

2007 Economic Update



Finance Minister Jim Flaherty presented an economic statement on Tuesday October 30, 2007. The Conservative government, under Prime Minister Stephen Harper, announced a number of corporate and personal tax measures.

In terms of tax changes, some of the most significant measures include the following:

- Reducing the GST by 1% to 5%;
- A decrease in the small business tax rate by 1/2%;
- Reducing the general corporate tax rate; and
- Increasing personal tax credits and announcing a modest decrease in the lowest personal tax rate.

CORPORATE AND BUSINESS MEASURES

Small Business Tax Rate

The federal small business tax rate, the income tax rate applied on active business income earned by a Canadian-Controlled Private Corporation (“CCPC”) below the small business deduction limit, will be reduced. The following table reflects the current rate and the proposed changes:

	2007 Existing	2008	
		Existing	Proposed
Small business tax rate	12.00%	11.50%	11.00%
Surtax	1.12%	0.00%	0.00%
Alberta tax rate	3.00%	3.00%	3.00%
Total combined rate	16.12%	14.50%	14.00%

The rate reductions will be prorated where the taxation year does not coincide with the calendar year.

General Corporate Income Tax Rate

The current federal general corporate income tax rate is 21%. The economic statement proposes to reduce the rate to 15% by 2012.

The rate reductions will be prorated for taxation years that include any of the effective dates for a rate reduction.

The reduction in the general corporate tax rate is outlined in the table below:

	2007	2008	2009	2010	2011	2012
General Corporate income tax rate	21.00%	19.50%	19.00%	18.00%	16.50%	15.00%
Corporate Surtax	1.12%	0.00%	0.00%	0.00%	0.00%	0.00%
Alberta tax rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Total combined proposed rate	32.12%	29.50%	29.00%	28.00%	26.50%	25.00%
Total combined existing rate	32.12%	30.50%	30.00%	29.00%	28.50%	28.50%

The Government is seeking the collaboration of the provinces and the territories to reach a 25% combined federal-provincial-territorial corporate income tax rate. This rate objective is achieved in Alberta in 2012.

PERSONAL INCOME TAX MEASURES

Personal Income Tax Rates

The lowest personal income tax rate was reduced retroactively to 15% from 15.5% effective January 1, 2007.

These rates will also be generally used to calculate non-refundable tax credits and the alternative minimum tax for the 2007 and subsequent taxation years.

Basic Personal Amounts

The basic personal amount - the amount that an individual can earn without paying federal personal income tax - was increased by \$671 to \$9,600 for the 2007 and 2008 taxation years. For the 2009 taxation year the basic personal amount will be \$10,100. For 2010 and subsequent taxation years it will be increased by indexation based on the preceding years inflation.

Personal amounts in respect of a spouse or common-law partner or wholly dependant relative will also be adjusted to the same amounts.

GST

The budget proposes to reduce the GST to 5% from 6%, effective January 1, 2008. Various transitional rules will apply.

Kenway Mack Slusarchuk Stewart LLP

Our Tax Group:

N. Calvin Stewart, CA, TEP
Bryce P. Eidsness, CA, TEP
John Tobin, CA, CFP
Gabor F. Mezei, CA, TEP
Sharon E. Gross, CA, CFP
Mark R. Servello, CGA

220, 333 11 Avenue SW
Calgary, AB T2R 1L9
Tel: (403) 233-7750
Fax: (403) 266-5267

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