Vol. 9 No. 4 May 2006

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Marmer Penner Inc. Newsletter

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2006 Federal Budget

The 2006 federal budget tabled this week contains a number of proposed changes to personal and corporate income tax. Many of these changes will impact family law practitioners. We comment below on some of the major changes and highlight where there are family law implications (We will discuss the family law implications in more detail at our upcoming breakfast seminar on May 25, 2006):

(a) The lowest personal income tax rate, which had been 16% in 2005 and reduced to 15% for the first half of 2006, is being increased to 15.5% effective July 1, 2006. This results in an effective federal rate of 15.25% for taxable income up to $36,378 for 2007;

(b) The Basic Personal Credit will be increased to $9,039 for the first half of 2006 and reduced to $8,639 for the second half of 2006. As a result, the average Basic Personal Credit for 2006 will be $8,839. This represents a 2.2% increase over the 2005 basic personal amount. There will be similar adjustments made to the spousal and equivalent-to-spouse credits;

(c) Effective July 1, 2006, the Canada Employment Credit will be introduced. This will provide a credit based on the lesser of $250 and an individual's employment income for 2006. For 2007 and subsequent years, the employment credit will increase to $1,000. As the credit is based on the 15.5% tax rate, the maximum savings will be $155 for 2008 and subsequent years. Readers may recall that prior to 1988, there was a $500 employee tax deduction which was claimed above

line 150. As the new measure is a credit, the amount will not impact line 150 income;

(d) Effective July 1, 2006, a Universal Child Care Benefit will provide families with $100 per month for each child under six years of age. This credit will be taxable to the lower income spouse or common-law partner. Presumably, where separation occurs, the parties will be required to agree who is entitled to this credit;

(e) For 2006 and subsequent years, the Pension Income Credit increases to $1,000 to $2,000;

(f) Commencing in July 1, 2006, the maximum annual Child Disability Benefit will be increased from $2,044 to $2,300;

(g) Effective for 2007, the Children's Fitness Tax Credit will allow parents to claim a non-refundable tax credit of up to $500 with respect to fees paid to enroll children under 16 in an eligible physical activity. Presumably, some Section 7 expenses will qualify for this fitness tax credit and the related tax credits should be considered when determining the net cost to each parent;

(h) For 2006 and subsequent years, a non-refundable textbook tax credit will be available to post-secondary school students. No amounts were announced. However, any unused portions will be available to be transferred to supporting parents or grandparents or available for carryforward for future use by the student. Once again, these costs may include some Section 7 expenses and accordingly, the value of the tax credit made available to one of the parents must be considered in determining the net cost of the expense;

(i) The effective tax rate on dividends from public corporations will be reduced. As part of this process, the dividend gross-up will be increased. This does not impact the dividend tax rate on certain dividends paid by private corporations so separate adjustments may be required when calculating *Guidelines* income for spouses earning dividends from both private and public corporations;

(j) Both the general and small business corporate income tax rates are scheduled to decrease effective January 2008 and continue to decline in subsequent years. In addition, the amount of active business income eligible for the small business deduction increases to $400,000 from $300,000 effective January 1, 2007. While this increase will allow business owners to earn more on an after-tax basis, the increase in the small business deduction will also create the incentive for business owners to leave a greater amount of the income inside the corporation. As a result, it may lead to lower amounts indicated as line 150 income on their personal income tax returns;

(k) The federal surtax will be eliminated by 2008;

(l) The carryforward period for non-capital losses will be extended from ten years to twenty years. This may increase the value of corporations with unused losses; and

(m) The GST rate drops to 6% after June 30, 2006. Clients will be happier as their legal and accounting fees drop by about 1%.

These comments are not intended to be a complete analysis of the proposed legislation. They are intended to provide you with an indication of the proposed changes that may impact the practice of family law.

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Don't forget to mark your calendars for the upcoming Marmer Penner Inc. Breakfast Seminar on May 25, 2006 from 8:30 a.m. to 10 a.m. Topical issues in family law accounting and taxation will be on the agenda including more details about these budget proposals. Breakfast will be served commencing at 8:00 a.m. If you haven't already confirmed your attendance, please contact us as space is limited.