

**Wealth Planning Services/
Private Client Financial Services**

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Personal Tax Initiatives

The 2003 Federal Budget proposes a number of personal tax initiatives. They are as follows.

1) An increase in RRSP and RPP contribution limits.

RRSP contribution limits will be as follows:

- \$14,500 for 2003
- \$15,500 for 2004
- \$16,500 for 2005
- \$18,000 for 2006

Registered Pension Plan contributions will be as follows:

- \$15,500 for 2003
- \$16,500 for 2004
- \$18,000 for 2005

2) An increase in the defined pension benefit amount.

The current maximum defined benefit pension amount of \$1,722 per year of service will be increased to \$1,833 for 2004 and \$2,000 for 2005.

3) RRIF-type payouts for defined contribution pension plans.

Currently, upon retirement, money purchase RPP members must either purchase a life annuity or transfer the funds to a locked-in RRSP. Beginning in 2004, the budget proposes to allow money purchase (defined contribution) pension plans to pay pension benefits in the form of the same income stream currently permitted under a RRIF.

4) An increase to the National Child Benefit.

The Canada Child Tax Benefit (CCTB) is an annual non-taxable payment made to low income families with children. The CCTB is phased out for families earning more than \$33,487. The National Child Benefit is an additional payment made available to low-income families. Its phase-out begins at \$22,755. Families earning over \$33,487 do not qualify for the NCB.

The 2003 Federal Budget proposes to increase the NCB supplement as follows:

- \$150 per child in 2003
- \$185 per child in 2005
- \$185 per child in 2006

5) The Child Disability Benefit.

This new income-tested benefit will be available to families with children who have a severe and prolonged mental and physical impairment. The eligibility criteria will be based on the same eligibility used for the disability tax credit. The full \$1,600 benefit will be available to families receiving the National Child Benefit (incomes of less than \$33,487).

6) RRSP/RRIF rollovers for an infirm child/grandchild.

The current RRSP/RRIF rollover provisions allow a financially dependent infirm child/grandchild to receive a tax-free rollover of a deceased parent's RRSP or RRIF. The 2003 Budget proposes to increase the level of income used to determine the financial dependence of the infirm child from \$7,634 to \$13,814, effective in 2003.

7) Medical expense tax credit.

For the 2003 taxation year, the budget proposes to expand the list of expenses eligible for the medical expense tax credit to include:

- the cost of real-time captioning and other similar services used by persons with an impairment and
- the incremental cost of gluten-free food products for individuals with celiac disease.

8) Capital gains rollover for small business investors.

The current rules allow an individual to defer having to pay tax on the disposition of common shares of an eligible small business corporation provided the proceeds are reinvested in common shares of other eligible small business corporations. This deferral was capped at an individual's investment of \$2 million.

As of February 18, 2003, the capital gains rollover measure will be expanded by:

- eliminating the \$2 million limit on the amount of the original investment on which the deferral is allowed;
- eliminating the \$2 million limit on the amount that can be reinvested; and
- allowing a reinvestment to be made at any time in the year of disposition or within 120 days after the end of the year.

9) An improved automobile standby charge.

The standby charge reflects the benefit of having an employer-provided vehicle available for personal use. For 2003 and subsequent taxation years, the budget proposes to:

- increase allowable personal driving kilometres from 12,000 to 20,000 and
- reduce the current requirement that 90% of driving is for business purposes down to 50%.

Corporate Tax Initiatives

The 2003 Federal Budget includes two significant corporate tax initiatives, which we highlight below.

1) A reduction in the small business tax.

The small business deduction reduces the basic federal corporate income tax rate to 12% for the first \$200,000 of active business income of a Canadian Controlled Private Corporation (CCPC). The budget proposes to increase the \$200,000 limit as follows:

- For 2003, to \$225,000
- For 2004, to \$250,000
- For 2005, to \$275,000
- After 2005, to \$300,000

2) The reduction/elimination of federal capital tax.

The federal capital tax is applied to a corporation's taxable capital at a rate of 0.225% on taxable capital in excess of \$10 million. For taxation years ending after 2003, the budget proposes to increase the \$10 million threshold to \$50 million. As well, it is proposed to reduce the tax rate as follows:

- For 2004, to 0.200%
- For 2005, to 0.175%
- For 2006, to 0.125%
- For 2007, to 0.0625%