



Federal Budget – February 26, 2008

BUDGET OVERVIEW

On February 26, 2008, Finance Minister Jim Flaherty delivered the 2008 federal budget (the “Budget”). The Government reduced its revenue projections for the current and next fiscal years to reflect the weaker than originally projected economic growth. However, the Government expects continued budget surpluses, which will largely be used to reduce the federal debt. The planned federal debt reductions are \$10.2 billion in the 2007-08 fiscal year, \$2.3 billion in the 2008-09 fiscal year and \$1.3 billion in the 2009-10 fiscal year.

The Budget proposes targeted spending measures in a number of areas, including public transit, education, infrastructure, environmental innovation, international aid, and safety and security.

The Budget proposes to facilitate personal savings by introducing the Tax-Free Savings Account (“TFSA”). Starting in 2009, Canadian individuals 18 years of age or older will be allowed to invest up to \$5,000 per annum in a tax-sheltered TFSA. While the contributions to the TFSA will not be tax deductible, the income and capital gains earned in the account will be tax-free. The individual may withdraw funds from the TFSA at any time without tax or penalty.

The Budget proposes the following additional, significant tax changes:

- To improve the Scientific Research and Experimental Development (“SR&ED”) program by increasing the SR&ED expenditure limit upon which the enhanced 35% investment tax credits (“ITCs”) can be claimed from \$2 million to \$3 million, as well as increasing certain threshold amounts.
- To extend the temporary increase in the Capital Cost Allowance (“CCA”) rate to a 50% straight-line rate (subject to the half-year rule) for Manufacturing and Processing (“M&P”) machinery and equipment acquired before 2010 (instead of before 2009).
- To provide for CCA rates of 50% and 40%, on a declining balance basis (subject to the half-year rule), for 2010 and 2011 respectively, for M&P machinery and equipment acquired in 2010 and 2011, reverting to a 30% declining balance rate thereafter.

- To adjust the eligible dividend tax system to recognize the previous reductions in the federal corporate tax rate.
- To relax the time limits and age limits applicable to Registered Education Savings Plans.

The highlights of the tax changes announced in the Budget are summarized below.

BUSINESS TAX MEASURES

Scientific Research and Experimental Development (“SR&ED”)

Investment Tax Credits (“ITCs”)

Currently, Canadian-controlled private corporations (“CCPCs”) are eligible to claim an enhanced ITC rate of 35% on up to \$2 million of qualified SR&ED expenditures annually. The \$2 million annual SR&ED expenditure limit must be shared by an associated group of corporations. The Budget proposes to increase the expenditures upon which the enhanced 35% rate can be earned to \$3 million from \$2 million.

The current \$2 million SR&ED expenditure limit gets phased out where the taxable incomes for the preceding taxation year of an associated group of corporations was between \$400,000 and \$600,000, and is completely eliminated at \$600,000. In conjunction with increasing the expenditure limit to \$3 million, the Budget proposes to increase the upper limit of the phase out range of the prior year taxable income to \$700,000 from \$600,000.

In addition to the foregoing, the current \$2 million SR&ED expenditure limit gets phased out where the taxable capital of the preceding taxation year of an associated group of corporations was between \$10 million and \$15 million, and is completely eliminated at \$15 million. The Budget proposes to increase the upper limit of the phase out range for prior year taxable capital to \$50 million from \$15 million.

The proposals will be applicable for taxation years that end on or after February 26, 2008, and will be pro-rated based on the number of days in that taxation year that are after February 25, 2008.

SR&ED Expenditures Incurred Outside Canada

Currently, expenditures incurred on SR&ED carried on outside Canada do not qualify for ITCs. The Budget proposes to allow salaries of Canadian residents, incurred after February 25, 2008, for SR&ED performed outside Canada to be considered eligible expenditures for ITC purposes. For this purpose, permissible salary will not include remuneration based on profits or bonuses, or remuneration that is subject to an income/profits tax by a foreign country.

To qualify, the activities carried on outside Canada must be directly undertaken by the taxpayer and be in support of SR&ED carried on by the taxpayer in Canada. The permissible salaries incurred for SR&ED performed outside Canada will be limited to 10% of the total salaries and wages directly attributable to SR&ED carried on by the taxpayer in Canada during the year.

The proposal will apply to salaries incurred by a taxpayer on or after February 26, 2008.

Capital Cost Allowance (“CCA”) Rate Changes

Temporary Enhanced CCA for Manufacturing & Processing (“M&P”) Equipment

The 2007 Budget introduced a temporary incentive for M&P equipment acquired on or after March 19, 2007 and before 2009. Specifically, rather than being permitted the standard CCA rate of 30% on a declining balance basis under class 43, CCA is allowed on such equipment at a 50% straight-line rate under class 29. The Budget proposes to extend the class 29 CCA treatment for M&P equipment acquired in calendar 2009.

In addition to the foregoing, the Budget proposes the following enhanced CCA claims for M&P equipment acquired in calendar years 2010 and 2011:

- i) M&P equipment acquired in 2010 will be eligible for CCA computed at a 50% declining balance rate in the first taxation year, a 40% declining balance rate in the second taxation year, and the regular 30% declining-balance rate thereafter.
- ii) M&P equipment acquired in 2011 will be eligible for CCA computed at a 40% declining balance rate in the first taxation year, and the regular 30% declining-balance rate thereafter.

To implement this transition, the eligible assets acquired in 2010 and 2011 will be placed in a separate class 43 for each year. The half-year rule, which limits the CCA claim in the year an asset is acquired to one-half of the normal CCA deduction, will apply to properties subject to the enhanced CCA rates.

Accelerated CCA Rate for Clean Energy Generation Equipment

The Budget extends the list of equipment that qualifies for the accelerated 50% CCA rate, computed on a declining-balance basis, to include qualifying ground-source heat pump systems and an expanded list of feedstocks for eligible biogas production equipment. Furthermore, many of the user restrictions imposed upon the sale of waste output will be eliminated, thereby expanding the list of equipment used to produce energy from waste eligible for the special CCA treatment. These changes will apply to eligible assets acquired on or after February 26, 2008.

Enhanced CCA Rates

The Budget proposes to enhance the CCA rates for the following assets acquired on or after February 26, 2008:

Asset	Current Rate	New Rate
Railway Locomotives	15%	30%
Carbon Dioxide Pipelines	4%	8%
Pumping & Compression Equipment used on Carbon Dioxide Pipelines	4%	15%

Late Remittance of Payroll Source Deductions

The Budget proposes to legislate the graduated penalty regime for the late remittance of payroll source deductions, which has been administratively followed by the Canada Revenue Agency (“CRA”) since 2003. The Income Tax Act (Canada) (the “Tax Act”) provides for a fixed penalty of 10% of the amount of a late remittance, even where the remittance is only one day late. In 2003, the CRA created a “pilot project”, whereby the penalty for late remittances was instead imposed on a graduated basis, based on the lateness of the remittance. Effective for remittances that are due after February 26, 2008, the penalty regime created under the pilot project will now be legislatively enacted, as follows:

Number of Days Late	Penalty
1 to 3 days	3%
4 or 5 days	5%
6 or 7 days	7%
More than 7 days	10%

Mandatory Remittances to Financial Institutions

The Budget proposes to allow large employers to make source deduction remittances directly to the CRA on or after February 26 2008, provided such remittances are made at least one full day before the due date for the remittance. Currently, large employers (generally employers whose average monthly source deductions are \$50,000 or more) must remit their source deductions at a financial institution, rather than making their remittance directly to the CRA. This requirement was originally imposed in response to the practice of some large employers of intentionally remitting their withholdings to the CRA at the end of the due date, causing the CRA to be unable to deposit the amount until the following day.

Business Number (“BN”) Initiatives

Under the Budget, the CRA will be permitted to share BN-related information, such as contact, identification and status information, with the provinces and municipalities, in order to improve efficiency and reduce paper burden on businesses.

Streamlining Sales of Taxable Canadian Property (“TCP”) by Non-Residents

The Budget proposes three changes, described below, to streamline the rules that apply to dispositions of TCP by non-residents. When TCP is sold by a non-resident, the purchaser is generally required under section 116 of the Tax Act to withhold a portion of the purchase price and remit it to the CRA. The non-resident vendor may apply to the CRA for a “clearance certificate” by either remitting the tax, posting security or satisfying the CRA that the tax owing will be lower. This procedure must be followed even if any income or gain on the disposition of the property would be exempt from tax under an income tax treaty (“treaty-protected property”).

Exemption from Withholding Requirements

A disposition of a property that is a treaty-protected property, at the time of its disposition, will be exempt from section 116 withholding. Where the purchaser is related to the non-resident vendor, a notice setting out basic information about the transaction and the vendor must be sent by the purchaser to the CRA. This change will not relieve any person of tax, but will reduce or eliminate the section 116 requirements.

“Reasonable Inquiry” Protection

The Budget proposes to expand the existing “reasonable inquiry” protection for a purchaser of TCP from a non-resident vendor, if:

- the purchaser concludes, after reasonable inquiry, that the vendor is a resident of a treaty country;
- the TCP would be treaty-protected property, if the vendor is a resident of the treaty country referred to above; and
- the purchaser sends to the CRA a notice setting out basic information about the transaction and the vendor, within 30 days of the date of acquisition of the TCP.

Exemption for Filing Returns

The Budget will exempt a non-resident from filing a Canadian income tax return in respect of a disposition of TCP, provided all of the following criteria are met:

- no Part I tax is payable by the non-resident for the taxation year;
- the non-resident does not have an unsatisfied tax liability for any previous taxation year; and
- each TCP is an “excluded property” for section 116 purposes, which will now include treaty-protected property, or property subject to a “clearance certificate” under section 116 of the Tax Act.

These changes will apply in respect of dispositions that occur after 2008.

Donation of Medicines for the Developing World

Donations of medicine inventory by corporations to eligible charities are currently eligible for a charitable donations deduction equal to the fair market value of the inventory donated, as well as a special additional deduction equal to the lesser of (a) 50% of the amount, if any, by which the fair market value of the donated medicine exceeds its cost; and (b) the cost of the donated medicine. The Budget proposes to expand the definition of an eligible charity to include a registered charity that, in the opinion of the Minister of International Cooperation, meets certain conditions, such as acting in a manner consistent with the objectives of the World Health Organization Guidelines for Drug Donations, having expertise in delivering medicine to the developing world, and implementing appropriate policies and practices with respect to international development assistance. The Budget also proposes that eligible medicine must be donated at least six months prior to the expiration date of the medicine.

These measures will apply to donations made on or after July 1, 2008.

Tax on “Specified Investment Flow-Through Entities” (“SIFT”) – Provincial Component

Subject to certain transitional rules, certain non-portfolio earnings of a SIFT are taxed at a rate consisting of two components: the first component is equal to the federal general corporate tax rate and the second component is an additional tax of 13% in lieu of provincial tax.

The Budget proposes that for 2009 and subsequent years, the provincial component of the SIFT tax will be the same as the general provincial corporate tax rate in each province in which the SIFT has a permanent establishment. The provincial rate will be determined by notionally allocating the SIFT’s taxable distributions to the provinces according to the general corporate taxable income allocation formula. Distributions that are not allocated to any province will be subject to a 10% provincial component. Taxable distributions allocated to Quebec will not be subject to the provincial component, but instead will be subject to the SIFT tax imposed by Quebec.

PERSONAL TAX MEASURES

Introduction of the Tax-Free Savings Account (“TFSA”)

Effective 2009, a Canadian resident individual 18 years of age or older will be eligible to contribute up to \$5,000 per annum (indexed annually) to his/her TFSA. Contributions to a TFSA will not be tax deductible. However, income, losses and gains in respect of investments in the account will not be taxable, nor be taken into account for determining eligibility for certain income-tested benefits or credits. Furthermore, all amounts withdrawn from the account will be tax-free.

Unused contribution room will be carried forward indefinitely. Any amounts withdrawn in a year will be added to the subsequent year’s contribution room, so that the individual may re-contribute an equivalent amount in the future. Excess contributions will be subject to a penalty tax of 1% per month of the excess amount contributed.

Other key features of the new account include:

- Investments that a TFSA will be permitted to hold will generally be the same as those permitted for RRSP purposes. Restrictions will be imposed on investments in entities with which the account holder does not deal at arm’s length (including entities of which the account holder is a “specified shareholder”).
- Interest on money borrowed to invest in a TFSA will not be tax deductible.
- TFSA assets may be used as collateral for a loan.
- The attribution rules will not apply to TFSA contributions made to spousal plans, or to income or gains generated from such contributions.
- Income, gains, or losses that accrue in a TFSA account after the death of the account holder will generally be taxable, while those that accrued before death will remain tax-exempt.
- Special rules will be enacted to permit the transfer of TFSA assets to the spouse’s TFSA upon death or upon the breakdown of a marriage or a common law partnership.
- An individual who ceases to be a resident of Canada can maintain his/her existing TFSA and continue to be exempt from tax on investment income and withdrawals. However, contributions will not be allowed, and contribution room will not be accrued, during the non-residency period.

Eligible Dividend Tax System

Since 2006, *eligible dividends* received by individuals have been subject to a higher gross-up (45%, rather than 25%) and enhanced dividend tax credit (“DTC”) (18.97% of the grossed-up dividend, rather than 13.33%), in recognition of the fact that the underlying corporate income was assumed to be taxed at a federal rate of 19%.

On October 30, 2007, the Finance Minister announced reductions in the federal corporate tax rates, as follows:

	2007	2008 ¹	2009	2010	2011	2012 and Subsequent Years
Previous 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%

At that time, the Finance Minister indicated that adjustments would be required to the DTC for eligible dividends, in order to ensure the appropriate tax treatment of the dividend income. Consequently, the Budget proposes to adjust the gross-up factor and DTC for eligible dividends received commencing in 2010, as follows:

	2008	2009	2010	2011	2012 and Beyond
Gross-Up Factor	No Change	No Change	44%	41%	38%
Enhanced DTC	No Change	No Change	18%	16.5%	15%

As of the date of this Budget, the Ontario gross-up factor for an eligible dividend remains at 45%, and the DTC for an eligible dividend will continue to be implemented as originally announced, specifically 7.0% for calendar 2008, 7.4% for calendar 2009, and 7.7% for calendar 2010 and beyond. One would expect that Ontario will harmonize the gross-up factors for an eligible dividend with those announced in the Budget, and accordingly, will adjust the dividend gross-up and DTC.

Until such time, however, that Ontario announces its harmonization with the federal system for eligible dividends, the following table shows the tax rates applicable to eligible dividends received by an Ontario individual in the highest income tax bracket based on the Budget announcement:

	2007	2008	2009	2010	2011	2012 and Beyond
Eligible Dividend Received	24.63%	23.95%	23.05%	23.67%	25.45%	27.15%

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

Registered Education Savings Plans (“RESP”)

Effective 2008, the Budget proposes the following changes to time limits and age limits in regards to an RESP:

- The number of years in which contributions can be made to an RESP after the opening of a plan will increase from 21 years to 31 years. For RESPs of beneficiaries eligible for the disability tax credit, the number of years will increase from 25 years to 35 years.
- The deadline for plan termination will increase from the 25th anniversary of the opening of a plan to the 35th anniversary. For plans of beneficiaries eligible for the disability tax credit, the plan termination will increase from the 30th anniversary to the 40th anniversary.
- The age limit of the beneficiaries of family plans, at which point no additional contributions may be made, will increase from 21 years of age or older to 31 years of age or older.

Additionally, beneficiaries will be able to receive Educational Assistance Payments (“EAPs”) from the plan for up to six months after ceasing to be enrolled in a qualifying program, provided that the payment would have qualified as an EAP if it had been made immediately before the student’s enrolment ceased, for 2008 and later years.

Exchangeable Securities

Where a taxpayer donates certain publicly traded securities of a Canadian or foreign company to a registered charity or other qualified donee (e.g. a private or public foundation), any capital gain realized upon the disposition of the donated securities is exempt from capital gains tax. The Budget proposes to extend the capital gains exemption for capital gains realized after February 26, 2008 upon the exchange of unlisted securities, comprised of shares or certain partnership interests, for publicly traded securities, where:

- i) the unlisted securities included, at the time that they were issued, a condition allowing the holder to exchange them for the publicly traded securities;
- ii) the publicly traded securities are the only consideration received on the exchange; and
- iii) the publicly traded securities are donated to a registered charity or other qualified donee within 30 days of the exchange.

Additional rules will apply where the exchangeable securities are partnership interests, in order to ensure that only capital gains that reflect economic appreciation of the partnership interests are exempted, rather than gains which arise because of various reductions to the cost base of partnership interests.

Private Foundations – Excess Corporate Holdings

The March 19, 2007 Budget extended the capital gains exemption for the donation of publicly-listed securities to private charitable foundations. Concurrently, the 2007 Budget introduced an excess corporate holdings regime, in order to limit the potential opportunities for persons connected with a foundation to use their own and the foundation's shares for their own benefit. The regime places limits on the foundation's share ownership that take into account the holdings of those persons with which it does not at arm's-length. Transitional rules allow foundations to divest themselves of excess corporate shares held on March 18, 2007 over a 20 year period.

The Budget proposes to exempt from this regime certain shares that are not listed on a designated stock exchange, which were held by the private foundation on March 18, 2007. In addition to the foregoing, in determining the shares owned by the foundation for the purposes of the regime, the Budget proposes that shares held by a trust be attributed to the foundation in proportion to the value of the foundation's interest in the trust, where certain conditions apply. These measures are retroactive to March 19, 2007.

Expansion of Medical Expenses Eligible for the Medical Expense Tax Credit (“METC”)

Effective 2008, the Budget proposes to expand the list of expenses eligible for the METC to include the following:

1. The cost to purchase, operate, and maintain the following devices prescribed by a medical practitioner:
 - Altered auditory feedback devices for the treatment of a speech disorder;
 - Electrotherapy devices for the treatment of a medical condition or a severe mobility impairment;
 - Standing devices for standing therapy in the treatment of a severe mobility impairment, and
 - Pressure pulse therapy devices for the treatment of a balance disorder.
2. Eligible expenses for animals specially trained to assist an individual who is severely affected by autism or epilepsy.

Clarification of the Eligibility of Drugs and Medications for the METC

Recent court decisions have interpreted the current tax legislation to allow a METC in respect of the cost of certain over-the-counter drugs and supplements, in some situations. The Budget proposes that drugs and medications purchased after February 26, 2008 that may be purchased without a prescription will not be eligible for the METC.

Registered Disability Savings Plan (“RDSP”)

The 2007 federal budget introduced the RDSP to help parents and others save to ensure the long-term financial security of a child with a severe disability. For an individual to qualify as a beneficiary under an RDSP, the individual must be eligible for the disability tax credit. The Budget proposes to amend the RDSP rule that provides for a mandatory collapse of the plan if the beneficiary ceases to be eligible for the disability tax credit, to provide instead for a mandatory collapse of the plan only where the beneficiary’s condition has factually improved to the extent that the beneficiary no longer qualifies for the disability tax credit. The proposal is intended to avoid situations where a beneficiary, for example, a child under an RDSP, tries to gain access to the funds in the RDSP by rescinding his or her disability tax credit certification.

Extension of the Mineral Exploration Tax Credit

The Budget proposes to extend eligibility for the credit to flow-through share agreements entered into on or before March 31, 2009. The credit was formerly scheduled to expire on March 31, 2008.

SALES AND EXCISE TAX MEASURES

Goods and Services Tax (“GST”) Health Measures

There are two key policies underlying the GST treatment of health-related goods and services. Basic health care services are exempt from the GST, meaning that suppliers of exempt health care services do not charge GST to patients, but they cannot recover any GST paid on their costs. On the other hand, prescription drugs and certain medical devices are zero-rated, meaning that suppliers of such goods do not charge GST, but are eligible to recover GST on their costs.

The Budget proposes to improve the application of the GST to a range of health care services, prescription drugs and medical devices to reflect the evolving nature of the health care sector. The changes proposed, which will generally be effective after February 26, 2008, include:

- To expand the GST exemption for basic health and education services to include training that is specially designed to assist individuals to cope with the effects of a disorder or disability, such as autism.
- To expand the GST exemption for nursing services rendered to an individual by a registered nurse, a registered nursing assistant, a licensed or registered practical nurse or a registered psychiatric nurse, if the service is provided within a nurse-patient relationship, regardless of where the service is performed.
- To expand the GST exemption for diagnostic services to include those ordered by registered nurses.

- To zero-rate all supplies to final consumers of drugs prescribed by health professionals, who are otherwise authorized to prescribe them under provincial or territorial legislation.
- To expand the list of zero-rated medical and assistive devices.
- To treat as GST exempt the services of health care professionals, regardless of whether their services are supplied directly by the health care professional or through a corporation.
- To clarify the GST treatment of long-term residential care facilities, in order to ensure that the GST New Residential Rental Property Rebate and GST exempt treatment will apply on the subsequent sale of the facility. Specifically, the GST self-assessment rules and the New Residential Rental Property rebate will be modified so that they apply where either “possession” or “use” of a residential unit in a residential facility is given to an individual under a lease, license or similar arrangement for the purpose of occupying the unit as a place of residence. This change will also apply to certain past transactions where the owner has paid GST on the facility or elects to have the new rules apply.
- To clarify the GST exempting provisions to ensure that “head lease” payments by an operator to an owner of a long-term residential care facility are exempt.

GST Treatment of Property Leases for Wind and Solar Power Equipment

The Budget proposes that GST not apply to the supply of a right of entry or use to generate, or evaluate the feasibility of generating, electricity from the sun or wind. Consistent with current rules, this expanded GST relief will not apply if the supply is made directly to a consumer or to a person who is not a GST registrant, and who acquires the right in the course of a business of making supplies to consumers.

The proposal will apply to supplies made on or after February 26, 2008. It will also apply to supplies made before February 26, 2008 but only in respect of the portion of the consideration for the supply that becomes payable, or is paid without having become payable, on or after February 26, 2008.

Changes to Tobacco Excise Duties

Numerous changes are proposed to enhance tobacco tax enforcement and compliance. For example, to discourage the multiplicity of package sizes, the Budget proposes to charge a flat excise duty on manufactured tobacco per 50 grams or fraction thereof beginning July 1, 2008. Also, the Budget proposes to increase the excise tax rate on tobacco sticks to be equal to the rate on cigarettes effective February 27, 2008. Furthermore, the Budget proposed several changes to the excise duty regime on tobacco products that are sold in duty free markets, effective February 27, 2008.

Excise Duty on Imitation Spirits

Imitation spirits, due to its brewing process, currently qualify for a lower excise duty rate applicable to beer products. Effective February 27, 2008, the Budget proposes to treat brewed products with alcohol concentration exceeding 11.9% as spirits, which are subject to a higher excise duty rate.

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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 Budget does not change the federal corporate tax rates. The following combined federal and Ontario tax rates continue to apply to corporations subject to Ontario tax:

		2007	2008	2009	2010	2011	2012
Small business rate on active income up to \$400,000 ¹	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%
Small business rate on active income between \$400,000 and \$500,000 ²	Federal	22.12%	19.50%	19.00%	18.00%	16.50%	15.00%
	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>
		27.62%	25.00%	24.50%	23.50%	22.00%	20.50%
General rate (active income not eligible for the small business rate) ³	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%
Manufacturing & processing 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>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%
Investment income (other than dividend income from taxable Canadian corporations) ⁴	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%

¹ 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 \$500,000 and \$1,500,000. The Ontario clawback rate is 4.25%.

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.

² On December 13, 2007, Ontario Finance Minister Dwight Duncan announced a proposed increase in the Ontario small business deduction threshold to \$500,000, effective retroactively to January 1, 2007, which has not yet passed into law.

³ The federal general rates shown for 2008 to 2012 reflect the federal tax rate reductions announced in the October 30, 2007 Federal Announcement, but which have not yet passed into law.

⁴ These rates apply to investment income earned by a CCPC, and include refundable dividend tax of 26.67%.