
2011 Budget Brief

The 2011 Federal Budget was tabled on Tuesday March 22, 2011 (“Budget Day”). The Budget, in the words of Finance Minister Jim Flaherty is “a low-tax plan for jobs and growth.”

PERSONAL INCOME TAX MEASURES

Children’s Arts Tax Credit

Budget 2011 proposes to introduce a 15% non-refundable tax credit on an amount up to \$500 for children under the age of 16, enrolled, for 2011 and subsequent years, in an eligible program of artistic, cultural, recreational or developmental activities. The eligible programs are programs that are ongoing in nature which are either a weekly program for a minimum of eight consecutive weeks or in the case of camps are a minimum of five consecutive days.

Either parent may claim the credit amount up to the maximum or it may be shared. Any amounts claimed under another credit program such as medical expense tax credits will not also qualify for the Children’s Arts Tax Credit.

Volunteer Firefighters Tax Credit

Volunteer firefighters in 2011 and subsequent taxation years will be eligible for a non-refundable tax credit of 15% of \$3,000. To qualify the volunteer firefighter must perform at least 200 hours of volunteer firefighter services in the taxation year and will be ineligible for the existing tax exemption of up to \$1,000 for honoraria paid by a government.

Family Caregiver Tax Credit

Budget 2011 proposes to create a non-refundable tax credit of 15% of \$2,000 for caregivers of dependants with a mental or physical infirmity. This will apply beginning in 2012.

Medical Expense Tax Credit for Other Dependants

Currently a caregiver may claim a medical expense tax credit, to a maximum of \$10,000, on medical expenses paid for a dependant relative (this could be a child 18 and older, grandchild, parent, grandparent, brother, sister, aunt, uncle, niece or nephew dependent on the caregiver for support). Budget 2011 proposes to eliminate this \$10,000 limit on eligible medical expenses in respect of a dependent relative.

This measure will apply to 2011 and subsequent taxation years.

Child Tax Credit Eligibility

Currently, only one individual can claim the Child Tax Credit (CTC) in respect of the same domestic establishment, which means that when two or more families share a home, only one individual in one family may claim the CTC in respect of his or her children. Budget 2011 proposes, effective for 2011 and subsequent taxation years, to repeal the current rule that limits the number of CTC claimants to one per domestic establishment.

Tuition Tax Credit – Examination fees

Budget 2011 proposes to amend the Tuition Tax Credit to recognize fees paid to an educational institution, professional association, provincial ministry or other similar institution to take an examination, in 2011 and subsequent taxation years, that is required to obtain a professional status recognized by federal or provincial statute, or to be licensed or

certified in order to practice a profession or trade in Canada. Those fees include the cost of examination materials used during the examination and certain prerequisite study materials, but will not include costs for travel, parking, equipment, or other costs that are currently ineligible for the tuition tax credit.

These amendments will not apply to fees in respect of examinations taken in order to begin study in a profession or field, such as a medical college admission test.

Education Tax Measures – Study abroad

Budget 2011 proposes to reduce the minimum course duration requirement that a Canadian student at a foreign university must meet in order to claim the Tuition, Education and Textbook Tax Credit and to receive Educational Assistance Payments (“EAP’s”) from a Registered Education Savings Plan (“RESP”). The new lower course duration is three consecutive weeks, reduced from 13 consecutive weeks, for tuition fees paid for courses taken in the 2011 and subsequent taxation years and to EAP’s made after 2010.

RESPs – Asset Sharing Among Siblings

Budget 2011 proposes to allow transfers between individual RESPs for siblings, without tax penalties and without triggering the repayment of Canada Education Savings Grants, provided that the beneficiary of a plan receiving a transfer of assets had not attained 21 years of age when the plan was opened. These measures have been implemented to allow subscribers of separate individual plans to have the same flexibility to allocate assets among siblings as exists for subscribers of family plans.

These measures will apply to asset transfers that occur after 2010.

RDSPs – Shortened Life Expectancy

Under current rules, when an amount is withdrawn by a beneficiary of a registered disability savings plan (“RDSP”), or an RDSP is terminated, a beneficiary is generally required to repay any Canada disability savings grants (“CDSG”) and any Canada disability savings bonds (“CDSB”) received by the RDSP in the preceding 10 years.

Budget 2011 proposes to provide RDSP beneficiaries with shortened life expectancies more flexibility to withdraw their RDSP assets without requiring the repayment of CDSGs and CDSBs.

An RDSP beneficiary is considered to have a shortened life expectancy if a medical doctor certifies in writing that the beneficiary’s state of health is such that, in the doctor’s opinion, the beneficiary has a life expectancy of five years or less.

In order to take advantage of the new rules an RDSP plan holder will be required to file an election, in prescribed form, and submit the election with a medical certification to the RDSP issuer.

If the election is made, withdrawals made at any time following an election will not trigger the repayment of CDSGs and CDSBs provided that the total of the taxable portions of the withdrawals does not exceed \$10,000 annually.

As well, under the proposal, once an election has been made, the following rules will apply:

- No further contributions to the plan will be allowed except that a rollover of a deceased individual’s Registered Retirement Savings Plan or a Registered Retirement Income Fund proceeds to the RDSP of a financially dependent infirm child or grandchild will still be permitted.

- No new CDSGs or CDSBs will be paid into the plan. Upon the passing of the beneficiary, any CDSGs and CDSBs remaining in the plan and that were received by the plan within the preceding 10 years must be repaid.
- No CDSG or CDSB entitlements will be carried forward in respect of years under election, other than for the year in which the election is made.
- The minimum withdrawal requirements that ordinarily apply in the year in which a beneficiary attains 60 years of age will apply to the plan starting in the year following the election, regardless of the age of the beneficiary.

Generally, these rules will apply to the plan on an ongoing basis unless a plan holder reverses the election.

This measure will apply after 2010 to withdrawals made after Royal Assent to the enacting legislation. However, as a transitional rule, beneficiaries making an election under this measure will be permitted to utilize their 2011 withdrawal limit in 2012 provided that the required medical certification was obtained before 2012.

Registered Retirement Savings Plan's ("RRSP's") Anti-Avoidance Measures

Budget 2011 proposes a number of changes to address concerns regarding the use of RRSP's in tax planning schemes often referred to as "RRSP strips." RRSP strips purport to allow RRSP annuitants to access their RRSP funds without including the appropriate amounts in their taxable income. Legislative changes will address these abuses by introducing anti-avoidance rules that currently apply to Tax-Free Savings Accounts ("TFSA's"). The avoidance rules are referred to as:

- The advantage rules;
- The prohibited investment rules; and
- Non-qualified investments.

Under the **advantage rules** the annuitant of the RRSP will be subject to tax on certain advantages obtained from transactions undertaken to benefit from the tax attributes of RRSP's. The proposed advantage rules will result in tax equal to the amount of the benefit obtained, or if the benefit was in the form of debt, the amount of the debt. The resulting tax will typically be payable by the RRSP annuitant.

The **prohibited investment rules** effectively prohibit investments in debt of the RRSP holder and investments in which the RRSP holder (or a non-arm's length person) has a significant interest (generally 10% or more). The annuitant will be subject to a special tax equal to 50% of the fair market value of a prohibited investment acquired by the annuitant's RRSP. The tax will generally be refunded if the investment is disposed of by the RRSP by the end of the year following the year in which the tax applied.

The consequences for investing in **Non-qualified investments** will be modified so that now a special tax equal to 50% of the fair market value of a non-qualified investment will apply to the annuitant of the RRSP at the time the RRSP acquired the investment or the investment becomes non-qualified. As with the prohibited investment rules the tax will generally be refunded if the investment is disposed of from the RRSP by the end of the year following the year in which the tax applied.

With some exceptions these rules will apply to transactions occurring and investments acquired after March 22, 2011.

Individual Pension Plans

An individual pension plan ("IPP") is, in general terms, a defined benefit pension plan established for one individual. The Budget proposes that the annual minimum withdrawals from the IPP be similar to the current minimum withdrawal requirements for a Registered Retirement Income Fund ("RRIF"). This will limit the deferral of tax on IPP savings to effectively what is provided for with a RRIF.

When an IPP is established there is often a requirement to fund past service costs. Budget 2011 will require that past service contributions to an IPP be satisfied from transfers of RRSP assets, or a reduction in the IPP member's accumulated RRSP room, before the employer can make any new past service contributions. This will apply for IPP past service contributions made after March 22, 2011 with only limited exceptions.

Tax on Split Income

To limit income splitting, a special tax, computed at the top federal marginal rate (29%), is payable on certain income from private businesses received by a minor (split income). This tax is commonly referred to as the "kiddie tax". Kiddie tax currently applies to taxable dividends and shareholder benefits received directly or indirectly from a corporation (other than a public corporation or mutual fund corporation) and income from a partnership or trust derived from providing property or services to, or in support of, a business carried on by a person related to the child or in which the related person participates.

Beginning on or after March 22, 2011, kiddie tax will be extended to apply to capital gains realized by or included in the income of a minor from the disposition of shares to a person who does not deal at arm's length with the minor if taxable dividends on those shares would have been subject to the kiddie tax. These capital gains will be treated as taxable dividends other than eligible dividends, and therefore will not benefit from the capital gains inclusion rate or qualify for the capital gains exemption. The kiddie tax payable for 2011 by a minor child resident in Alberta on capital gains subject to these new rules will be 27.71% of the gross capital gain.

Mineral Exploration Tax Credit

The Budget proposes to extend eligibility for the mineral exploration tax credit, a 15% credit of specified mineral exploration expenses incurred in Canada, for individuals investing in mining flow through shares. The program will be extended to flow through share agreements entered into on or before March 31, 2012.

Administrative Changes

In-Year Notification of Marital Status Changes

Under existing rules, an individual who receives the GST/HST Credit is required to notify the Minister of National Revenue of a change in marital status no later than the end of the month following the month in which the change occurs. Budget 2011 proposes to require an individual who receives the Canada Child Tax Benefit to notify the Minister of National Revenue of a marital status change before the end of the month following the month in which the change in status occurs (if the individual has not already done so for GST/HST Credit purposes).

This measure will apply to marital status changes that occur after June 2011.

Accommodating Pension Plan Members and Retirees on Plan Wind-up

The Government has made accommodations under the pension tax rules for members and retirees of underfunded pension plans that are being wound up due to an employer's insolvency, to ensure the appropriate application of the rules. In this context, the Canada Revenue Agency will clarify the application of the rules regarding the tax treatment of lump-sum amounts received by former employees or retirees in lieu of their right to health and dental coverage from employers who have become insolvent. These amounts will not be treated as income for tax purposes, in relation to insolvencies arising before 2012.

Children's Special Allowance Act

Budget 2011 proposes to amend the *Children's Special Allowances Act* and its regulations to provide for the payment of a special allowance to a child protection agency (as listed in section 3 of the *Children's Special Allowances Act*) in respect of a child who is a former Crown ward when the child is placed in the custody of a legal guardian, tutor or similar individual and the agency provides financial assistance for the maintenance of that child.

This measure will apply to special allowances payable for months after December 2011.

Employee Profit Sharing Plans

Employee Profit Sharing Plans (EPSPs) are an important vehicle that enables business owners to align the interests of their employees with those of the business by sharing the profits of their business with their employees. In recent years, these plans have increasingly been used as a means for some business owners to direct profit participation to members of their families with the intent of reducing or deferring taxes on these profits. Some employers are also using EPSPs to avoid making Canada Pension Plan contributions and to avoid paying Employment Insurance premiums on employee compensation. To ensure that EPSPs continue to be a useful vehicle for employers that are used for their intended purpose, the Government will review the existing rules for EPSPs to determine whether technical improvements are required in this area.

Charities and Charitable Giving

The Budget focused to some extent on charities in order to help enhance the donor confidence in charities and to help address perceived abuse related to charitable donations.

The Budget proposes that certain receipting and other rules that apply to a registered charity will apply to a qualified donee (which is a broader definition than a registered charity and includes for example a municipality in Canada). This could result in CRA suspending the receipting status of a qualified donee that does not follow the tax rules.

The Budget will also extend to registered Canadian amateur athletic associations ("RCAAA's") key regulatory requirements that already apply to registered charities.

In order to further safeguard against abuse the Budget proposes to give the Minister of National Revenue the discretion to refuse or revoke the registration of a registered charity or RCAAA where a member of the board or senior officer has been found guilty of criminal offences involving financial dishonesty or has been involved with any charity or RCAAA that was non-compliant and had its registration revoked.

When property for which the taxpayer received an official donation receipt is returned to the taxpayer the qualified donee is now required to issue to the taxpayer a revised receipt. The qualified donee is required to send a copy of the revised receipt to the CRA when the amount of the receipt has changed by more than \$50. Then CRA will be able to reassess the taxpayer reflecting the lower charitable donation amount.

Where a taxpayer donated flow-through shares to a charity under the rules existing before the Budget the after tax cost to the taxpayer of making the donation may have been nominal. In general where a donor gifts publically traded shares the donation receipt is equal to the fair market value of the gift and the donor does not have to pay tax on the resulting capital gain. In an example contained in the Budget documents it was assumed the cost of a flow-through share was \$120 and where the value of the share when it was donated was \$100 the after tax cost to the taxpayer of making the donation might have been as little as \$5. While the charity received \$100 in value \$95 of that was funded by tax support. In order to address this matter the Budget proposes that when donating flow-through shares (for flow-through share agreements entered into after March 22, 2011) that, in general terms, only the capital gain in excess of the

original cost of the shares be sheltered from tax. In the foregoing example the capital gain of \$100 will not be sheltered under this proposal.

There were other amendments to the charities provisions in respect of granting of options and gifts of non-qualifying securities. Such amendments appear to be aimed at helping to ensure that the amount of the donation receipt does not exceed the fair market value of the gift ultimately benefiting the charity.

CORPORATE AND BUSINESS INCOME TAX MEASURES

Hiring credit

Budget 2011 will assist small businesses in hiring new workers so they can take advantage of emerging opportunities and compete in the global economy. Budget 2011 announces a one-time Hiring Credit for Small Business of up to \$1,000 against an employer's increase in 2011 Employment Insurance premiums over 2010 to help defray the costs of additional hiring.

Manufacturing and Processing Sector: Accelerated Capital Cost Allowance

To assist Canada's manufacturing sector the budget proposes to extend the accelerated capital cost allowance ("CCA") treatment for investment in manufacturing and processing machinery and equipment by two years. Originally announced in Budget 2007, amended in Budget 2009, and previously scheduled to expire at the end of 2012, the 50% straight-line accelerated CCA treatment will now apply to equipment acquired prior to 2014.

Clean Energy Generation Equipment

The Budget expanded the list of equipment qualified for accelerated CCA (50% per year on a declining balance basis) to include equipment, acquired after March 22, 2011, that generates electrical energy from waste heat.

Qualifying Environmental Trusts

Pipeline Trusts

Budget 2011 proposes to expand the range of trusts eligible for Qualifying Environmental Trust ("QET") treatment to include trusts that are required to be established in the context of pipeline abandonment.

One of the existing conditions for a trust to qualify for tax treatment as a QET is that the trust be mandated under the terms of a contract entered into with the Crown in right of Canada or a province or under a law of Canada or a province. Budget 2011 proposes to modify this condition for all QETs to include trusts that are created after 2011 and mandated by order of a tribunal (such as the NEB) constituted by a law of Canada or a province.

These changes will apply to the 2012 and subsequent taxation years for trusts created after 2011.

Eligible Investments

Budget 2011 proposes to expand the range of eligible investments for QETs to include debt obligations described in paragraphs (c) and (c.1), and securities described in paragraph (d), of the definition "qualified investment" in section 204 of the *Income Tax Act*. This will generally include debt of public corporations, investment-grade debt and securities that are listed on a designated stock exchange.

A QET will not be permitted to invest in “prohibited investments”. For this purpose, prohibited investments will generally include an interest in a security (including debt) issued by:

- a person or partnership that has contributed property to, or that is a beneficiary under, the trust, or a person that is related to (or a partnership that is affiliated with) such a person or partnership; or
- a person or partnership in which a contributor to, or a beneficiary under, the trust has a “significant interest” (which will generally be defined as an interest of 10 per cent or more, in accordance with the meaning in subsection 207.01(4) of the *Income Tax Act*, with such modifications as the circumstances require).

These changes will apply to the 2012 and subsequent taxation years for trusts created after 2011. In the case of a trust created before 2012, these changes will apply to the trust for a particular taxation year, and each subsequent taxation year, of the trust that ends after 2011 if the trust and the relevant government regulatory authority jointly so elect.

Tax Rate

Budget 2011 proposes to set the rate of tax payable by a QET under Part XII.4 of the *Income Tax Act* to the corporate income tax rate generally applicable for the 2012 and later taxation years.

This change will apply to the 2012 and subsequent taxation years.

Intangible Capital Expenses in Oil Sands Projects

Oil Sands Properties

Under current rules the cost of acquiring oil sands leases and other oil sands resource property generally can be treated as Canadian development expense (“CDE”), which is deductible at the rate of 30 per cent per year on a declining balance basis.

Budget 2011 proposes that the cost of oil sands leases and other oil sands resource property be treated as Canadian oil and gas property expense (“COGPE”) and thus be eligible for deduction at 10 per cent per year.

This change will be effective for acquisitions made on or after March 22, 2011. Proceeds from the disposition, on or after March 22, 2011, of a taxpayer’s oil sands resource property will be applied to reduce the taxpayer’s cumulative CDE, or cumulative COGPE, consistent with the manner in which the cost of the property was treated by the taxpayer when acquired. These changes will also apply to oil shale property, which is treated in a manner similar to oil sands resource property.

Pre-Production Development Expenses of Oil Sands Mines

Currently, development expenses incurred for the purpose of bringing a new oil sands mine into production in reasonable commercial quantities are treated as Canadian exploration expense (“CEE”), which can be deducted in full in the year incurred. Budget 2011 proposes that these expenses be treated as CDE.

In recognition of the long time frames involved in developing oil sands mining projects, the following transitional relief for pre-production development expenses will be provided:

- The current CEE treatment will be maintained for expenses incurred before March 22, 2011, and for expenses incurred before 2015 for new mines on which major construction began before March 22,

2011. For these purposes, the threshold for major construction for new oil sands mines will be based on subsection 1104(2) of the *Income Tax Regulations*, which applies to the phase-out of accelerated capital cost allowance for oil sands projects, announced in Budget 2007.

- For other expenses, the transition from CEE treatment to CDE treatment will be phased in on a gradual basis. Taxpayers will allocate pre-production development costs proportionally to the two resource expense categories according to the following schedule based on the year in which the expense is incurred:

Year	2011	2012	2013	2014	2015	2016
CEE proportion	100%	100%	80%	60%	30%	-
CDE proportion	-	-	20%	40%	70%	100%

Stop-Loss Rules On The Redemption of a Share

The Income Tax Act contains a number of rules generally intended to avoid the potential for dividends to be subject to multiple levels of taxation as they are paid between corporations. Pursuant to these rules, a corporation is generally entitled to a deduction, in computing taxable income for income tax purposes, that offsets the corporation's income inclusion in respect of dividends received by it from taxable Canadian corporations.

These rules are complemented by certain rules, generally referred to as "stop-loss rules", which reduce, in certain cases, the amount of a loss otherwise realized by a corporation on a disposition of shares by the amount of tax-free dividends received, or deemed to have been received, on those shares on or before the disposition.

These stop-loss rules are subject to certain exceptions that apply depending on whether the corporate shareholder holds the share as a capital property, an income property or a mark-to-market property. There are slight differences in the mechanics of these exceptions but, in general, they apply if:

- the share is held by the shareholder for 365 days or more; and
- the shareholder (together with all persons who do not deal at arm's length with the shareholder) owns 5% or less of the class of shares upon which the dividend is received.

Tax avoidance arrangements have been undertaken that rely on the existing exceptions to the stop-loss rules to, in effect, claim a double deduction on the redemption of shares. A deemed dividend arises on the redemption of shares held by the corporation equal to the difference between the redemption price and the paid-up capital of the shares, for which the corporation claims the dividend deduction. Where the paid-up capital is below the redemption price, the deemed dividend will generally also result in a loss for tax purposes which may be deducted in computing income by the corporation even though it has not realized a true economic loss.

In order to maintain the integrity of the tax system, Budget 2011 proposes to extend the application of these stop-loss rules to any dividend deemed to be received on the redemption of shares held by a corporation by removing the exceptions noted above (whether the shares are held directly or indirectly through a partnership or trust). A narrow exception will continue to apply with respect to the redemption of private corporation shares that are held by a private corporation other than a financial institution.

This measure will apply to share redemptions that occur on or after March 22, 2011.

Partnerships – Deferral of Corporate Tax

Unlike an individual, a corporation or a trust, a partnership is not a taxpayer. The income or loss of a partnership is allocated to its partners, who include the amount in calculating their own taxable income. Under current tax rules, income earned by a corporation as a member of a partnership is included in the corporation's income for the corporate taxation year in which the fiscal period of the partnership ends. If a corporation carries on a business through a partnership that has a fiscal period that ends after the end of the corporation's taxation year, taxation of the partnership earnings can be deferred by up to one year.

In 1995, changes were enacted to limit tax deferral opportunities that existed for individuals who carry on business through a partnership or sole proprietorship. Budget 2011 proposes to limit the deferral of tax by a corporation that has a significant interest in a partnership having a fiscal period different from the corporation's taxation year. In computing the corporation's income for a taxation year, the corporation will be required to accrue income from the partnership for the portion of the partnership's fiscal period that falls within the corporation's taxation year (the "Stub Period").

This measure will apply to a corporate partner (other than a professional corporation) for a taxation year if:

- the corporate partner is a member of a partnership at the end of the taxation year;
- the partnership's last fiscal period that began in the taxation year ends in a subsequent taxation year of the corporate partner; and
- the corporate partner, together with affiliated and related parties, was entitled to more than 10 per cent of the partnership's income (or assets in the case of wind-up) at the end of the last fiscal period of the partnership that ended in the taxation year.

A partnership will continue to be allowed to have a fiscal period that differs from that of any of its corporate partners. The potential for deferral will be addressed by requiring the corporate partner to accrue income from the partnership for the Stub Period (Stub Period Accrual). Unless the corporate partner designates otherwise, this accrued income will generally be a pro-rated amount, based on a formula, of the partner's income from the partnership for the fiscal period of the partnership ending in the taxation year of the partner ("the formulaic amount"). This inclusion is deducted in the next taxation year, when the actual partnership income for that fiscal period is reported.

Alternatively, corporations may choose to designate a Stub Period Accrual that is lower than the amount determined under the formulaic approach. If the designated amount is less than the lesser of the actual pro-rated income of the corporate partner from the partnership for the Stub Period and the formulaic amount, the corporate partner will be subject to a notional income inclusion in the following year computed based on a complex formula.

A corporate partner will be entitled, if it chooses, to reduce the amount of its Stub Period Accrual to a lower amount by the amount of its share of "Designated Resource Expenses" incurred by the partnership in the Stub Period at the maximum rate at which such expenses would otherwise be deductible under the *Income Tax Act* if the partnership's fiscal period had ended on the same day as the partner's taxation year.

Designated Resource Expenses will be:

- Canadian exploration expense;
- Canadian development expense;
- Canadian oil and gas property expense; and
- Foreign resource expense.

The corporate partner's share of Designated Resource Expenses will be determined based on the corporate partner's interest in the partnership for the last fiscal period of the partnership that ends in the corporate partner's taxation year. If a corporate partner wishes to use these Designated Resource Expenses in computing its accrued income, the corporate partner will be required to obtain from the partnership, before filing the corporate tax return for the year,

information in writing evidencing the nature and amount of each such expense and the corporate partner’s share of that expense. The actual allocation of these resource expenses and other amounts affecting resource expense pools will continue to be made at the end of the partnership’s fiscal period.

The net amount of the accrual for the Stub Period, after adjustments, if any, for Designated Resource Expenses, is referred to as the “Adjusted Stub Period Accrual”. In no case can a corporate partner’s Adjusted Stub Period Accrual in respect of a partnership be less than zero. A corporate partner will be required to include Adjusted Stub Period Accrual in its income for the taxation year that includes the Stub Period and will be entitled to deduct the same amount in computing its income for the following taxation year.

As a result of these measures some partnerships may wish to change their fiscal periods – for example, to align with the taxation year of one or more corporate partners. A one-time election (a “Single-tier Alignment Election”) will be provided that will enable a partnership to change its fiscal period if certain conditions are met.

If this election results in the end of a fiscal period of a partnership which is the second fiscal period of the partnership that ends in a corporate partner’s first taxation year ending after Budget Day, the corporate partner’s share of partnership income or loss for this second fiscal period will be referred to as “Alignment Income”. As discussed below, a corporate partner’s Alignment Income will be eligible for transitional relief.

To mitigate any potential cash-flow impact arising from the transition to the new rules, relief will be available to permit corporate partners to spread over a 5 year period the one-time tax cost of reporting the deferred income by allowing a transitional reserve to be claimed.

The amount upon which a transitional reserve may be claimed is referred to as “Qualifying Transitional Income” (QTI). This reserve will be computed on a partnership-by-partnership basis if a corporate partner is a member of two or more partnerships. A corporate partner will generally be eligible for transitional relief in respect of its QTI from a partnership in accordance with the following schedule:

Corporate partner’s first taxation year¹ that ends after Budget Date and in the calendar year

	2011 ²	2012	2013	2014	2015	2016
Allowed reserve deduction for QTI	100%	85%	65%	45%	25%	0%
Inclusion rate for QTI	0%	15%	20%	20%	20%	25%

1. If a corporate partner has more than one taxation year ending in a calendar year, the same reserve percentage will apply to each of those years.

2. If the first taxation year of a corporate partner that ends after Budget Day ends in 2012, the schedule is modified such that the 100% reserve applies in 2012, and subsequent years are adjusted accordingly.

The amount of a QTI reserve deducted in a taxation year will be included in income in the following taxation year. The QTI of a corporate partner in respect of a partnership will be the sum of its Adjusted Stub Period Accrual and its Alignment Income in respect of that partnership. Certain criteria must be met before the QTI reserve can be claimed.

More complicated rules apply to partnership structures with multiple tiers of partnerships.

Aboriginal Tax Policy

The Government of Canada continues to support initiatives that encourage the exercise of direct taxation powers by Aboriginal governments.

To date, the Government of Canada has entered into 32 sales tax arrangements under which Indian Act bands and self-governing Aboriginal groups levy a sales tax within their reserves or their settlement lands. In addition, 12 arrangements respecting personal income taxes are in effect with self-governing Aboriginal groups under which they impose a personal income tax on all residents within their settlement lands.

DISCLAIMER: The KMSS Budget Brief is for information only and is not intended to be either a complete description of the Budget provisions or the opinion of our firm. You should consult your KMSS advisor to obtain further information and discuss how these budget proposals affect your specific situation.