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Tax Alert

Federal Government - Economic and Fiscal Update

The federal government unveiled \$39-billion in personal and corporate tax cuts and spending today in a mini-budget, or Economic Update, which included the following income tax measures:

Personal Tax Changes

Increasing the Basic Personal Amount - The amount of income that all Canadians can earn tax-free, will increase by \$500, effective January 1, 2005;

Reducing the Lowest Federal Personal Income Tax Rate – The rate will be reduced from 16% to 15%, effective January 1, 2005, resulting in a combined Federal and Alberta personal income tax rate of 25%;

Reducing the Middle Federal Income Tax Rates by 1% - The middle brackets, starting in 2010, will be reduced by 1% resulting in combined Federal and Alberta personal income tax rates of 31% and 35% for middle income earners; and

Increasing the High Federal Rate Threshold – Effective January 1, 2010 increasing the taxable income threshold to \$200,000 at which the top Federal income tax rate of 29% begins to apply.

Corporate Tax Changes

Reducing Corporate Income Tax Rates – The 2005 Budget had proposed a 2% reduction in the general corporate income tax rate by 2010 and the elimination of corporate surtax in 2008. While the budgeted elimination of corporate surtax in 2008 has been put into place for small and medium sized companies, the update "reintroduces" the planned reduction of the general corporate tax rate from 21% to 19% by 2010;

Extending Carry-Over of Non-Capital Losses and Investment Tax Credits – For losses and investment tax credits earned in taxation years ending after 2005 the update proposes to extend the carry-forward period to 20 years. The 2004 budget had extended the carry-over period for non-capital losses from 7 to 10 years (effective for losses that arise in a taxation year that ends after March 22, 2004); and

Eliminating Federal Capital Tax – In the 2003 Budget it was proposed that the federal capital tax would be eliminated by 2008. The federal capital tax has already been eliminated for smaller corporations with less than \$50 million in taxable capital. The update proposes to eliminate federal capital tax as of January 1, 2006, two years ahead of schedule.

Further details are available on the Department of Finance Canada web site (<http://www.fin.gc.ca/ec2005/ec/eca4e.html>).

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