INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÉRES

Summary of June 2011 Key Budget Points for IIAC Members (June 6, 2011)

As expected, there is little new in the second version of the federal budget released today (original highlights are attached) and almost all of what is new was expected.

- **A provision has been made in the 2011–12 budget year for a payment of $2.2 billion to Quebec after conclusion of a satisfactory agreement between Canada and Quebec on sales tax harmonization –** While Quebec conformed its sales tax with the GST in the early 1990s in most respects, it did not receive the billion dollar payments to harmonize that other harmonizing provinces later did. The Conservative platform included making a $2.2 billion payment following conclusions of "good faith negotiations to complete a harmonization agreement that respects Quebec's role in administration, legislation and in other aspects of the system and is consistent with the spirit of existing harmonization agreements with other provinces."

  Possible implication: Currently, financial services provided by banks, brokers, insurance companies, credit unions/caisses populaires and fund managers are zero-rated for Quebec sales tax purposes (firms pay the taxe sur les produits et services (TPS) – Quebec provincial value-added tax – on inputs, but claim it all back as input tax refunds). All but fund managers are then subject to a compensatory tax based on payroll and/or other measures to yield an amount originally equal to that of the retail sales tax estimated to have been paid by financial institutions before harmonization. This was considered less than what would have been borne in a fully harmonized tax system as Quebec wished to eliminate any incentive for financial firms to move business from the province. The compensatory tax has increased recently, as has the rate of the TPS. It is possible that, as part of the negotiations, the federal government will press Quebec to harmonize fully, and treat financial services as under harmonized provinces' HST, which in most scenarios would increase members' Quebec sales tax burden. We will discuss possible actions with members in the coming weeks.

- **The Government is announcing the phase-out of quarterly allowances for political parties –** This will result in annual savings of $30 million once fully phased out in four years' time.

- **The Government will ask the House Standing Committee on Finance to study charitable donation incentives in the first session of this Parliament, following on a motion made in the House of Commons in March.**

The budget is balanced as promised by the end of the 2014-2015 fiscal year, a year earlier than set out in the March 22 budget, with the payment to Quebec for harmonization financed by $4.3 billion in under-spending in the 2010-2011 fiscal year.

BUDGET HIGHLIGHTS

Proposed tax relief for Canadian business:

- Extending the temporary 15% Mineral Exploration Tax Credit for an additional year until March 31, 2012, which will support eligible exploration until the end of 2013.
- Extending the accelerated capital cost allowance treatment for investments in manufacturing and processing machinery and equipment for two years.
- Aligning deduction rates for intangible capital expenses in oil sands projects with rates in the conventional oil and gas sector.
- Reducing red tape to lessen the compliance burden on small businesses through the Red Tape Reduction Commission *[Note: IIAC has made representations to this commission to reduce unnecessary compliance costs for not only smaller but all IIAC members; they are largely in the tax reporting area]*.
- Providing a temporary Hiring Credit for Small Business of up to $1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010.
- Extending work-sharing agreements by up to 16 weeks so companies can avoid layoffs by offering EI benefits to workers willing to work a reduced work week while their company recovers.
- Renewing the Best 14 Weeks and Working While on Claim EI pilot projects for one year.
- Providing $20 million over two years to help the Canadian Youth Business Foundation to support young entrepreneurs.
- Providing $80 million in new funding over three years through the Industrial Research Assistance Program to help small and medium-sized businesses accelerate their adoption of key information and communications technologies through collaborative projects with colleges.

Improving registered savings and investment programs:

- Introducing anti-avoidance rules for Registered Retirement Savings Plans (RRSPs) matching (generally for effect after Budget Day) the advantage, prohibited investment, and non-qualified investment rules that apply to Tax-Free Savings Accounts (TFSAs). *[Note: In discussions with Finance officials in the lock-up, it was noted that the industry may want to reconfirm the CRA's ruling regarding advantages for commission rebates].*
- Increasing flexibility to access Registered Disability Savings Plan (RDSP) assets for beneficiaries with shortened life expectancies (for effect after 2010) and following through on the commitment to review the RDSP in 2011. *[Note: The latter should allow IIAC to press for simplification of a number of measures]*
- Providing up to $10 million a year in tax relief by allowing transfers between subscribers in individual plans of siblings with the same flexibility as for subscribers in family plans have for Registered Education Savings Plans (RESPs) and in assistance to Canadian post-secondary students who study abroad (for effect after 2010).

- Bringing Individual Pension Plan (IPPs) rules more in line with Registered Retirement Income Funds (RRIFs) for effect 2012 and subsequent years. *[Note: This may be of concern to some members serving the wealth management clients]*
- Applying tax on split income (capital gains) on or after Budget Day in certain cases.

- Consulting on Employee Profit Sharing Plans (to the extent that they may be being used by some companies to void making Canada Pension Plan contributions).
- Making additional tax avoidance changes (e.g., with respect to deferral of corporate taxes by use of partnerships, the stop-loss rules on the redemption of a share).
- *[Note: No additional details regarding pooled registered pension plans were provided in the budget; Finance staff in the lock-up confirmed that no changes to eliminate payroll taxes on contributions to Group RRSPs had been announced but suggested that the IIAC make its representations in this regard to Finance in its upcoming submission on the PRPPs, which has been done].*

Strengthening the Canadian retirement income system:

- Enhancing the Guaranteed Income Supplement (GIS) for those seniors who rely almost exclusively on their Old Age Security and the GIS and may therefore be at risk of experiencing financial difficulties, providing a new top-up benefit of up to $600 annually for single seniors and $840 for couples, improving the financial security of more than 680,000 seniors across Canada.
- Changing federal rules to eliminate the mandatory retirement age for federally regulated employees.

Regarding the financial sector:

- Introducing legislation to reinforce the stability of Canadian housing finance and strengthen the mortgage insurance regime.
- Moving forward on the recommendations of the Task Force on Financial Literacy, and announcing the Government's intention to appoint a Financial Literacy Leader to promote national efforts.
- Enhancing consumer protection by banning unsolicited credit card cheques and developing measures related to network-branded prepaid cards.

For individual Canadians:

- Providing nearly $870 million over two years ($400 million in 2011/12) to address climate change and air quality, including extension of the ecoENERGY Retrofit – Homes program; more information will follow from the federal government.
- Introducing a new 15% non-refundable Family Caregiver Tax Credit on an amount of $2,000 that will provide tax relief to caregivers of all types of infirm dependent relatives including spouses, common-law partners and minor children.
- Removing the limit on the amount of eligible expenses that caregivers can claim under the Medical Expense Tax Credit in respect of financially dependent relatives.
- Introducing a new 15% Children's Arts Tax Credit, provided on up to $500 of eligible expenses for programs associated with children's artistic, cultural, recreational and developmental activities.

- Enhancing the Wage Earner Protection Program to cover more workers affected by employer bankruptcy or receivership.
- Extending the Targeted Initiative for Older Workers.
- Enhancing and expanding eligibility for the Canada Student Loan and Grant Program for part-time and full-time post-secondary students.
- Helping apprentices in the skilled trades and workers in regulated professions by making occupational, trade and professional examination fees eligible for the Tuition Tax Credit.
- Improving the regulatory framework of the charitable sector to give confidence to Canadians who make donations.

Other measures that had been announced before the budget are part of the Ways and Means Motion (e.g., GST/HST changes for financial services, increase in limits contributed to the Saskatchewan Pension Plan, foreign affiliate rules. Also referenced in the budget include: investing in innovation, education and training; a digital economy strategy; public safety, security and justice; protecting the environment; strengthening Canada's research advantage; fostering commercialization and business innovation; and sectoral initiatives aimed at the environment/clean energy, export development, infrastructure and forestry.

Please refer to the Federal Budget for additional details:

http://www.budget.gc.ca/2011/home-accueil-eng.html