

January 26, 2007

Dear Client:

2006 TAX MEMO

During 2006, Canada Revenue Agency (CRA) announced a number of significant changes with respect to deductions and credits that will apply for the 2006 tax year.

As well, as will be discussed within this memo, there are additional credits that take effect for 2007.

Basic Personal Amounts/Credits

The basic personal tax credit amount is expected to rise from \$8,839 in 2006 to a proposed minimum amount in 2009 of \$10,000. As well, the spousal tax credit amount is anticipated to rise from \$7,505 in 2006 to \$8,500, minimum, in 2009. The personal tax credit amounts are to be indexed by inflation subsequent to 2009. For rule of thumb purposes, these quoted amounts can be assumed to be the maximum income that one can earn without paying personal income taxes.

Universal Child Care Benefit

The May 2, 2006 federal budget announced a new program known as "Universal Child Care Benefit" (UCCB), which became effective July 2006. The UCCB replaces the former Canadian Child Tax Benefit program.

The UCCB represents a payment of \$100 per month for each child under the age of 6. The UCCB payment is taxable in the hands of the person with the lower net income.

If you feel that you are entitled to this new UCCB payment but have not received same, would you please contact CRA at 1-800-959-2221.

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PERSONAL TAX MEASURES

Donations/Capital Gains Inclusion Rate

Donations of publicly traded securities to a registered charity and/or a public foundation, and donations of ecologically sensitive land to conservation-type charities after May 1, 2006 will now be excluded from any capital gains inclusion, i.e., these donations do not attract capital gains in the hands of the donor.

At the same time, capital losses will not be allowed on these types of donations.

Pension Tax Credit

Effective for 2006 and subsequent taxation years, the pension tax credit has risen from \$1,000 to \$2,000.

Child Disability Benefit

The May 2, 2006 budget has increased the Child Disability Benefit Supplement from \$2,044 per eligible child to \$2,300 per eligible child.

Refundable Medical Expense Supplement

Effective for 2006, the maximum refundable medical expense supplement has increased to \$1,000 from \$767. As well, the family income threshold, above which the supplement begins to be reduced, has been increased to \$22,140 for 2006 and is subsequently indexed for years after 2006.

Canada Employment Credit

The May 2, 2006 budget introduced a Canada Employment Tax Credit. Although this is indicated as a new credit, it is something that was effective in the 1980's. The Canada Employment Credit is a non-refundable tax credit and is the lesser of \$500 and an individual's employment income for the year. Because the credit became effective July 1, 2006, the maximum credit in 2006 will be \$250.

The maximum credit will be increased to \$1,000 in 2007, and will be indexed for years after that.

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Textbook Tax Credit

The May 2, 2006 budget introduced a new concept – The Textbook Tax Credit – for all students attending post-secondary school, either on a full time or part time basis. The new credit will be \$65.00 per month for full time students and \$20.00 per month for part time student.

It should be recognized that this credit, in no way represents the actual cost of textbooks that students must purchase while attending a post secondary institution, but is merely a recognition of the cost of these books.

Tax Credit for Public Transit Passes

Effective July 1, 2006, individuals are entitled to make a non-refundable tax credit claim for public transit passes for themselves, their spouses, or common law spouses, and dependent children under the age of 19. The limitation on the pass is that it must be for a duration of at least one month.

Although, at the present time, to make the claim one is not required to submit proof of the transit pass itself, it is recommended that one maintain the actual transit passes, in case of a requirement to provide them to CRA.

Child Fitness Tax Credit

Effective for the 2007 and subsequent years, CRA has introduced a new tax credit, known as the Children's Fitness Tax Credit. This tax credit represents a claim of \$500 for eligible fees paid relating to the enrolment of a child under the age of 16 to an eligible program of fitness activity. While CRA has not specifically identified what qualifies as a eligible program of physical activity, it is generally recognized to be sports activities and other activities that help children keep in shape. It is expected that CRA will shortly introduce the criteria for eligible program of physical activity.

Scholarships and Bursary Income

Effective for 2006, all Bursaries and Scholarships received by students with respect to educational programs will be exempt from income tax. Previously, only the first \$3,000 was exempt from taxation.

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Tradesman's Tool Expenses

Employed trades people are now entitled to claim a deduction of a maximum of \$500 for the cost of previously unused tools acquired after May 2, 2006. The employer must certify that the tools are acquired as a condition and for use in the individual's employment.

While a list of eligible tools has not yet been prepared by CRA, it is recognized that eligible tools will not include electronic communication devices or electronic data processing equipment.

Apprenticeship Grant

The May 2, 2006 budget has created a new program entitled "Apprenticeship Grant" that will be established effective, January 1, 2007. The grant will be \$1,000 per year to apprentices in the first two years of a qualifying apprenticeship program. The qualifying apprenticeship programs are those programs that fall under the Red Seal Program. The government of Canada is to consult with the various provinces and territories, employers, and unions in order to establish a criteria for the Red Seal Program.

Capital Gain Deferral

In 2006, considerable discussion was held in the public forum with respect to a capital gains deferral program. It was assumed, under this capital gains deferral program, that if the proceeds realized on a capital disposition were reinvested within six months of the realization of the capital gain, then the capital gain itself would be deferred.

The 2006 budget made no comment on this deferral program, and at the present time the tax deferral program is, for all intents and purposes, a dead issue.

BUSINESS MEASURES

The May 2, 2006 budget also introduced several measures that effect corporations and these measures are generally considered to be positive for corporations in Canada.

General Corporate Income Tax Rate

The federal income tax rate is scheduled to decline from 2006 to 2009, such that the income tax rate will be reduced from the current 21% to 19% in 2010. As well the surtax is to be eliminated, effective January 1, 2008.

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Small Business Measures

The May 2, 2006 budget has increased the small business deduction from a taxable income of \$300,000 to \$400,000, effective January 1, 2007. This increase will be prorated for taxation year-ends that straddle 2006.

As noted above, while the general corporate tax rate will be reduced between 2006 and 2010, the small business tax rate will also be reduced effective for 2006. The small business tax rate will be reduced from 12% in 2006 to 11% in 2009.

Non Capital Losses

The May 2, 2006 budget has extended the life span of non-capital losses to 20 years from the current 10 years for taxation years ending after 2005. This is strictly an administrative procedure, as it is assumed that a corporation that has a requirement to extend their losses carry-forward for an additional 10 years will not necessarily be in business at the end of 20 years.

Apprenticeship Job Creation Tax Credit

The May 2, 2006 budget has created a new program entitled the Apprenticeship Job Creation Tax Credit. This new credit is to provide employers with a non-refundable tax credit equal to 10% of the salaries and wages paid on or after May 2, 2006 to eligible apprentices. The maximum credit is \$2,000 per year per eligible apprentice.

Any unused credit may be carried back three years and forward 20 years in order to reduce federal income taxes otherwise payable.

Non Deductible Deductibility of Interest and Penalties

For taxation years that begin on or after April 1, 2007, penalties and interest assessed under the excise tax of Canada will no longer be tax deductible.

Automobile Deduction Limits

The automobile deduction limit, i.e. the cost of a qualified automobile remains unchanged in 2006 at \$30,000 for the capital cost of a car and \$800 per month, plus taxes, if a car is leased.

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The tax exempt allowances, however, have increased in 2006 to 50 cents per kilometer for the first 5,000 kilometers and 44 cents per kilometer thereafter.

CRA Pronouncements

In addition to the above-noted changes that were proposed in the May 2, 2006 budget CRA also makes pronouncements during the year that may or may not be of interest to various taxpayers. There is one pronouncement of interest that I noted that would be of interest to individuals, particularly to students who are Canadian residents but who often find employment during the summer in the United States or other countries.

CRA has announced that it will consider a contribution by an employee, who is a resident in Canada, where that contribution represents a payment to a foreign public pension plan, to be a non-business income tax payment for the purposes of calculating the foreign tax credit.

As you are able to see by the length of this letter, there has been quite a number of changes during 2006 that affect the Canadian tax payer. This letter is not intended to be an in-depth discussion of each of the changes, but if you should have specific questions with respect to this letter, and any of the commentaries herein, please feel free to contact me at the office, and we can arrange for an appointment for you to come in and discuss the issues that you wish to raise.

At this time I wish to extend a belated happy new year to all of you and I look forward to talking with each of you during the upcoming personal tax season. As always I would ask that you prepare your tax information early, and that you call the office to arrange for an appointment as soon as possible.

Yours truly,

David Burkes, C.A., Licensed Public Accountant

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