

# The Wealth Consultant

*"Helping you save strategically"*

March, 2013



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## The Importance of Budgets

The Canadian federal government spends billions of dollars every year, and as a result, just like all Canadian households, needs a plan for the future. To do this a budget process is employed, the importance of which should not be underestimated, as it provides insight not only into a countries' economy, but also helps taxpayers structure their spending and savings strategies.

Federal budgets provide relief to parents in the form of tax credits; in the 2006 and 2011 budgets Children's Fitness and Arts Tax Credits were introduced. These tax credits allow parents to claim a 15 percent non-refundable tax credit on up to \$500 of qualifying expenses.

They also introduce new ways to save which we saw in both 2007 as well as in 2008 with the introduction of the Registered Disability Savings Plan (RDSP) and the Tax Free Savings Account (TFSA).

While the RDSP, allows families and individuals who qualify for the disability tax credit to benefit from both tax deferred savings as well as generous government grants, the TFSA now allows Canadians over the age of 18 to save \$5,500/year without incurring any tax liability, either during the life of or upon withdrawal from the plan.

# The Importance of Budgets, con't

A budget can also provide tax relief and incentives to hire for small businesses. The 2006 budget decreased the tax rate applying to small business income to 11% and increased the amount of income eligible for this rate from \$300,000 to \$400,000, and again in 2009 to \$500,000.

The 2011 budget also created a hiring credit for small business (HCSB), a credit intended to stimulate new employment and support small businesses. **The 2013 federal budget proposes to extend the HCSB for 2013.**

The HCSB gives small businesses relief from the employer's share of employment insurance (EI) premiums paid in a year. It does this by crediting up to \$1,000 on the payroll account, based on the increase in an employer's EI premiums paid in one year over those paid in the year before.

## 2013 Federal Budget

On March 21, 2013 Jim Flaherty delivered his ninth federal budget (technically he delivered 2 in 2011) as Canada's Federal Finance Minister. While this most recent budget focuses most of its attention on balancing federal spending with revenues by 2015, there are a few tidbits that are of interest to tax payers.

Small business owners, farmers and fishermen should be pleased with the lifetime capital gains exemption increase to \$800,000 from \$750,000 on the sale of qualified property beginning in 2014. The budget also proposes to index this amount to inflation, a component not previously contemplated in the exemption amount. While pleased with this increase to the lifetime capital gains exemption, small business of privately owned corporations will not be pleased with the proposed tax increase to non-eligible dividend payments. As a result, the federal dividend tax credit rate for non-eligible dividends will be 11% (down from 13.33%) and the federal effective tax rate on non-eligible dividends will be 21.22% (up from 19.58).

Every parent who wakes up early to drive their child to various activities will like the plan to eliminate tariffs on baby clothes, ice skates, hockey and other equipment to promote physical fitness and healthy living. However, it is up to wholesalers and retailers to pass these savings along to consumers. The budget also proposes a tax credit for first time donors to charity (defined as individuals who have not donated to charity since 2007). For these budding philanthropists, the new credit will supplement the existing charitable donation tax credit with an additional 25% tax credit on up to \$1,000 in cash donations, entitling donors to a 40% federal tax credit for donations of \$200 or less, and a 54% federal credit for the portion of donations over \$200. While not an exhaustive list, the budget also calls for the elimination of the tax deduction associated with the cost of maintaining a safety deposit box as well as the government's promise to evaluate its current method of levying tax on testamentary trusts.

While the budget also focuses on tax advantaged investment schemes it should be viewed by all as a call to action to ensure that our own fiscal houses are in order.

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