension benefits from a defined benefit RPP, of up to 60% of their accrued defined benefit pension, while accruing additional pension benefits on a current service basis in respect of their employment after their pension has commenced. Qualifying employees must be at least 55 years old and eligible to receive a pension without incurring an early retirement reduction.

Employment after the commencement of the pension can be either full- or part-time. This approach will give employers a great deal of flexibility in designing older-worker retention programs. The prohibition on accruing additional benefits while receiving a pension will still apply to designated plans as well as to persons who are “connected” with their employer, as would generally be the case with an Individual Pension Plan (IPP).

It is proposed that this measure be effective for 2008 and subsequent taxation years.

RRSP Qualified Investments

The list of qualified investments for RRSPs and other registered plans will be broadened after March 18, 2007 to include any debt obligation that has an investment grade rating and that is part of a minimum \$25 million issuance as well as any security, other than a futures contract, which is listed on a designated stock exchange. These changes will provide greater investment choice and diversification opportunities by removing impediments to investing in foreign-listed trust and partnership units and Canadian dollar bonds issued by foreign entities.

Registered Education Savings Plans (RESPs)

The Budget proposes to eliminate the maximum annual contribution and increase the lifetime limit from \$42,000 to \$50,000. In addition, the maximum annual RESP contribution qualifying for

the 20% Canada Education Savings Grant (CESG) will be increased from \$2,000 to \$2,500 for 2007 and subsequent years. Consequently, the annual CESG will be increased from \$400 to \$500 for each qualifying child. However, the lifetime CESG limit of \$7,200 will not be increased.

The RESP rules will be expanded for 2007 and subsequent years to allow qualifying part-time programs which do not meet the current 10 hour per week requirement, to allow Educational Assistance Payments (EAPs) from the RESP where the program requires at least 12 hours per month of courses. Under this proposal, students 16 or over will be able to receive up to \$2,500 of EAPs for each 13-week semester of part-time study.

Registered Disability Savings Plan (RDSP)

The Budget proposes a new RDSP, generally based on the existing Registered Education Savings Plan (RESP), combined with a Canada Disability Savings Grant (CDSG) program and a Canada Disability Savings Bond (CDSB) program. The Government will work with financial institutions to put the necessary administrative mechanisms in place to allow RDSPs to be offered commencing in 2008.

Any person resident in Canada eligible for the disability tax credit (DTC), or their parent or other legal representative, will be eligible to establish an RDSP. Contributions to an RDSP will not be deductible and the investment income earned in the RDSP will not be taxed while the funds are retained within the RDSP. Funds paid out of the RDSP will not be taxable except to the extent that they exceed the contributions to the plan.

Contributions are limited to a lifetime maximum of \$200,000 for the disabled beneficiary, with no annual limit. There will be no restriction on who can contribute. Contributions can be made until the end of the year in which the beneficiary reaches 59.

RDSP contributions will qualify for CDSGs, to a lifetime limit of \$70,000, until the end of the year in which the beneficiary reaches age 49, at matching rates of 100%, 200% or 300%, depending upon family net income and the amount contributed. Families with a net income of up to \$74,357 will qualify for a 300% grant on the first \$500 of contribution and a 200% grant on the next \$1,000 of contribution. Families with a net income over \$74,357 will qualify for a 100% grant. These family income thresholds are in 2007 dollars and will be indexed to inflation for 2008 and subsequent years. Family net income will consist of the beneficiary and their spouse or common-law partner's income for years after the beneficiary reaches 18.

Independent of contributions by or on behalf of the beneficiary, and any CDSGs that the RDSP receives, CDSBs of up to \$1,000 will be paid annually to an RDSP, until the end of the year in which the beneficiary reaches 49. The maximum of \$1,000 is payable where family net income does not exceed \$20,883 and a portion of the \$1,000 is payable where family net income does not exceed \$37,178. These income thresholds are in 2007 dollars and will be indexed to inflation for 2008 and subsequent years. CDSBs are not contingent on contributions to an RDSP. There will be a lifetime limit of \$20,000 on CDSBs.

Payments from an RDSP will be required to commence by the end of the year in which the beneficiary reaches 60 and will be subject to an annual maximum determined by reference to life expectancy and the value of the property of the plan. Only the beneficiary or their legal representative will be allowed to receive payments. Contributors will not be entitled to a refund of contributions.

Where the beneficiary ceases to qualify for the DTC or dies, an RDSP will be required to repay all CDSGs and CDSBs, along with the related investment income earned in the ten years prior to a payment from the plan. The remaining funds in the RDSP, net of contributions, will then be taxable to the beneficiary or their estate.

Amounts paid out of an RDSP will not be included in income for purposes of income-tested benefits such as Old Age Security or Employment Insurance benefits. In addition, the federal government will work with the provinces and territories to ensure that the RDSP is an effective savings vehicle to improve the financial security of children with severe disabilities. In this regard, the federal government noted that RDSP assets and income payments from the plan should supplement and not reduce income support provided under provincial and territorial programs. It will be very important how each province and territory handles this RDSP issue.

Truck Drivers' Meal Expenses

Long-haul truck drivers will be entitled to a larger deduction for meal expenses. Currently, their deduction is limited to 50% of the costs incurred. This deduction will be increased to 60% for expenses after March 19, 2007 and before 2008, 65% in 2008, 70% in 2009, 75% in 2010 and 80% thereafter.

A long-haul truck driver is a person whose principal duty of employment is the transportation of goods, or whose principal business is the transportation of goods, by way of driving a long-haul truck. A long-haul truck must be designed for, and primarily used for, hauling freight and have a gross vehicle weight rating in excess of 11,788 kg. To be eligible the truck driver must be away for at least 24 hours and be transporting goods to or from a location at least 160 km from the employer's location or the self-employed trucker's residence.

The increased deduction will also be available to employers who reimburse costs incurred by long-haul truck drivers.

A corresponding GST amendment will allow input tax credits for the increased deduction for meal expenses.

Working Income Tax Benefit

Commencing in 2007, a new refundable credit will be available to low-income persons with either employment or business income. The credit will be 20% of earned income in excess of \$3,000 to a maximum of \$500 (\$1,000 for couples and single parents). The credit will be reduced by 15% of net family income in excess of \$9,500 (\$14,500 for couples and single parents).

An additional credit will be allowed, for a person with a disability, of 20% of earned income in excess of \$1,750 to a maximum of \$250.

To qualify for the credit the individual must be resident in Canada throughout the year and have attained age 19 by the end of the year. However, persons who are full-time students for more than three months will not qualify unless they have a dependent child. To qualify as a single parent, the person must be the primary caregiver to a dependent child.

Beginning in 2008, an application can be made for a prepayment of 50% of the anticipated benefit for the year. The benefit will be paid quarterly with a final reconciliation on assessment of the income tax return for the year.

Scholarships

In 2006, scholarships and bursaries received by students qualifying for the education credit were fully exempted from tax. Generally, these were students in post-secondary programs. This Budget extends the exemption to students in elementary and secondary schools.

Non-Refundable Credits

Commencing in 2007, a new credit may be claimed for children under the age of 18. The credit is based on \$2,000 and will result in a reduction in income tax payable of \$310 per child in 2007.

The base for the credit which may be claimed for a spouse or wholly-dependent person will be increased by \$1,348 to the same amount as the basic personal credit. However, the amount the spouse may earn without reducing the credit will be eliminated. This amount is currently \$759. The previously announced increases to the basic personal credit will also apply to this credit.

Public Transit Tax Credit

Effective January 1, 2007, the public transit tax credit will be extended to cost-per-trip electronic payment cards if the cards are used for at least 32 one-way trips in a 31-day period. To be eligible, the transit authority must record the usage, the cost of the trips and provide receipts to the individual with this information.

To alleviate the cash-flow impediment of purchasing monthly passes, four consecutive weekly passes will qualify for the credit. The weekly passes must provide for unlimited transit use for a period of 5 to 7 days.

Mineral Exploration Tax Credit

The 15% mineral exploration tax credit has been extended for another year. This will apply to flow-through share agreements entered into before March 31, 2008 if the expenditures are incurred before the end of 2009.

Trust T3 Income Tax Returns

Many taxpayers and tax professionals have concerns about the existing due-date for T3 slips.

The Government is proposing to develop a process that will have commercial trusts, including income trusts, prepare their T3 returns in sufficient time for taxpayers to prepare their tax returns.

BUSINESS TAX MEASURES

Capital Cost Allowance (CCA)

The following CCA rate changes will be made:

	From	To
Manufacturing and processing (M&P) machinery and equipment (1)	30%	50%
Buildings used for M&P (2)	4%	10%
Other non-residential buildings (3)	4%	6%
Computer equipment (4)	45%	55%
Natural gas distribution lines	4%	6%
Liquefied natural gas facilities	4%	8%

Notes

1. The proposed 50% rate is straight-line and subject to the half-year rule. The former 30% rate for Class 43 was based on the declining balance. The increase is temporary and applies to M&P machinery and equipment acquired after March 18, 2007 and before 2009.
2. The building (or the new portion) must be acquired after March 18, 2007. The asset must be placed in a separate class to get the new rate. Also, at least 90% of the square footage must be used for M&P by the end of the taxation year. If the 90% M&P test is not met but 90% of the building is used for other non-residential purposes, the new 6% rate applicable to other non-residential buildings will apply.

3. The building (or the new portion) must be acquired after March 18, 2007. The building must be placed in a separate class to get the new rate. Also, at least 90% of the square footage must be used for the non-residential purpose by the end of the taxation year.
4. The tax shelter property rules will be extended to computer equipment that is eligible for the new 55% rate. If applicable, these rules will limit CCA to the income from the property.

The Budget will make additional assets eligible for accelerated CCA under Classes 43.1 (30%) and 43.2 (50%) if they are acquired after March 18, 2007 and are used to produce clean energy through certain emerging technologies such as:

- Wave and tidal energy equipment
- Active solar equipment
- Small photovoltaic and fixed-location fuel cell systems
- Biogas production equipment
- Pulp and paper waste fuel cogeneration systems
- Biomass drying and other fuel upgrading equipment
- Waste-fuelled thermal energy systems

The date for acquiring assets that qualify for Class 43.2 has been extended to 2019.

Super CCA deductions for oil sands projects will be phased out.

Investment Tax Credit for Child Care Spaces

To encourage businesses to invest in child care, businesses will be entitled to a 25% investment tax credit on eligible expenditures to a maximum credit of \$10,000 per child care space created. The primary business of the taxpayer must be other than the provision of child care. The new spaces can be in a new or existing licensed facility and can be for the benefit of either children of employees or other children.

Eligible expenditures must be incurred after March 19, 2007 including the cost of depreciable property and certain start-up costs such as landscaping an outdoor play area, initial fees for licensing, regulatory and building permits, architectural fees and children's educational material. However, expenditures for a motor vehicle and additions to a residence owned by the taxpayer, an employee of the taxpayer, an owner of the taxpayer or someone related to these persons will not qualify for the credit. Operating expenses will also not qualify.

There will be provisions to recapture the investment tax credit if the property is disposed of within 60 months or there is a change in the use of the property.

INSTALMENTS

The threshold requiring an individual to make quarterly instalments will be increased from \$2,000 to \$3,000 for the 2008 taxation year. For residents of Quebec the threshold will be increased to \$1,800.

The instalment threshold for corporations will be increased from \$1,000 to \$3,000 for taxation years commencing after 2007.

Certain Canadian-controlled private corporations will be allowed to make quarterly instalments instead of monthly instalments. To qualify for this measure the company must be entitled to the small business deduction, the taxable income of the associated group must not exceed \$400,000 and the taxable capital of the associated group must not exceed \$10 million, all in either the current or previous year. In addition, within the past 12 months, the company must have had no compliance irregularities under the *Income Tax Act* or GST portions of the *Excise Tax Act*. This measure will apply to taxation years commencing after 2007.

The quarterly instalments can be either 1/4 of the estimated tax payable for the current year, 1/4 of the tax payable for the preceding year or one payment of 1/4 of the tax for the second preceding year together with three quarterly payments of 1/3 of the tax for the preceding year less the first payment.

Employers with annual source deduction remittances of less than \$1,000 and a perfect compliance history can remit source deductions on a quarterly basis. Commencing in 2008, the threshold will increase to \$3,000. The CRA will advise an employer if they are eligible for quarterly remittances.

DONATIONS

Private Foundations

The zero capital gain for donations of qualifying publicly-listed marketable securities will be extended to donations after March 18, 2007 to private foundations. In addition, the employment benefit associated with the exercise of stock options of a publicly-listed company by an arm's length employee may now also not be taxable where the related securities are donated, within 30 days of exercise, to a private foundation. Private foundations will be subject to special excess business holdings rules which can limit the foundation's holdings of shares, including unlisted shares. Such rules will take into account the holdings of persons not dealing at arm's length with the foundation.

Donations of Medicines for the Developing World

An additional deduction will be available to a corporation which donates medicines from its inventory after March 18, 2007. The deduction will be equal to the lesser of (1) 50% of the excess of the value over the cost of the medicine, and (2) its cost. The donee must be a registered charity which has received a disbursement under a program of the Canadian International Development Agency and the gift is made for the charity's activities outside Canada.

INTERNATIONAL

Foreign Affiliates

For some time, the Auditor General has publicized objections to the use of tax havens by Canadian business. Prior to the Budget, the following strategy might have been implemented by a Canadian corporation ("Canco") that had been earning income outside of Canada.

Canco would establish a subsidiary in a low tax jurisdiction with which Canada has a tax treaty. A useful jurisdiction in this regard has been Barbados. The reason is that Barbados has a tax treaty with Canada and, although Barbados is not ordinarily a low-tax jurisdiction, it allows residents outside of the Caribbean region to incorporate an "International Business Corporation" ("Barbco") which is subject to a maximum tax in Barbados of only 2.5%. Furthermore dividends paid by Barbco to its non-resident shareholders would not be subject to Barbados withholding tax.

Canco would borrow the funds necessary to finance Barbco's business. It would invest such borrowed funds in common shares of Barbco. The international income previously earned by Canco would be channelled into Barbco. Steps would be taken to ensure that the "mind and management" of Barbco was in Barbados so that Barbco would be considered to be resident in Barbados and not in Canada.

The advantages of this structure are as follows.

The after-tax active business income earned by Barbco, a resident of a treaty country, in any treaty country would fall into the "exempt surplus" of Barbco vis-à-vis Canco. Such surplus could be received by Canco as a dividend from Barbco, free of Canadian tax. Notwithstanding this favourable treatment, Canco could offset the interest incurred to finance Barbco, against Canco's other income. Lastly, dividends paid by Canco to its Canadian resident individual shareholders would be taxed at the lower rates applicable to "eligible dividends." Therefore, there would be a virtual 100% corporate tax deferral until Canco paid dividends, an absolute tax saving when Canco paid dividends and a reduction of Canadian corporate taxes due to the interest deduction.

It should be noted that after-tax income earned by an affiliate in a non-treaty country would fall into the affiliate's "taxable surplus." As such, it would be taxed in Canada when received as a dividend by the Canadian holding company.

The Budget has targeted one of the advantages described above in a major way. Subject to certain grandfathering rules, the interest deduction is restricted, as described below, on new debt incurred after March 19, 2007. The restricted deduction will apply to existing non-arm's length debt after 2008 and to existing arm's length debt after 2009.

The restricted interest will be tracked and carried forward. It will be deductible only if and when the foreign affiliate's shares produce taxable income in Canada. An anti-avoidance rule will ensure that indirect financing cannot be used to avoid the new restrictions.

The Budget has actually introduced a new advantage. As indicated above, prior to the Budget, exempt surplus included only after-tax active business income earned in a treaty country. Henceforth, exempt surplus will also include after-tax active business income earned in a country with which Canada has entered into a tax information exchange agreement. The other side of the coin is that, if the country in which the income is earned has not entered into such an agreement with Canada, the income will now be taxed on the accrual basis as it is earned by the foreign affiliate. In the past, such income has been taxed in Canada only when distributed to the Canadian holding company as a dividend.

Withholding Tax on Interest

Canada and the US have both agreed to eliminate withholding tax, currently 10%, on interest payments to residents of the other jurisdiction.

Where the interest is paid or credited to an arm's length party, the withholding tax will be eliminated in the first calendar year following the entry into force of the amendment to the Canada-US tax treaty. Where the interest is paid or credited to a non-arm's length party, the elimination of withholding tax will be phased in. It will be reduced to 7% in the first calendar year after the treaty amendment comes into force, to 4% in the second year and will be eliminated in the third year.

Canada will unilaterally eliminate Canadian withholding tax on all interest paid or credited to arm's length residents of all other countries on or after the date the changes to the Canada-US tax treaty come into effect.

Prescribed Stock Exchanges

Currently, a stock exchange is prescribed if it is either a prescribed domestic exchange or a prescribed foreign exchange. The Budget proposes to replace these two types of prescribed exchanges with a three-tier system consisting of "Recognized stock exchanges", "Stock exchanges" and "Designated stock exchanges." This proposal provides greater flexibility in dealing with international investment while preserving the underlying tax policy goals.

“Designated stock exchanges” will include all current prescribed stock exchanges and will apply for all tax purposes other than section 116 withholding procedures and the securities lending rules. “Recognized stock exchanges” will apply for purposes of section 116 withholding and will include stock exchanges in Canada and in OECD member countries which have a tax treaty with Canada. “Stock exchanges” will include all stock exchanges and will be used for purposes of the securities lending rules.

These changes are proposed to be effective upon Royal Assent to the necessary amending legislation.

Other International Measures

Certain passive income earned by foreign affiliates (e.g. inter-affiliate rents, royalties and interest) is deemed to be active in particular circumstances. Such income may, therefore, form part of exempt surplus rather than “foreign accrual property income” (which latter category of income is taxed in Canada as it is earned). The circumstances in which this will be the case will be tightened up.

Canada will strike an advisory panel of tax experts to identify additional measures to further improve the fairness of Canada’s international tax regime. The intention is for this panel to provide recommendations for inclusion in the 2008 Budget.

SALES, EXCISE TAX AND OTHER MEASURES

48 Hour Travellers’ Exemption

Travellers returning to Canada after March 19, 2007 will be allowed to bring back goods valued at up to \$400 (previously \$200) without having to pay duties or taxes, including customs duty, GST/HST and federal excise tax, provided they have been out of Canada for 48 hours or more.

The dollar limits that apply to 24-hour and 7-day travel remain unchanged, as do the limits on alcohol and tobacco.

Green Levy on “Gas Guzzlers”

A tax on fuel inefficient vehicles is being introduced for new vehicles delivered to dealers or imported after March 19, 2007. The Green Levy will apply to new automobiles designed primarily to carry passengers including station wagons, vans and SUVs, but not pick-up trucks.

The levy will be based on the vehicle’s weighted average fuel consumption as follows:

- at least 13 but less than 14 litres consumed per 100 kilometres, \$1,000;
- at least 14 but less than 15 litres consumed per 100 kilometres, \$2,000;

- at least 15 but less than 16 litres consumed per 100 kilometres, \$3,000; and
- 16 or more litres consumed per 100 kilometres \$4,000.

The Green Levy will be imposed under the *Excise Tax Act* and will be payable by the manufacturer or importer at the time the vehicles are delivered to a purchaser (usually a dealer) or imported. The levy also applies to imported used vehicles put into service after March 19, 2007.

The levy will not apply to vehicles that are manufactured in Canada for export, or to vehicles that are imported and subsequently exported. The levy also will not apply to vehicles in dealer inventory on March 19, 2007, or where a sales agreement with the final consumer is entered into before March 20, 2007 calling for delivery before July 2007.

Rebate for Fuel Efficient Vehicles

The government is introducing a program to provide rebates on the purchase of fuel efficient vehicles. The basic rebate amount of \$1,000 to a maximum of \$2,000 is applicable for vehicle purchases or leases (minimum 12 months) after March 19, 2007.

The vehicles eligible for rebate will be listed on Transport Canada's website (www.tc.gc.ca). The payment of rebates is expected to begin in the fall of 2007 once administration and delivery systems have been put in place.

Removal of Excise Tax Exemption on Renewable Fuels

The government has recently introduced a number of measures to encourage the use and production of renewable fuels. The government has indicated that these measures provide a more comprehensive framework and eliminate the need for the excise tax exemption on renewable fuels. Effective with fuel delivered on or after April 1, 2008 the excise taxes of 10 cents per litre on gasoline and 4 cents per litre on diesel fuel will also apply to renewable fuels used as motive fuels including biodiesel and alcohol-based fuels.

Excise Tax on Diesel Fuel End-User Refunds

The Budget codifies the CRA's practice of paying end-user refunds of excise tax where diesel fuel is used for exempt purposes. For end-user refund claims filed after March 19, 2007, the amendments indicate that only the end user (or vendor of heating oil) will be entitled to claim a refund of excise tax.

GST/HST Remission on Student Transportation Services

It continues to be the government's policy that the provision of student transportation services by school authorities be treated as an exempt activity under the GST/HST. Where school authorities have been reassessed the Budget proposes to remit the GST/HST paid in respect of these student transportation services.

Exports of Intangible Personal Property (IPP)

Technological advancements have greatly increased the use of products, such as computer software, that can be supplied in intangible form.

Effective March 20, 2007 supplies of IPP made to non-residents who are not GST/HST registrants will be zero rated for GST/HST purposes, except for the following:

- a supply of IPP made to an individual who is physically present in Canada when the supply is made;
- a supply of IPP that relates to real property situated in Canada or tangible personal property ordinarily situated in Canada;
- a supply of IPP that relates to a service the supply of which is made in Canada and is not a zero-rated export;
- a supply of IPP that may only be used in Canada; and
- a supply of IPP that is prescribed by regulations.

Foreign Convention and Tour Incentive Programs

The GST/HST Visitor Rebate Program will end on March 31, 2007 as previously announced. In order to ensure foreign convention organizers and tour operators remain competitive, a number of new measures are being introduced. References to the GST should be read as references to the GST and the federal component of the HST:

- for foreign conventions (where at least 75% of participants are non-residents and the sponsor is a non-resident), beginning after March 31, 2007 the organizer will be eligible for a rebate of the GST in respect of the convention facility or supplies relating to the foreign convention;
- sponsors of foreign conventions will not be required to charge GST on any admission fee to the convention;
- for Canadian conventions non-resident attendees will enjoy a GST exemption on the portion of the admission fee related to the convention facility and related supplies and 50% of the admission fee that is attributable to food and beverage;
- non-resident exhibitors at Canadian or foreign conventions will not be required to pay GST nor be eligible for GST rebates in respect of the convention facility or other related supplies;
- non-GST/HST registered organizers of foreign conventions will be entitled to file a rebate claim with CRA for GST paid in respect of a convention facility or related supplies;
- GST/HST registered suppliers to foreign conventions will be able to credit the amount of the GST rebate directly to non-GST/HST registered organizers and claim a deduction equal to that amount on their GST return for supplies related to foreign conventions which become payable after March 31, 2007; and

- non-resident tour packages where the first night of accommodation in Canada is after March 31, 2007 will be eligible for a rebate of the GST on the accommodation portion of the tour package.

GST/HST Annual Filing and Annual Remittance Thresholds

For fiscal years that begin after 2007, the taxable supplies threshold at or below which registrants can file a GST/HST return annually is increased from \$500,000 to \$1,500,000, and the net tax threshold before being required to make quarterly instalments of GST/HST is increased from \$1,500 to \$3,000.

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