

## Budget 2010

It's being touted as a jobs and growth budget, with neither tax increases nor major new tax relief. Aside from some targeted measures that should benefit the disabled, charities and families, there's little to attract the attention of advisors in Finance Minister Jim Flaherty's latest economic blueprint.

"The government was pretty clear that there weren't going to be any significant tax giveaways or special spending and true to their word, there really isn't much here to write home about," says Doug Carroll, vice president, tax and estate planning at Invesco Trimark, who was in the Ottawa budget lock-up with Advisor.ca.

Still, Carroll says there are a number of minor, but useful adjustments to Ottawa's taxation rules included in Thursday's budget.

### Improving the RDSP

Changes to the Registered Disability Savings Plan (RDSP) will allow a ten-year carry forward of Canada Disability Savings Grant and Canada Disability Savings Bond entitlements "in recognition of the fact that families of children with disabilities may not be able to contribute regularly to their plans," the budget documents state.

"The carry over otherwise would have been lost from year to year," says Carroll. "So if the financial circumstances are such that you can't start up an RDSP at an earlier age, when you start up later, the accumulated amount will be available to catch up. It won't go back any earlier than when the RDSP program was implemented [in 2007]. But if they decide they are not in a position to open up an RDSP today, they know they are not giving up on the grant and bond money altogether."

The carry forward is estimated to come with a price tag of \$20 million in 2010-11, and \$70 million in 2011-12. In addition, current RRSP rollover rules will be extended to allow a rollover of a deceased individual's RRSP proceeds to the RDSP of a financially dependent infirm child or grandchild.

"They won't attract the bonds or grants on this rollover and it will reduce the contribution room, but it does provide an additional source of money for funding up an RDSP for parents who are concerned about making choices: Should I be funding the RDSP or should I be putting money into my own RRSP?" Carroll explains. "This allows parents a little more flexibility and the knowledge that they can eventually get that money rolled over into their RDSP."

Payments made to an RDSP or to a Registered Education Savings Plan through a program funded by a province will be treated the same way as federal grants, meaning they will not be eligible for federal grants or bonds.

### Help for charities

Ottawa is proposing to basically scrap the disbursement quota, introduced in the 1970s and intended to ensure a significant portion of a charity's resources be devoted to charitable purposes. Specifically, the amount a charity spends each year on charitable activities must be at least the sum of 80% of the

previous year's donations (the charitable expenditure rule) and 3.5% of all assets (the capital accumulation rule).

Charities argued the rules imposed a complex and costly administrative burden. This year's budget proposes to eliminate the charitable expenditure rule and to modify the capital accumulation rule.

"The budget suggests that the government is comfortable that the Canada Revenue Agency's ability to monitor charities may very well be sufficient; that taking away the disbursement quota will not mean that those charities will either intentionally or unintentionally abuse their status as charities," Carroll notes.

The removal of the quota will be helpful for charities, he adds, allowing them to do what they want without having the overlay of regulatory monitoring on their day-to-day activities.

"From an estate-planning standpoint, this could very well change how people decide they are going to make a donation to a charity," Carroll says, because the disbursement quota will no longer be an issue that has to be worked around. "Estate planners will be looking at this part of the budget very carefully, particularly for high net worth clients who may be making large donations and looking at ways to make those donations more effective."

### **Child care support**

Ottawa is also changing the rules regarding the Universal Child Care Benefit (UCCB) so that single parents receive comparable tax treatment to two-parent families.

"When there are two parents, the UCCB is taxed to the lower income parent, when you are a single parent you could be facing higher effective taxation on that benefit," says Carroll. Under the budget proposals, single parents will be allowed to include the benefit as part of the income of the dependent child. "In most cases, that child will not be taxed, so that should assist single parents, who are dealing with different issues than two-parent families."

For 2010, Ottawa estimates, the change will provide up to \$168 in tax relief for single parents with one child under six years of age. In shared-custody situations, the UCCB taxable benefit will be split between the two parents.

### **Closing loopholes**

The budget contains several initiatives Ottawa says will protect the integrity of the Canadian tax system; essentially the closing of tax loopholes. For instance, new rules on stock options are intended to address tax planning practices which have allowed stock-based employment benefits to escape taxation when such options are cashed out.

"Stock options are not supposed to be tax-free," Flaherty said at a news conference, noting Ottawa loses as much as \$300 million a year in tax revenues from "a loophole used by some relatively well-off people."

Ottawa will also begin consultations on a new reporting regime for so-called aggressive tax avoidance schemes.

### **The bigger picture**

Flaherty's decision not to increase taxes, and to hold the line on scheduled future personal and corporate tax reductions, will have an impact on government coffers.

Personal income tax revenues, the largest portion of budgetary revenues, are projected to decline to \$108.2 billion in 2009-10, down \$7.8 billion or 6.7%. Corporate tax revenues will drop even more: 24.3% to \$22.3 billion. Flaherty doesn't appear to be worried.

"Unlike other countries, we are in a position to ensure our deficit will be temporary," the minister said in his budget speech. "We can meet our current needs without jeopardizing our long-term growth. Reducing the tax burden is a key part of Canada's advantage in the global economy."

### **This and that**

The thorny and perennial issue of a national securities regulator appears to be moving forward. The government says it will release draft securities legislation this spring, to be considered by the Supreme Court of Canada, which in turn will offer an opinion on whether Ottawa has the constitutional authority to enact and implement a federal securities regulatory regime.

A transition office is scheduled to provide an organizational plan for a new national regulator by the summer.

The Red Tape Reduction Commission — an initiative described by one reporter as "Monty Python-esque" — will be established to review federal regulations in areas where reform is needed to reduce the compliance burden. The Canadian Federation of Independent Business estimates that businesses in Canada spend more than \$30 billion per year complying with regulations.

Finally, the government will introduce legislation to enable credit unions to incorporate and operate federally.

**Budget 2010: Benefits of the RDSP Carry Forward** Roger, a low-income adult who has been eligible for the Disability Tax Credit his whole life, opens a Registered Disability Savings Plan (RDSP) in 2011.

In each of 2008 (the year RDSPs became available), 2009, 2010 and 2011, Rogers will have accumulated \$500 in grant entitlements at a 300% matching rate, \$1,000 in grant entitlements at a 200% matching rate and \$1,000 in Canada Disability Savings Bond (CDSB) entitlements based on his family income.

When Rogers opens his RDSP in 2011, his RDSP will automatically receive \$4,000 in CDSBs.

After the RDSP is opened, Roger's family contributes \$400 to his plan in 2011, for which his RDSP receives \$1,200 in Canada Disability Savings Grants (CDSG). Roger carries forward \$1,600 in unused grant entitlements at the 300% rate and \$4,000 in unused grant entitlements at the 200% rate. When

these unused entitlements are added to his grant entitlement for 2012, Roger has \$2,100 in grant entitlements at the 300% matching rate and \$5,000 in grant entitlements at the 200% matching rate.

In 2012, Roger's family contributes \$3,000 to his RDSP. The first \$2,100 of this contribution uses up Roger's grant entitlements at the 300% matching rate. The next \$900 is matched at the 200% matching rate. In total, Roger's RDSP receives \$8,100 in CDSGs in 2012. In addition, his RDSP receives a CDSB of \$1,000 based in his bond entitlements for 2012.

*Source: Finance Canada*

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