

2009 Federal Budget summary

A leader in the timely and thorough preparation of tax information on a range of issues, Invesco Trimark has been providing a customized summary of the federal budget for over a decade. Prepared from within the budget lockup in Ottawa by Doug Carroll, Invesco Trimark's Vice President of Tax & Estate Planning, the 2009 summary selectively focuses on several specific budget elements that will have the biggest impact on your personal finances and investments.

The 2009 Federal Budget proposes a wide variety of spending measures and tax relief to address the current extraordinary economic conditions. Some of the tax measures are broad-based, while others are targeted to the needs of particular groups. As well, the proposals are a combination of temporary relief intended to stimulate economic recovery, while others will remain as permanent changes to the system.

Personal income tax relief

Personal amounts and income tax brackets

New personal income tax relief will be available for low- and middle-income taxpayers.

The basic personal amount and the two lowest personal income tax brackets will be indexed by 7.5% above their 2008 levels, effective January 1, 2009. As a result of these measures:

- The basic personal amount, the spousal and common-law partner amount and the eligible dependant amount will increase from \$9,600 in 2008 to \$10,320 in 2009
- The upper limit of the first personal income tax bracket (15% income tax rate) will increase from \$37,885 in 2008 to \$40,726 in 2009
- The upper limit of the second personal income tax bracket (22% income tax rate) will increase from \$75,769 in 2008 to \$81,452 in 2009

The increased amounts and bracket thresholds will be indexed to account for inflation in 2010 and subsequent years.

Federal personal income tax bracket thresholds

Applicable rate	2008 Actual	2009 Existing	2009 Proposed
15%	\$9,600	\$10,100	\$10,320
22%	\$37,885	\$38,832	\$40,726
26%	\$75,769	\$77,663	\$81,452
29%	\$123,184	\$126,264	\$126,264

Seniors and registered investments

Age credit

For 2009, the amount on which the Age Credit is based will be increased by \$1,000 to \$6,408, effective January 1, 2009, and indexed thereafter. This increase will provide up to \$150 of additional federal tax relief.

For 2009, the net income level at which the Age Credit begins to be phased out will remain unchanged at \$32,312. The phase-out rate is 15%. The income level at which the Age Credit is fully phased out will increase by over \$6,600 to \$75,032 from \$68,365.

Age credit – Summary

Maximum tax relief	Phase-out rate	Phase-out begin	Full phase-out
\$961	15%	\$32,312	\$75,032

RRIF minimum withdrawals

The government will be proceeding with the proposal announced in the November 2008 Economic and Fiscal Statement to reduce the required minimum RRIF withdrawal for 2008. The 2009 Federal Budget proposes to reduce the amount seniors are required to withdraw from their RRIFs by 25% for 2008.

This proposal is in recognition of the impact of the deterioration in market conditions on retirement savings, and is a one-time relief for 2008 income tax reporting.

The Age Credit

The Age Credit is available to those 65 years of age and older, calculated by multiplying the lowest personal income tax rate, 15%, by an amount that is indexed to compensate for inflation. It is subject to an income test, and any unused portion may be transferred to the individual's spouse or common-law partner.

RRSP/RRIF losses after death

A long standing concern about post-death RRSP/RRIF losses has been addressed, with the ability of an estate to apply those losses against year-of-death income inclusion.

The fair market value of investments held in a Registered Retirement Savings Plan (RRSP) at the time of an RRSP annuitant's death is generally included in the income of the deceased for the year of death. A subsequent increase in the value of the RRSP investments is generally included in the income of the beneficiaries of the RRSP upon distribution. Similar rules apply in the case of RRIFs.

Until now however, there has been no income tax provision to recognize a decrease in the value of RRSP or RRIF investments that occurs after the annuitant's death and before distribution to beneficiaries. The budget proposes to allow, upon the final distribution of property from a deceased annuitant's RRSP or RRIF, the amount of post-death decreases in value of the RRSP or RRIF to be carried back and deducted against the year-of-death RRSP/RRIF income inclusion. The amount that may be carried back will generally be calculated as the difference between the amount in respect of the RRSP or RRIF included in the income of the annuitant as a result of the death of the annuitant and the total of all amounts paid out of the RRSP or RRIF after the death of the annuitant.

This measure will apply in respect of deceased annuitants' RRSPs or RRIFs where the final distribution from the RRSP or RRIF occurs after 2008.

Homeowners

A number of measures are included in the budget intended to encourage home ownership and construction.

Home Buyers' Plan

The Home Buyers' Plan (HBP) withdrawal limit will increase from \$20,000 to \$25,000.

The new limit will apply to the 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009. This is the first increase in the withdrawal limit since the HBP was introduced in 1992.

First time home buyer's tax credit

A new non-refundable tax credit is introduced based on an amount of \$5,000 for first-time home buyers who acquire a qualifying home after January 27, 2009, i.e., the closing is after that date. The credit is claimable for the taxation year in which the home is acquired.

The credit will also be available in respect of a home acquired by an individual eligible for the disability tax credit (DTC), or acquired by an individual for the benefit of a related individual who is DTC-eligible, if the home is acquired to enable the DTC-eligible individual to live in a more accessible dwelling or in an environment better suited to the personal needs and care of that person.

The credit may be claimed by the individual who acquires the home or by that individual's spouse or common-law partner. Where more than one individual is entitled to the credit, e.g., where two individuals jointly buy a home, the total amount of the credits claimable for the year by those individuals shall not exceed the maximum amount of the credit that would be claimable for the year by any one of those individuals.

Home Buyers' Plan

The HBP allows first-time home buyers to withdraw amounts from an RRSP to purchase or build a home without having to pay tax on the withdrawal. Withdrawn funds must generally be used to acquire a home before October of the year following the year of withdrawal. Amounts withdrawn under the HBP are repayable in instalments over a period not exceeding 15 years.

Home renovation tax credit

To stimulate economic growth and encourage Canadians to invest in improvements to their homes, the 2009 Federal Budget proposes a temporary Home Renovation Tax Credit (HRTC).

The credit will apply to expenditures in excess of \$1,000, but not more than \$10,000, resulting in a maximum credit of \$1,350 ($\$9,000 \times 15\%$) per family. A family is generally an individual, a spouse or common-law partner and their children who were, throughout 2009, under the age of 18 years.

Expenditures for work performed or goods acquired after January 27, 2009 and before February 1, 2010, will be eligible for the credit.

Other relief

Small business limit

In order to provide additional tax relief to small businesses, the budget proposes that the annual amount of active business income eligible for the reduced tax rate – generally referred to as the “small business limit” – be increased as of January 1, 2009 to \$500,000.

The small business deduction reduces the federal corporate income tax rate applied to qualifying active business income of a Canadian-controlled private corporation (CCPC) to 11%. The increase to the small business limit will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

Canada Child Tax Benefit/National Child Benefit Supplement

The income levels on which income-testing of the base benefit under the Canada Child Tax Benefit (CCTB) and the National Child Benefit supplement (NCBs) are based, will be increased in line with the increase in the upper limit of the lowest personal income tax bracket.

For the 2009-10 benefit year, the income level at which the phase-out of the CCTB begins will increase to \$40,726, and the income level at which the phase-out of the NCBs begins will increase by \$1,894 such that it is completely phased out by \$40,726 for the majority of families.

Working income tax benefit

In the 2007 Federal Budget, the Government introduced the Working Income Tax Benefit (WITB), a refundable tax credit that supplements the earnings of low-income workers.

The 2009 budget proposes to enhance the tax relief provided by the WITB with increases to phase-in rates, maximum benefits and thresholds for reduction rates. The federal government will consult with provinces and territories before implementing the final design of the enhanced WITB for the 2009 taxation year.

Mineral Exploration Tax Credit

The 2009 Federal Budget proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2010 (currently scheduled to expire at the end of March 2009).

Flow-through shares allow companies to renounce or 'flow through' tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses in calculating their own taxable income. The mineral exploration tax credit is an additional benefit, available to individuals who invest in flow-through shares, equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

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