



Federal Announcement – October 30, 2007

ANNOUNCEMENT OVERVIEW

On October 30, 2007, Finance Minister Jim Flaherty announced several tax rate changes with respect to corporate income tax, personal income tax, and the GST.

The Announcement proposes the following significant tax changes:

- To reduce the general corporate tax rate from 22.12% in 2007 to 15% in 2012 and subsequent years.
- To accelerate the reduction of small business tax rate from 13.12% in 2007 to 11% in 2008 .
- To retroactively reduce the lowest personal tax rate from 15.5% to 15%, effective January 1, 2007.
- To enhance the basic personal amount and the spousal amount effective for the 2007 taxation year.
- To decrease the GST from 6% to 5%, effective January 1, 2008.

CORPORATE TAX MEASURES

Reduction of the General Corporate Income Tax Rate

The Announcement proposes to reduce the general corporate income tax rate as follows:

	2007	2008 ¹	2009	2010	2011	2012 and subsequent years
Existing Rates	22.12%	20.5%	20.0%	19.0%	18.5%	18.5%
Proposed Rates	22.12%	19.5%	19.0%	18.0%	16.5%	15.0%

Similarly, the Announcement intends to adjust the distribution tax on publicly traded income trusts and partnerships, which generally applies beginning in 2011, in conjunction with the planned reductions in the general corporate income tax rates in 2011 and beyond.

Accelerating the Reduction of the Small Business Income Tax Rate

The Announcement proposes to accelerate the enhancement of the small business deduction. As a result, the small business income tax rates will be as follows:

	2007	2008 ¹	2009 and subsequent years
Existing Rates	13.12%	11.5%	11.0%
Proposed Rates	13.12%	11.0%	11.0%

PERSONAL TAX MEASURES

Reduction of Lowest Personal Income Tax Rate

The Announcement proposes to reduce the lowest personal tax rate applicable to taxable income of up to \$37,178 from 15.5% to 15%, effective January 1, 2007.

¹ The drop in the rates from 2007 to 2008 reflects, in part, the elimination of the federal corporate surtax of 1.12%.

Enhancement of Basic Personal and Spousal Amounts

The Announcement proposes to increase the basic personal amount and the spousal amount (including the equivalent to spousal amount) as follows:

	2007	2008	2009
Current basic personal and spousal amount	\$8,929	\$9,308	\$10,094
Proposed basic personal and spousal amounts	\$9,600	\$9,600	\$10,100

These amounts will be indexed after 2009.

Reduction to the Dividend Tax Credit

In light of the proposed corporate income tax rate reductions (see Corporate Tax Measures section above), the Announcement indicates that the Minister will consider making adjustments to the dividend tax credit for eligible dividends to ensure the appropriate tax treatment of dividend income. In addition, adjustments may be made to other rules in the Income Tax Act that assume a specific underlying corporate income tax rate.

GST MEASURES

GST Reduction

The Announcement proposes to reduce the GST rate from 6% to 5%, effective January 1, 2008. The Announcement also proposes to maintain the GST credit at current levels for low- and modest-income Canadians, and to retain the existing GST rebate rate for purchases made by public service bodies.

The Announcement proposes transitional rules for determining the GST rate applicable to transactions that straddle the January 1, 2008 implementation date. These rules are intended to minimize the compliance and administrative costs of changing to the new 5% rate.

New Housing Rebate

The new housing rebate will be adjusted to reflect the 5% GST rate. The lower and upper phase-out thresholds of \$350,000 and \$450,000 respectively and the rebate rate of 36% will be maintained; however, the maximum dollar amount will be reduced from \$7,560 to \$6,300 (i.e. \$350,000 x 36% x 5%).

* * *

To discuss the impact of the Announcement on you and 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 will apply to corporations subject to Ontario tax:

		2007	2008	2009	2010	2011	2012
Small business rate on active income up to \$400,000*	Federal	13.12%	11.00%	11.00%	11.00%	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>	<u>5.50%</u>
		18.62%	16.50%	16.50%	16.50%	16.50%	16.50%
Manufacturing & processing rate (income not eligible for the small business rate)	Federal	22.12%	19.50%	19.00%	18.00%	16.50%	15.00%
	Ontario	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>
		34.12%	31.50%	31.00%	30.00%	28.50%	27.00%
General rate (active income not eligible for the small business rate)	Federal	22.12%	19.50%	19.00%	18.00%	16.50%	15.00%
	Ontario	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
		36.12%	33.50%	33.00%	32.00%	30.50%	29.00%
Investment income (other than dividend income from taxable Canadian corporations)**	Federal	35.79%	34.67%	34.67%	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>	<u>14.00%</u>
		49.79%	48.67%	48.67%	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%.