Budget 2009 – Is It Enough?

The long anticipated Federal Budget, which has been the topic of discussion for the past month, was presented on January 27, 2009 with an eye to getting money flowing into the economy.

In order to do this, the pump must be primed. Hence our budget.

With Budget 2009, the Canadian government has chosen to address the current financial crisis through capital rather than individual tax relief. Personal tax relief will average about $300 for 2009, therefore the budget needs to be looked at with a "big picture" outlook.

Capital produces jobs, jobs produce income, income produces income taxes. Therefore, from a business point of view, a budget focused on pumping capital into the economy is not a bad thing. The question is, "is it enough?"

ACCESS TO FINANCING

Due to the global financial situation, Canadian banks have found themselves in the position of having to restrict credit availability in order to maintain the liquidity reserves required of Canadian banks. While this has proven to be good for the Canadian economy as a whole, it has become a source of concern to Canadian business.

Budget 2009 addresses one of the major concerns of small to medium size business with improved access to financing.

Increasing the loan eligibility limit for the Canada Small Business Financing Program to $350,000, up $100,000 is one of the initiatives. The Budget has also given increased flexibility and capacities to Canada Mortgage and Housing Corporation; Export Canada and the Business Development Bank of Canada to become more actively involved in lending and financing under the Business Credit Availability Program.

The availability of funds for business, in conjunction with the infrastructure expenditures announced will, perhaps more so than the tax measures introduced, assist Canadian business to take control, retain productivity and stimulate the economy for the benefit of everyone.

PERSONAL TAX MEASURES

Personal tax was addressed throughout the budget and is designed to reduce the tax burden on the individual and put cash into circulation. The basic personal exemption amount, the credit you get just for filing the return, increased to $10,320 up from the $10,100 effective January 1, 2009 and $9,600 in 2008.

The two lowest Tax Brackets were also increased by 7.5% allowing for the individual to be taxed at a lower rate. The new threshold of $40,726 also becomes the clawback level for income-tested credits such as the Child Tax Benefit. The National Child Benefit Supplement is completely clawed back at the 40,726 levels.

Therefore these two measures will reduce the individuals' federal income tax ranging from $33 to $317 in 2009. A family will increase this by an additional $33.

AGE CREDIT
The budget increases the Age Exemption Credit by $1,000 to $6,408. With income below $32,312 this will result in a $150 tax reduction for seniors. Above this amount, the exemption begins to phase out and is eliminated at $75,032.

HOME RENOVATION TAX CREDIT
The Home Renovation Tax Credit is in effect until February 1, 2010. This non-refundable credit is designed to assist taxpayers, and by extension, Canadian construction and trades, by allowing a 15% credit on up to $10,000 of renovations that has a "lasting effect" on the principle residence. The "do-it-yourselfer" is out of luck on this credit. Expenditures must be at arms-length; this means no relationship with the contractor completing the renovations.

The Home Renovation Tax Credit is applied based on the principle residency rules of the ITA and therefore a maximum claim of $10,000 is applied to the family unit.

HOME BUYERS PLAN
The amount that may be withdrawn from an RRSP, and applied as a down payment towards the purchase of a home, has been increased to $25,000. The 15-year re-payment period remains unchanged.

FIRST-TIME HOME BUYERS TAX CREDIT
A non-refundable tax credit of up to $750 is available in 2009 for taxpayers purchasing their first home. For the purposes of the tax credit, an individual is purchasing their first home if neither they nor their spouse has owned a home in the past four years.

The credit is also available if the taxpayer or a dependant is eligible for the Disability Tax Credit and the home purchased is to allow the disabled person to live in a more accessible dwelling.

RRIF/RRP REPAYMENT

The budget re-introduces the November 2008 announcement that will allow taxpayers receiving Registered Retirement Income Funds or variable Registered Pension Plan funds to "re-contribute" up to 25% of the minimum contract amount to their registered plan. Re-contributions must be made by March 2, 2009 or 30 days following legislative approval.

RRSP/RRIF LOSSES
In the year of death of a taxpayer, amounts remaining with registered investments are collapsed and taxed in full on the final return. In the past, any decrease in the value of the registered funds between the date of death and distribution from the estate were not eligible for deduction.

The budget addresses this situation and will allow any losses incurred between the date of death and distribution of the estate to be applied back to the final return of the deceased to the extent the funds were included in income.

PENSION SPLITTING
Unfortunately, what is not in this budget is a measure addressing the inequality of retired persons. Under current tax legislation, an individual retiring at age 60 with a company registered pension plan is eligible to split the eligible income with their spouse.

If the next-door neighbour also wished to retire at age 60, but is relying on RRSPs, pension income splitting is not available to them.

BUSINESS TAX MEASURES
The federal budget increases the amount of income a small business corporation (CCPC) can earn and still be taxed at the 11% corporate tax rate by $100,000. This brings the amount in line with the Ontario Government at $500,000 and is effective January 1, 2009.

EI PREMIUMS
EI premiums paid by employers and employees are frozen at 1.73% of insurable earnings for the 2009 and 2010 calendar year. This will assist businesses in long-term planning with locked in costs associated with hiring employees.

CAPITAL COST ALLOWANCE
Business will benefit from the increase in Capital Cost Allowance Rates, the amount of depreciation eligible to be deducted from the business tax return. Machinery and Equipment primarily used in a manufacturing or processing activity will continue to qualify for the 50% straight-line method of claiming capital cost allowance through to the end of 2009. This incentive was originally scheduled to expire on December 31, 2008.

Computer users will also benefit from an accelerated capital cost allowance. Effective with purchases after January 27, 2009, computer equipment and systems software is eligible for a 100% allowance and is not subject to the 50% first year limitation. This classification applies to purchases up to January 31, 2011.

So is it enough? Only time will tell and hindsight is always 20/20.

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154 Grays Road
Stoney Creek, Ontario
L8G 3V2

Phone: 905-664-1010
Toll-free: 866-938-1010
Fax: 905-664-6801
www.theaccountingplace.net