



Federal Budget – May 2, 2006

BUDGET OVERVIEW

On May 2, 2006, Finance Minister Jim Flaherty delivered the 2006 federal budget (the “Budget”). The Honourable Mr. Flaherty said “...the budget is balanced, the spending is focused, and taxes will go down for all Canadians”. The robust economy has produced substantial tax revenues, which would have resulted in substantial budgetary surpluses. The government intends to direct a large portion of these surpluses to provide reductions in personal income tax, corporate tax, and the goods and services tax (“GST”). The biggest single change is the promised reduction from 7% to 6% in the GST rate, effective July 1, 2006. Giving effect to these tax reductions and some relatively modest spending initiatives, the government now projects an \$8 billion federal surplus in 2005-06, which will be directed to debt reduction. In addition, the government predicts a surplus of \$3.6 billion in 2006-07 and \$4.4 billion in 2007-08, of which \$3 billion will be directed to debt reduction each year.

The Budget proposes the following significant tax changes:

- To decrease the GST to 6%, effective July 1, 2006. No timetable has been announced regarding the promised further reduction to 5%.
- To increase the small business deduction limit to \$400,000 (from \$300,000), effective January 1, 2007.
- To reduce the small business tax rate from 12% to 11.5% in 2008 and to 11% in 2009.
- To decrease the general corporate tax rate by 2% by 2010 and to eliminate the corporate surtax of 1.12%, effective January 1, 2008.
- To eliminate the large corporations tax as of January 1, 2006, two years earlier than previously scheduled.
- To extend the carry-forward period for non-capital losses and unused investment tax credits to 20 years (from 10 years).
- To introduce an Apprentice Job Creation Tax Credit of up to \$2,000 per qualifying apprentice per annum.
- To implement previously announced reductions in the personal taxation of eligible dividends paid by public corporations, and for Canadian-controlled private corporations (“CCPCs”) to the extent the dividend was paid out of active income that was subject to the general corporate tax rate.

- To increase the lowest federal personal income tax rate from 15% for 2005 to 15.25% for 2006 and to 15.5% for 2007 and subsequent years.
- To eliminate the tax on capital gains realized on publicly-listed securities donated after May 1, 2006 to charities and public foundations. A similar rule will apply to eliminate the tax on donations of certain stock options, and ecologically-sensitive land held as capital property.
- To introduce or enhance tax credits and benefits including:
 - A Universal Child Care benefit of \$100 per month (\$1,200 annually) for each child under the age of 6, commencing in July 2006.
 - The reintroduction of the mineral exploration tax credit for flow-through share agreements entered into between May 2, 2006 and May 31, 2007.
 - An increase in the pension income credit to \$2,000 from \$1,000, for 2006 and later years.
 - A deduction of up to \$500 for the cost of eligible tools in excess of \$1,000 per annum acquired by employed tradespeople.
 - A Canada Employment Credit that will provide a tax credit at the lowest personal tax rate on employment income of up to \$250 in 2006 and \$1,000 in 2007 and thereafter.
 - A new textbook tax credit for post-secondary students.
 - A children's fitness tax credit in respect of up to \$500 in eligible fees incurred by a parent to enroll a child under the age of 16 in an eligible program of physical fitness, starting in 2007.

The highlights of the tax changes announced in the Budget are summarized below. In addition, our commentary discusses the new web-based GST/HST registry.

BUSINESS TAX MEASURES

Corporate Income Tax Rate Reductions and Increase to the Small Business Limit

The Budget proposes to reduce the tax rate on active business income subject to the small business deduction, from 12% to 11.5% effective January 1, 2008, and to 11% effective January 1, 2009. The Budget also proposes to increase the small business deduction limit from \$300,000 to \$400,000, effective January 1, 2007.

The Budget further proposes to reduce the federal general corporate income tax rate from 21% to 20.5% effective January 1, 2008, to 20% effective January 1, 2009, and to 19% effective January 1, 2010. The foregoing rate reductions do not apply to investment income earned by a CCPC. The Budget also proposes to eliminate the 1.12% corporate surtax for all corporations, effective January 1, 2008. The 2% general rate reduction and the elimination of the surtax were originally proposed by the previous Liberal government in the November 2005 mini-budget.

The tax rate reductions and the increase to the small business limit will be prorated for taxation years that straddle the aforementioned dates.

The updated combined federal and Ontario corporate tax rates are reflected in the table on page 14.

Large Corporations Tax (“LCT”)

The Budget proposes to eliminate the LCT, from its present rate of 0.175% of taxable capital in excess of \$50 million, as of January 1, 2006. The LCT rate will be pro-rated for non-calendar taxation years ending in 2006. A corporation will continue to be entitled to apply its surtax liability against its LCT liability, and to carry-back any excess surtax against any LCT liability from its 3 immediately preceding taxation years.

Although LCT will no longer be exigible upon corporations, the calculation of taxable capital will remain relevant for other purposes of the Income Tax Act (“ITA”). For example, the clawback of the federal small business deduction limit will continue to apply to a corporation whose taxable capital, together with that of its associated corporations, exceeds \$10 million.

Carry-Forward Period for Non-Capital Losses and Investment Tax Credits (“ITCs”)

The Budget proposes to extend the carry-forward period from 10 years to 20 years for non-capital losses incurred and ITCs realized in taxation years ending after 2005. The carry-back period of 3 years for non-capital losses and ITCs remains unchanged. The carry-forward period for non-capital losses was previously increased from 7 years to 10 years for taxation years ending after March 23, 2004.

Apprenticeship Job Creation Tax Credit (“AJCTC”)

The Budget proposes to introduce the AJCTC, in order to encourage employers to hire new apprentices in eligible trades. The AJCTC will provide eligible employers with a non-refundable ITC, equal to 10% of the salaries and wages paid to qualifying apprentices after May 1, 2006, to a maximum of \$2,000 per annum per apprentice. In other words, the AJCTC would be available on the first \$20,000 of an apprentice’s salaries and wages. For the purpose of the AJCTC, salaries and wages will not include remuneration based on profits, bonuses, taxable benefits, or stock option benefits. The AJCTC will be claimed as part of the existing ITC system, and thus, will be subject to the same carry-back and carry-forward periods as described above.

Where an apprentice is employed by two or more employers who are related for income tax purposes, a designation must be completed in order to indicate which one is the eligible employer in respect of the employee, for the purpose of claiming the AJCTC. A qualifying apprentice is an individual who works in a prescribed trade during the first two years of the individual’s provincially registered apprenticeship contract. The 45 Red Seal trades will be included as prescribed trades.

Capital Cost Allowance (“CCA”) on Tools

The Budget proposes to increase, from \$200 to \$500, the threshold cost for tools, kitchen utensils, and medical or dental instruments acquired after May 1, 2006, which are eligible for the 100% CCA

rate. In addition, the Regulations will be clarified to exclude electronic communication devices and data processing equipment from the description of tools eligible for the 100% CCA rate.

Non-deductibility of Interest and Penalties

Fines, penalties and certain interest on taxes are currently non-deductible, except where they are imposed under the Excise Act, 2001 (“EA”), the Air Travellers Security Charge Act (“ATSCA”), or the GST/HST portions of the Excise Tax Act (“ETA”). The Budget proposes to extend the disallowance of fines, penalties and interest payable to include amounts imposed under the ATSCA and the GST/HST portion of the ETA.

The foregoing measures will apply to taxation years that begin on or after the later of the date the Budget receives Royal Assent and April 1, 2007.

Functional Currency Tax Reporting

The Budget indicates that the Department of Finance intends to explore the possibility of allowing corporations, who are required for financial reporting purposes to report in a functional currency other than the Canadian dollar, to determine their income for tax purposes in that functional currency.

PERSONAL TAX MEASURES

Dividend Tax Rate Reduction

The Budget confirms the current government’s intention to proceed with measures proposed by the previous federal government to reduce the personal income tax rates on dividends. The measures were originally announced on November 23, 2005, after a review of income trust structures. The proposed reduction was intended to level the playing field between corporations and income trusts with respect to the total federal income tax paid on income earned and distributed through them.

It is proposed that eligible dividends would be grossed up by 45% (currently 25%) and the federal dividend tax credit would be 19% (currently 13.33%) of the grossed-up amount of eligible dividends. Eligible dividends would include dividends paid after 2005 by public corporations and any other corporations, which are subject to the general corporate tax rate. Eligible dividends would not include dividends paid by a CCPC to the extent of its investment income, nor from its active business income that has been subject to tax at the small business deduction rate. Rules are also proposed with respect to the ordering of dividends paid by a corporation.

Whether or not the Ontario government will match the federal proposal remains to be seen. In its latest budget in March 2006, the Ontario government stated that it would review the federal legislation once released and would respond accordingly. If Ontario makes similar reductions in the Ontario dividend tax rate, the overall maximum combined federal and Ontario tax rate on dividends to an Ontario resident individual will be approximately 20% (currently 31.34%).

Personal Income Tax Rate Changes

The Budget proposes to amend the lowest personal income tax rate, applicable to the first \$36,378 of taxable income, to 15.25% in 2006 and to 15.5% thereafter. These rates will also be used to calculate non-refundable tax credits and the alternative minimum tax.

Increases in Basic Personal Amount and Spousal or Eligible Dependent Amount

The Budget proposes to accelerate the scheduled annual increases in the basic personal amount, which is currently \$8,648, to at least \$10,000 by 2009. Similar increases have been proposed to the spousal amount and eligible dependent amount, which is currently \$7,344, to at least \$8,500 by 2009.

Donations of Listed Publicly-Traded Securities and Ecologically Sensitive Land

To further encourage donations of listed publicly-traded securities to charitable organizations and public foundations, the Budget proposes that the capital gains resulting from such donations be non-taxable. The Budget also proposes to exempt from tax certain stock option benefits on the donation of listed publicly-traded securities acquired under the option. As well, in order to assist Canada's landowners and conservation groups in their efforts to preserve Canada's natural heritage, the Budget also proposes that the capital gains resulting from donations of ecologically sensitive land be non-taxable. These measures will apply to donations made after May 1, 2006.

Universal Child Care Benefit ("UCCB")

The Budget proposes to introduce the UCCB, effective July 2006, to provide all families with monthly payments of \$100 per child under the age of 6. The UCCB will be taxable to the lower-income spouse. The UCCB will not be taken into account for purposes of income-tested benefits delivered through the tax system, such as Old Age Security, Employment Insurance benefits or amounts claimable under the child care expense deduction.

As a consequence of the introduction of the UCCB, the Budget proposes to eliminate the Canada Child Tax Benefit ("CCTB") base benefit enhancement for children under the age of 7, effective July 1, 2006.

Reintroduction of Mineral Exploration Tax Credit ("METC") for Flow-Through Share Investors

Under the existing rules, the METC is set to expire for flow-through share agreements entered into after December 31, 2005. The Budget proposes to reintroduce the credit, effective for flow-through share agreements entered into after May 1, 2006 and before April 1, 2007.

Full Exemption for Scholarship and Bursary Income

The Budget proposes to exempt all scholarship, fellowship or bursary income from tax, with respect to post-secondary or occupational training which entitles the student to claim the education tax credit,

effective for the 2006 and subsequent taxation years. Under existing rules, only the first \$3,000 of such income is tax-exempt.

Enhancement to the Pension Income Credit

The Budget proposes to increase the maximum amount of pension income eligible for the pension income credit from \$1,000 to \$2,000, effective for the 2006 and subsequent taxation years.

Increase in Child Disability Benefit (“CDB”)

As previously proposed by the November 2005 mini-budget, the Budget will increase the maximum CDB Supplement of the CCTB per eligible disabled child from \$2,044 to \$2,300, effective July 2006. The benefit will continue to be indexed for future years.

The Budget will also reduce the phase out rate applicable to the CDB Supplement. The CDB Supplement is currently being phased out at a rate of 12.2% of family income in excess of \$36,378 (23% for families with two disabled children, and 33.3% for families with three or more disabled children). The Budget proposes to reduce the phase out rate to 2% for families with one disabled child, and 4% for families with two or more disabled children.

Tradespeople’s Tool Expenses

The Budget proposes that the cost of eligible new tools, in excess of \$1,000 (indexed after 2007), acquired after May 1, 2006 by a tradesperson, be deductible up to a maximum of \$500 per year. This deduction will be in addition to the proposed Canada Employment Credit. Apprentice vehicle mechanics will be eligible to claim this new deduction, in addition to the existing apprentice vehicle mechanic’s tools deduction. Electronic communication devices and data processing equipment will not qualify as eligible new tools for the purpose of this deduction.

Apprenticeship Grant

Without providing any detail thereof, the Budget proposes a new \$ 1,000 grant for first and second year apprentices. The grant will be taxable to the apprentice in the taxation year in which the grant is received.

Refundable Medical Expense Supplement

As previously proposed by the November 2005 mini-budget, the Budget proposes to increase the maximum refundable medical expense supplement from \$767 to \$1,000 for 2006. The amount will be indexed for future taxation years.

New Tax Credits Introduced

Canada Employment Credit

The Budget proposes to introduce a new Canada Employment Credit, effective for the 2006 and subsequent taxation years. The credit will provide tax relief, computed at the lowest personal tax rate, on the first \$250 of employment income for 2006 and on the first \$1,000 of employment income in 2007. The credit will be indexed thereafter.

Textbook Tax Credit

The Budget proposes to introduce a non-refundable textbook tax credit, computed at the lowest personal tax rate, on an amount equal to \$65 per month that the student qualifies for the full-time education tax credit, and \$20 per month that the student qualifies for the part-time education tax credit. Unused textbook tax credit amounts can be carried forward to future taxation years, or be transferred to a spouse, parent, or grandparent. This credit does not have to be supported by receipts for textbook expenditures i.e. the monthly amount is fixed, regardless of how much the student spent on textbooks in the year. This measure will be effective for the 2006 and subsequent taxation years.

Children's Fitness Tax Credit

The Budget proposes to introduce a non-refundable children's fitness tax credit, computed at the lowest personal tax rate, on eligible expenses not exceeding \$500 for the enrolment of a child under the age of 16 in an eligible fitness program, effective for the 2007 and subsequent taxation years. Eligible expenses will not include the purchase or rental of equipment for exclusive personal use, travel, meals and accommodation. As well, those expenses which qualify for the child care expense deduction may not be claimed as part of this credit, and vice versa.

Either parent will be able to claim this credit. The credit will have to be supported by a tax receipt which contains prescribed information for the Canada Revenue Agency ("CRA") to monitor compliance.

Public Transit Pass Tax Credit

The Budget proposes to introduce a non-refundable tax credit claimable by an individual or the individual's spouse, for the cost incurred to acquire monthly public transit passes (or passes of longer duration) by the individual, the individual's spouse, or the individual's dependent children under the age of 19. The measure applies to the cost of transit passes applicable to transit services to be provided after June 30, 2006. Unlike the former credits, there is no annual ceiling for the amount of this credit. Individuals making such claims will be required to retain their receipts for verification purposes.

GST MEASURES

GST/HST Reduction

Effective July 1, 2006, the Budget proposes to reduce the GST rate from 7% to 6%, and the Harmonized Sales Tax (“HST”) rate from 15% to 14%.

The Budget also proposes to maintain the GST credit at current levels for low- and modest-income Canadians and to retain the existing GST rebate rates for new housing purchases and for purchases made by public service bodies.

The Budget proposes transitional rules for determining the GST rate applicable to transactions that straddle the July 1, 2006 implementation date. These rules are intended to minimize the compliance and administrative costs of changing to the new 6% rate.

Transitional Rules

The general transitional rule for the implementation of the GST reduction to 6% will be based upon the time at which the GST in respect of a transaction becomes **payable**. Generally, GST is payable on the consideration for a supply on the earlier of the day payment is made and the day the supplier issues an invoice. The general transitional rules are proposed as follows:

- If GST becomes **payable** or is paid before July 1, 2006, the rate of 7% will apply.
- If GST becomes **payable** after June 30, 2006, the rate of 6% will apply.

In addition to the general transitional rules, the Budget proposes specific transitional rules for certain types of transactions, as discussed below.

(a) Sales of Real Property

The following specific transitional rules will apply in respect of sales of real property.

Ownership or Possession Transferred before July 1, 2006

The 7% rate will apply to all of the consideration in respect of the sale of real property if ownership of the property, or possession of it under a purchase and sale agreement, is transferred to the buyer before July 1, 2006.

Ownership and Possession Transferred after June 30, 2006

The 6% rate will apply to all of the consideration in respect of the sale of real property if, under a purchase and sale agreement entered into after May 2, 2006, both ownership of the property, and possession of it under the agreement, are transferred to the buyer after June 30, 2006.

Written Agreement Entered Into before May 3, 2006

For sales of houses, apartment buildings and other residential complexes, made pursuant to a written agreement entered into before May 3, 2006, GST will apply at the rate of 7%, even if ownership and possession of the real property are both transferred after June 30, 2006. However, where the transfer of ownership and possession both take place after June 30, 2006, the purchaser may file a claim with the CRA to be paid a Transitional Adjustment that reflects the GST rate reduction to 6%, net of any corresponding rebate adjustment.

(b) Deemed Supplies

The Excise Tax Act provides for deemed supplies in a number of circumstances. Under the proposed rules, the rate of 6% will generally be used to determine GST that is deemed under the Excise Tax Act to be paid, or collected, after June 30, 2006. For example, a landlord who is deemed to have paid and collected GST after June 30, 2006 on the fair market value of a newly constructed apartment building would calculate the GST on the fair market value at the rate of 6%.

(c) Imported Goods and Imported Taxable Services and Intangibles

GST at the rate of 6% will apply to goods that are either imported or released from Customs' control after June 30, 2006. The general transitional rule outlined above will determine the rate of tax to be applied to imported taxable services and intangibles. Special transitional rules apply to the self-assessment of GST on certain cross-border transactions of financial institutions.

(d) Taxable Benefits, Passenger Vehicles and Aircraft, and Employee/Partner Rebates

Effective July 1, 2006, adjustments will be made to the factors and rates used to calculate GST on taxable benefits, certain input tax credits in respect of passenger vehicles not used exclusively in commercial activities, and rebates of GST to employees or partners in respect of certain business expenses incurred.

(e) Anti-Avoidance Provision

The Budget proposes that rules will be implemented to prevent inappropriate tax savings in cases where transactions are undertaken between non-arm's length parties to obtain the benefit of the GST rate reduction.

New Housing Rebate and New Residential Rental Property Rebate

The new housing rebate percentage of 36% of the GST paid, and the lower and upper phase-out thresholds of \$350,000 and \$450,000 respectively, will not change as a result of the GST rate reduction. The maximum dollar value of the rebate will be adjusted from \$8,750 to \$7,560; i.e., 36% of the GST paid at the 6% rate on a \$350,000 home.

The new residential rental property rebate will be similarly changed to reflect the GST rate reduction.

Public Service Bodies

No change is proposed to the existing GST rebate percentages used to calculate rebates of the otherwise uncollectible GST claimed by charities, qualifying non-profit organizations and selected public service bodies, such as municipalities, universities and public colleges, schools and hospitals.

Streamlined Accounting Methods

The specified percentages will change for small businesses and public service bodies using the Quick or Special Quick GST Method, effective for reporting periods commencing after June 30, 2006. For example, in the case of business registrants that mainly provide services, the remittance rate under the Quick Method will be reduced from 5.0% to 4.3%. For business registrants that mainly purchase goods for resale, the remittance rate under the Quick Method will be reduced from 2.5% to 2.2%. For reporting periods that straddle July 1, 2006, the existing percentages will apply to consideration that is paid, or becomes payable, before July 1, 2006, and the new percentages will apply to the remaining consideration.

Tobacco and Alcohol Excise Levies

The Budget proposes to increase tobacco excise duties to offset the impact of the GST rate reduction. The new excise duty rates apply only to tobacco products that are packaged or imported after June 30, 2006. To ensure that the increases are applied in a consistent manner and to prevent tax avoidance through inventory build-ups, the proposed excise duty increases will also generally be applied to inventories of tobacco products on July 1, 2006.

The Budget also proposes to increase alcohol excise duties to offset the impact of the GST rate reduction.

ATSC Rates

Certain technical adjustments to ATSC rates are required in order to ensure that consumers receive the full benefit of the GST rate reduction. The new rates will apply to tickets purchased after June 30, 2006.

GST Treatment of Debt Collection Services

The Budget proposes changes to clarify that debt collection services are not financial services for GST purposes, and therefore, are taxable.

Excise Tax on Jewellery

The Budget proposes to repeal the excise tax applicable to deliveries or importation of jewellery, clocks and articles made of semi-precious stones, after May 1, 2006.

Vintners and Small Brewers

The Budget proposes to support vintners and small- and medium-sized brewers by reducing the excise duties on certain wines and beer. The Budget proposes to exempt from excise duty the first 500,000 litres of wine produced and packaged by a wine licensee per annum made from 100% Canadian-grown agricultural products, commencing for taxation years that begin after June 30, 2006. For fiscal years that straddle July 1, 2006, the relief applies to wine packaged after June 30, 2006 and the annual 500,000 litre amount will be prorated based on the number of days after June 30, 2006.

HARMONIZATION MEASURES

Various measures set out below have been announced in order to harmonize the ITA, the ETA, the EA and the ATSCA (collectively, the “Acts”), all of which will apply to taxation years that begin on or after the later of the date the Budget receives Royal Assent and April 1, 2007.

Withholding of Refunds and Rebates

Currently, refunds and rebates are withheld unless all returns, which are required to be filed under the GST/HST portion of the ETA, the EA, and the ATSCA, have been filed. The Budget proposes to extend this measure as well to returns which are also required to be filed under the ITA and the non-GST/HST portion of the ETA.

Penalties and Interest When Due Dates are Extended

The Budget proposes to harmonize the assessment of penalties and interest, where the Minister of National Revenue (the “Minister”) extends the deadline to file a return or remit an amount under any of the Acts. The applicable late-filing penalties and interest will apply only in respect of the period after the extension has expired.

Ministerial Discretion to Waive Interest and Penalties

In order to harmonize with the ITA, the Budget proposes to allow the Minister the discretion to waive interest and penalties imposed under the ETA, EA, and ATSCA, which became payable in any of the 10 preceding calendar years.

Late-Filing Penalties

The Budget proposes to introduce penalties for the late-filing of returns required under the ETA, EA, and the ATSCA. The assessment of late-filing penalties already exists under the ITA.

Interest Accrual on Cancelled Penalties and Interest

In order to harmonize with the ITA, the Budget proposes that interest payable to a person in respect of cancelled penalties and interest imposed under the ETA, the EA, or the ATSCA will begin to accrue within 30 days after the day the Minister received a request from the person to cancel such penalties or interest previously paid by the person.

Collection Restrictions

The Budget proposes to allow the Minister to commence collection action against a taxpayer immediately after issuing a notice of assessment, rather than the present delay of 90 days.

Interest Calculation

In order to harmonize with the ITA and the EA, the rate of interest on amounts owed by persons under the ETA or the ATSCA will be based on the Treasury Bill rate (rounded to the nearest percentage) plus 4%, whereas refund interest will be based on the Treasury Bill rate (rounded to the nearest percentage) plus 2%.

Reallocation of Payments

The Budget proposes to allow the Minister to reallocate, upon a person's request, amounts paid under the ITA to amounts payable under the ETA, the EA, or the ATSCA, with the reallocation taking effect from the date the amount was paid. The result of this amendment will be that amounts paid under any of the Acts can be applied against amounts payable under any of the other Acts.

Accrual of Credit Interest

The Budget proposes that the ETA be amended to provide that interest on all amounts owing to a person begins to accrue 30 days after the person files a credit return or rebate claim.

OTHER**GST/HST Web Registry**

The new web-based GST/HST registry (the "Registry") is now operational, and can be accessed at <http://www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html>. As proposed in the February 2005 Federal Budget, the Registry will enable businesses to confirm the GST/HST registration status of their suppliers on a particular date, in order to ensure the GST/HST number provided by the supplier is valid. In order to be eligible for an input tax credit, a business is required to ensure that GST/HST has been paid to a supplier who is registered for GST/HST purposes. A business may be denied an input tax credit claimed for GST/HST paid to a supplier who is not registered for GST/HST purposes at the time of a particular transaction, even though a GST/HST number (presumably an invalid one) is shown on the supplier's invoice.

The verification of the GST/HST number of a purchaser is also important in situations involving the sale of real property or the exporting of goods or services. In a transaction involving the sale of a real property to a GST/HST registered purchaser, the vendor is not required to collect GST/HST from the purchaser, but rather, the purchaser must self assess the GST/HST on the transaction and claim, if eligible, an offsetting input tax credit. The vendor, however, must ensure that the purchaser is registered for GST/HST at the time of a transaction. If the purchaser is not registered for GST/HST at the time of the transaction, the vendor is liable for the GST/HST on the sale. With respect to the exporting of goods or services, in certain situations, the purchaser must not be registered in order to be eligible for the zero-rated status of the transaction. Therefore, the vendor must ensure that the non-resident purchaser is not registered for GST/HST purposes; otherwise, the vendor could be liable for the GST/HST not collected on the export.

Previously, the sole means available to verify the validity of a GST number and registration was to contact the CRA. Accordingly, the courts tended to be somewhat lenient where a business claimed an input tax credit where they believed the supplier's GST/HST number was valid. With the introduction of the new Registry, the courts may be far less lenient in the future. Therefore, despite the additional administrative cost, we recommend that the accounts payable department of your business regularly verify the GST/HST numbers of your suppliers, particularly where the amount of GST/HST involved is large or the supplier is new. Similarly, it is also recommended that where your business is involved in the sale of real property or the exporting of goods or services, the accounts receivable department should ensure that the GST/HST number is valid and ensure the non-resident is not registered for GST/HST purposes, respectively.

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To discuss the impact of the Budget on your business, please contact your advisor at Goldfarb, Shulman, Patel & Co. LLP.

COMBINED FEDERAL AND ONTARIO CORPORATE TAX RATES

The following combined Federal and Ontario tax rates apply to corporations subject to Ontario tax:

		2005 and 2006	2007	2008	2009	2010
Small business rate on active income up to \$300,000*	Federal	13.12%	13.12%	11.50%	11.00%	11.00%
	Ontario	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>
		18.62%	18.62%	17.00%	16.50%	16.50%
Small business rate on active income from \$300,000 to 400,000*	Federal	22.12%	13.12%	11.50%	11.00%	11.00%
	Ontario	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>
		27.62%	18.62%	17.00%	16.50%	16.50%
Manufacturing & processing rate (income not eligible for the small business rate)	Federal	22.12%	22.12%	20.50%	20.00%	19.00%
	Ontario	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>
		34.12%	34.12%	32.50%	32.00%	31.00%
General rate (active income not eligible for the small business rate)	Federal	22.12%	22.12%	20.50%	20.00%	19.00%
	Ontario	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
		36.12%	36.12%	34.50%	34.00%	33.00%
Investment income (other than dividend income from taxable Canadian corporations)**	Federal	35.79%	35.79%	34.67%	34.67%	34.67%
	Ontario	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
		49.79%	49.79%	48.67%	48.67%	48.67%

* These rates do not take into account the effect of the clawback of the Ontario small business deduction. The clawback applies where taxable income of the corporation and those corporations associated with it, falls between \$400,000 and \$1,128,519. The Ontario clawback rate is 4.67%.

In addition, the table does not take into account that a corporation's business limit for federal tax purposes is clawed back where the corporation, together with any associated corporations, had taxable capital, as computed for federal Large Corporation Tax purposes, in excess of \$10 million in the preceding year.

The rates are presented on a calendar-year basis. Where a corporation's fiscal year straddles two calendar years, its corporate income tax rate will be pro-rated for the number of days in its fiscal year that falls into each calendar year.

** These rates apply to investment income earned by a CCPC, and include refundable dividend tax of 26.67%.