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On **March 22, 2011** the Honourable **Jim Flaherty**, Minister of Finance, presented his sixth Budget to the House of Commons.

The **Government's fiscal positions** include deficits in the years 2010/2011 ($40.5 billion), 2011/2012 ($29.6 billion), 2012/2013 ($19.4 billion), 2013/2014 ($9.5 billion), 2014/2015 ($0.3 billion), and a surplus in 2015/2016 ($4.2 billion).

The Federal Government notes that it will:

- provide $80 million in new funding over three years to help small and medium-sized businesses accelerate their adoption of key information and communications technologies,
- provide nearly $870 million over two years to address climate change and air quality, including the extension of the ecoENERGY Retrofit-Homes program,
- introduce a 15-per-cent Children's Arts Tax Credit, provided on up to $500 of eligible expenditures,
- provide a temporary Hiring Credit for Small Business of up to $1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums to encourage hiring,
- limit deferral opportunities for corporations with investments in partnerships,
- enhance the Guaranteed Income Supplement (GIS) via a top-up benefit of up to $600 annually for single seniors and $840 for couples,

There were no new corporate or individual tax rates introduced.

	Actual	Projection (in billions of $)					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Budgetary revenues	218.6	235.6	249.1	264.4	281.2	296.8	309.2
Program expenses	244.8	245.2	245.7	247.3	252.0	257.7	265.6
Public debt charges	29.4	30.8	33.0	36.5	38.6	39.4	39.4
Total expenses	274.2	276.0	278.7	283.8	290.7	297.2	305.0
Balance	(55.6)	(40.5)	(29.6)	(19.4)	(9.5)	(0.3)	4.2
Other comprehensive income	0.2	3.1					
Federal debt	519.1	556.4	586.0	605.4	614.9	615.2	611.0

TAX HIGHLIGHTS

A. Personal Income Tax

1. Children's Arts Tax Credit

Budget 2011 proposes a Children's Arts Tax Credit allowing parents to claim a 15-per-cent non-refundable tax credit based on an amount of up to $500 in eligible expenses per child paid in a year. The credit will be available for the enrolment of a child, who is under 16 years of age at the beginning of the year, in an eligible program of artistic, cultural, recreational or developmental activities.

For a child who is under 18 years of age at the beginning of the year and is eligible for the Disability Tax Credit, the 15-per-cent non-refundable tax credit may be claimed on an additional $500 disability supplement amount when a minimum of $100 is paid in eligible expenses.

The eligible program must meet certain criteria as to content and supervision, last a minimum of five

consecutive days or be a weekly program lasting a minimum of eight consecutive weeks.
Expenses eligible for purposes of the child care expenses deduction, the Children's Fitness Tax Credit or other credits will be ineligible.

This measure will apply to eligible expenses paid in the 2011 and subsequent taxation years.

2. Volunteer Firefighters Tax Credit

Budget 2011 proposes a Volunteer Firefighters Tax Credit to allow eligible volunteer firefighters to claim a 15-per-cent non-refundable tax credit based on an amount of $3,000.

An eligible individual will be a volunteer firefighter who performs at least 200 hours of volunteer firefighting services in a taxation year.

Volunteer service provided at the same fire department that non-volunteer service is provided will not be eligible.

This measure will apply to the 2011 and subsequent taxation years.

3. Family Caregiver Tax Credit

Budget 2011 proposes to introduce a Family Caregiver Tax Credit which consists of a 15-per-cent non-refundable credit based on $2,000. This credit will be applicable at the beginning of 2012.

4. Medical Expense Tax Credit for Other Dependants

Currently, a caregiver may only claim the eligible expenses of a "dependent" relative described above that exceed the lesser of 3 per cent of the dependant's net income and an indexed dollar threshold ($2,052 in 2011), to a maximum of $10,000.
Budget 2011 proposes to remove this $10,000 limit on eligible expenses that can be claimed under the Medical Expense Tax Credit in respect of a dependent relative.

This measure will apply to the 2011 and subsequent taxation years.

5. Child Tax Credit (CTC) Eligibility

To ensure that sharing a home does not prevent otherwise-eligible parents from claiming the CTC in respect of their children, Budget 2011 proposes to repeal the rule that limits the number of CTC claimants to one per domestic establishment.

This measure will apply to the 2011 and subsequent taxation years.

6. Tuition Tax Credit – Examination Fees

Budget 2011 proposes to amend the Tuition Tax Credit to recognize fees paid to an educational institution, professional association, provincial ministry or other similar institution to take an examination that is required to obtain a professional status recognized by federal or provincial statute, or to be licensed or certified in order to practice a profession or trade in Canada.

Certain ancillary fees and charges paid in respect of occupational, trade or professional examinations will also be eligible for the credit.

These amendments will not apply to fees in respect of examinations taken in order to begin study in a profession or field.

This measure will apply to eligible amounts paid in respect of examinations taken in 2011 and subsequent taxation years.

7. Education Tax Measures – Study Abroad

To improve the tax recognition of education costs and access to Educational Assistance Payments (EAP) for Canadian post-secondary students who study outside Canada, Budget 2011 proposes to reduce the minimum course-duration requirement that a Canadian student at a foreign university must meet in order to claim the Tuition, Education and Textbook Tax Credits to three consecutive weeks from 13 consecutive weeks. It is also proposed that the 13-consecutive-week requirement for EAP purposes be reduced to the same time periods.

This measure will apply with respect to tuition fees paid for courses taken in the 2011 and subsequent taxation years and to EAPs made after 2010.

8. RESPs – Asset Sharing Among Siblings

To provide subscribers of separate individual plans with the same flexibility to allocate assets among siblings as exists for subscribers of family plans, Budget 2011 proposes to allow transfers between individual RESPs for siblings, without tax penalties and without triggering the repayment of (Canadian Education Savings Grants), provided that the beneficiary of a plan receiving a transfer of assets had not attained 21 years of age when the plan was opened. Budget 2011 also proposes related amendments to the Canada Education Savings Regulations.

These measures will apply to asset transfers that occur after 2010.

9. RDSPs – Shortened Life Expectancy

Budget 2011 proposes to allow Registered Disability Savings Plan beneficiaries who have shortened life expectancies to withdraw more of their RDSP savings by permitting annual withdrawals without triggering the 10-year repayment rule, subject to specified limits and certain conditions.

An RDSP beneficiary is considered to have a shortened life expectancy if a medical doctor certifies in writing that life expectancy is five years or less.

Under the proposal, withdrawals made at any time following an election will not trigger the repayment of Canada Disability Savings Grants and Canada Disability Savings Bonds provided that the total of the taxable portions of the withdrawals does not exceed $10,000 annually.

This election will result in limitations on future contributions and grants, as well as on early implementation of the minimum withdrawals normally required when a beneficiary attains the age of 60.

This measure will apply after 2010 to withdrawals made after Royal Assent to the enacting legislation. However, as a transitional rule, beneficiaries making an election under this measure will be permitted to utilize their 2011 withdrawal limit in 2012 provided that the required medical certification was obtained before 2012.

10. RRSPs – Anti-Avoidance Rules

Budget 2011 proposes to enhance the existing RRSP anti-avoidance rules by introducing rules similar to the following anti-avoidance rules that currently apply to Tax-Free Savings Accounts (TFSAs):

- the advantage rules;
- the prohibited investment rules; and
- the non-qualified investment rules.

Advantage Rules

The following will be included as RRSP advantages:

- Benefits derived from transactions that would not have occurred in a regular, open market between arm's length parties, if it is reasonable to conclude that the transactions were undertaken to benefit from the tax attributes of RRSPs.
- Payments to an RRSP made on account or in lieu of payments for services
- Payments of investment income, where the income is tied to the existence of another investment. An example is the offering of two types of securities in tandem, where only one is held inside an RRSP and income is allocated disproportionately to this investment.
- Benefits derived from asset purchase and sale transactions ("swap transactions") between RRSPs and other accounts controlled by the RRSP annuitant.
- Specified non-qualified investment income which includes income (including capital gains) derived from non-qualified investments, the amount of which has not been removed from a taxpayer's RRSP within 90 days of receipt of a notice from the Minister of National Revenue directing that the amount be removed.
- Income (including capital gains) derived from a "prohibited investment".
- Benefits received through an RRSP Strip transaction with the specific exclusion of the Home Buyer's Plan and the Lifelong Learning plan

The amount of the tax payable on these will eliminate the value of the benefit.

Prohibited Investments

Budget 2011 proposes to introduce a "prohibited investment" concept for RRSPs, based closely on the Tax Free Savings Account (TFSA) prohibited investment rules. In the TFSA context, a "prohibited investment" is defined in subsection 207.01(1) of the Income Tax Act and generally includes debt of the TFSA holder and investments in entities in which the TFSA holder or a non-arm's length person has a "significant interest" (generally 10 per cent or more) or with which the TFSA holder does not deal at arm's length.

A special tax equal to 50 per cent of the fair market value of the investment will apply to an RRSP annuitant on acquisition of a prohibited investment by his or her RRSP.

This tax may be refunded if the prohibited investment is disposed of by the end of the year following the year in which the tax applied.

Non-Qualified Investments

Budget 2011 proposes to modify certain tax rules that apply when an RRSP acquires a "non-qualified investment" using the rules that are already in place for TFSAs as a base.

Budget 2011 proposes to replace the income inclusion and deduction components of the non-qualified investment rules, as well as the one-per-cent per month tax. Under this proposal, an RRSP annuitant will be subject to a special tax of 50 per cent of the fair market value of a non-qualified investment.

The tax liability will apply at the time that a non-qualified investment is acquired by the RRSP or at the time an investment becomes non-qualified, as the case may be.

This tax may be refundable to the annuitant if the investment is disposed of from the RRSP by the end of the year following the year in which the tax applied.

Subject to two exceptions, these new provisions will apply to transactions occurring, and investments acquired, after March 22, 2011.

Exceptions to this effective date are as follows:

- The RRSP advantage rules will not apply to swap transactions undertaken before July 2011. Swap transactions undertaken to ensure that an RRSP complies with the new rules by will be permitted until the end of 2012.

- The portion of capital gains accruing on prohibited investments after Budget Day will be considered investment income earned after Budget Day. However, the 50-percent tax will not apply to prohibited investments that were held on Budget Day by an RRSP if disposed of before 2013.

11. Individual Pension Plans (IPP)

Budget 2011 proposes that:

- annual minimum amounts will be required to be withdrawn from IPPs, similar to current minimum withdrawal requirements from Registered Retirement Income Funds (RRIFs), once a plan member attains the age of 72. The requirement for these RRIF-like withdrawals apply to the 2012 and subsequent taxation years.

- contributions made to an IPP that relate to past years of employment will, in effect, be required to be funded first out of a plan member's existing Registered Retirement Savings Plan (RRSP) assets or by reducing the individual's accumulated RRSP contribution room before new deductible contributions in relation to the past service may be made.

  This measure will apply to IPP past service contributions made after March 22, 2011 except that it will not apply to IPP past service contributions made in respect of past service that was credited to an IPP member before March 22, 2011 under terms of the IPP submitted for registration on or before March 22, 2011.

12. Tax on Split Income – Capital Gains

Budget 2011 proposes an extension of the tax on split income to capital gains realized by, or included in the income of, a minor from a disposition of shares of a corporation to a person who does not deal at arm's length with the minor, if taxable dividends on the shares would have been subject to the tax on split income.

Capital gains that are subject to this measure will be treated as dividends and, therefore, will not benefit from capital gains inclusion rates nor qualify for the lifetime capital gains exemption.

This measure will apply to capital gains realized on or after March 22, 2011.

13. Agri-Québec

Budget 2011 proposes amendments to provide the same income tax treatment to investments made under the Agri-Québec program as is currently provided to investments under the Agri-Invest program. These amendments will apply for the 2011 and subsequent taxation years.

14. Mineral Exploration Tax Credit

Budget 2011 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2012. Under the existing "look-back" rule, funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the following calendar year.

15. Administrative Changes – Canada Child Tax Benefit (CCTB)

Budget 2011 proposes to require an individual who receives the CCTB to notify the Minister of National Revenue of a marital status change before the end of the month following the month in which the change in status occurs.

This measure will apply to marital status changes that occur after June 2011.

16. Administrative Changes - Accommodating Pension Plan Members and Retirees on Plan Wind-up

Canada Revenue Agency will clarify the application of the rules regarding the tax treatment of lump-sum amounts received by former employees or retirees in lieu of their right to health and dental coverage from employers who have become insolvent. These amounts will not be treated as income for tax purposes, in relation to employer insolvencies arising before 2012.

B. Business Income Tax

1. Manufacturing and Processing Sector

Budget 2011 proposes to extend by two years the Accelerated Capital Cost Allowance of 50% that is available for equipment under Class 29. This will apply to eligible equipment acquired before 2014.

2. Clean Energy Generation Equipment: Accelerated Capital Cost Allowance:

Budget 2011 proposes to amend Class 43.2 to include eligible equipment that is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy in a process in which all or substantially all of the energy input is from waste heat.

This measure will apply to eligible assets acquired on or after March 22, 2011 that have not been used or acquired for use before that.

3. Qualifying Environmental Trusts (QET)

Pipeline Trusts

Budget 2011 proposes to modify conditions for inclusion as a QET to those created after 2011 and mandated by order of a tribunal (such as the National Energy Board) constituted by a law of Canada or a province.

These changes will apply to the 2012 and subsequent taxation years for trusts created after 2011.

Eligible Investments

Budget 2011 proposes to expand the range of eligible investments for QETs to include certain debt obligations and securities described the definition "qualified investment" in section 204 of the Income Tax Act.

These changes will apply to the 2012 and subsequent taxation years for trusts created after 2011.

Tax Rate

Budget 2011 proposes to set the rate of tax payable by a QET under Part XII.4 of the *Income Tax Act* to the corporate income tax rate generally applicable for the 2012 and later taxation years.

This change will apply to the 2012 and subsequent taxation years.

4. Oil Sands Properties

Budget 2011 proposes that the cost of oil sands leases and other oil sands resource property be treated as Canadian Oil and Gas Property Expense (COGPE) as opposed to Canadian development expenses and thus be eligible for deduction at 10 per cent per year.
This change will be effective for acquisitions made on or after March 22, 2011.

Pre-Production Development Expenses of Oil Sands Mines:
Budget 2011 proposes that development expenses incurred for the purpose of bringing a new oil sands mine into production in reasonable commercial quantities be treated as Canadian Development Expenses at a deduction rate of 30% as opposed to fully deductible Canadian Exploration Expenses as allowed in prior years. Transitional relief will be available, allowing for phase in over the next five years.

5. Stop-Loss Rules on the Redemption of a Share

Budget 2011 proposes to extend the application of stop-loss rules to any dividend deemed to be received on the redemption of shares held by a corporation, other than dividends deemed to be received on the redemption of shares of a private corporation that are held by a private corporation directly or indirectly.

This measure will apply to redemptions that occur on or after March 22, 2011.

6. Partnerships – Deferral of Corporate Tax

Budget 2011 proposes to require corporations to accrue income from the partnership in which they have a significant interest for the portion of the partnership's fiscal period that falls within the corporation's taxation year (the "Stub Period").

The proposed measures will apply to taxation years of a corporation that end after March 22, 2011. To mitigate the potential cash-flow impact in the first corporate taxation year. A transitional relief is available in certain circumstances. This relief allows for additional income is to be brought into the corporation's income over the five taxation years that follow that first taxation year. Inclusions will be 15% for 2012, 20% for 2013 through 2015, and 25% for 2016.

A corporate partner will include in computing its annual income:

- The Corporate partner's share of the income or loss of the partnership from the fiscal period that ends in the year;
- Accrued income, if any, for the Stub Period;
- Less the Adjusted Stub Period Accrual from the previous taxation year.

The "Stub Period Accrual" can be

either the calculated amount based on the Stub period ending in the current year (formulaic) or a designated amount.

If the designated amount is less than both the actual pro-rated income for the Stub Period and amount determined under the formulaic calculation, the corporate partner will face an income inclusion adjustment equal to the shortfall multiplied the average prescribed interest rate. If the shortfall is larger than 25 per cent, there will be an additional income inclusion adjustment equal to 50 per cent of the additional income in excess of the 25-per-cent threshold.

Election to Change a Partnership's Fiscal Period

A one-time election will be provided that will enable a partnership to change its fiscal period.

The election must be filed before the earliest of all filing due dates for any corporate partner for the taxation year in which the new fiscal period ends. The new fiscal period end must be after March 22, 2011 and on or before the year end date of a corporate partner. As well, at least one of the corporate partners must have an Adjusted Stub Period Accrual greater than nil, and all members of the partnership must be corporations other than professional corporations.

Further rules and calculations have been released with regards to multi-tiered partnerships and the transitional relief available.

C. Other Measures

1. Charitable Sector - Enhance the Regulatory Regime for Qualified Donees

Budget 2011 proposes to extend to the following qualified donees certain regulatory requirements that apply to registered charities in the interest of fairness and consistency:

- registered Canadian amateur athletic associations (RCAAAs);
- municipalities in Canada;
- municipal and public bodies performing a function of government in Canada;
- housing corporations in Canada constituted exclusively to provide low-cost housing for the aged;
- universities outside of Canada; and
- certain other charitable organizations outside of Canada that have received a gift from Her Majesty.

2. Charitable Sector - Qualified Donees

In an effort to ensure fair and consistent treatment, Budget 2011 will require all Qualified Donees to meet the requirements that Registered Charities currently comply with regarding them being a list maintained by the CRA, abiding by the rules related to the issuance of donation receipts, and complying with the rules for maintenance of books and records. Failure to comply could result in monetary penalties or other sanctions, including revocation of qualified donee status.

3. Charitable Sector - Regulatory Framework for Registered Canadian Amateur Athletic Associations

Budget 2011 proposes that RCAAAs be required to have the promotion of amateur athletics in Canada on a nation-wide basis as their exclusive purpose and **exclusive function** rather than their primary purpose and primary function.

Budget 2011 proposes that, if an RCAAA provides an **undue benefit** to any person, the CRA be authorized to apply monetary penalties, suspend its receipting privileges or revoke its registration.

Budget 2011 proposes that the CRA be authorized to **make available to the public** certain information and documents in respect of RCAAAs, in the same manner as applies to registered charities.

4. Charitable Sector - Safeguard Charitable Assets

Budget 2011 proposes to give the Minister of National Revenue the discretion to refuse or to revoke the registration of an organization, or to suspend its authority to issue official donation receipts, if a senior individual in the organization has been found guilty in certain types of criminal or civil offences or was previously involved (in certain situations) with non-Compliance or Tax Shelter Promotion.

These measures will apply on and after the later of January 1, 2012 and Royal Assent to the enacting legislation.

5. Charitable Sector - Recover Tax Assistance for Returned Gifts

When property for which the taxpayer received an official donation receipt is returned, the qualified donee must issue to the taxpayer a revised receipt if more than a $50 change results.

This measure will apply in respect of gifts or property returned on or after March 22, 2011.

6. Charitable Sector - Gifts of Non-Qualifying Securities (NQS)

Budget 2011 proposes that tax recognition of the donation of an NQS of a donor will be deferred until such time as the qualified donee has disposed of the NQS (within a maximum of 5 years).
This measure will apply in respect of securities disposal of by donees on or after March 22, 2011.

7. Granting of Options to Qualified Donees

The taxpayer will be allowed a credit or deduction at the time of acquisition of the property to which the option applies by the donee based on the amount by which the fair market value of the property at that time exceeds the total of amounts, if any, paid by the donee for the option and the property.

A Charitable Donations Tax Credit or Deduction generally will not be available to the taxpayer if the total amount paid by the qualified donee for the property and the option exceeds 80 per cent of the fair market value of the property at the time of acquisition by the donee.

This measure will apply in respect of options granted on or after March 22, 2011.

8. Donations of Publicly Listed Flow-Through Shares

Budget 2011 proposes, in general terms, to allow the exemption from capital gains tax on donations of shares of a class in which a taxpayer acquired shares issued pursuant to a flow-through share agreement entered into on or after March 22, 2011 only to the extent that cumulative capital gains in respect of dispositions of shares of that class exceed the original cost of the flow-through shares.

D. Customs and Tariffs

1. Customs Tariff Simplification

The number of tariff items will be reduced.

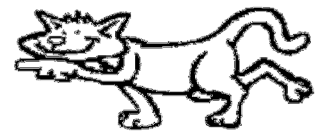
Obsolete provisions that have either expired or become redundant due to recent tariff and trade initiatives will be revoked.

Three new tariff items in Chapter 98 of the Schedule to the *Customs Tariff* will be introduced to facilitate the processing of low value (less than $500) non-commercial imports arriving by post or by courier.

E. Previously Announced Measures

Budget 2011 confirms the Government's intention to proceed with previously announced tax measures, as modified to take into account consultations and deliberations since their original release including:

- Legislation relating to measures announced in the March 2010 Budget (including related legislative proposals that were released on Augst 27, 2010);



- Legislative proposals released on July 16, 2010 relating to income tax technical and bijuralism amendments;
- Measures announced on November 25, 2010 to ensure that individuals can appeal, in every case, a determination concerning their eligibility for the Disability Tax Credit;
- Legislative proposals released on December 16, 2010 relating to the Real Estate Investment Trust rules;
- Proposed changes to certain GST/HST rules relating to financial institutions released on January 28, 2011;
- Legislative proposals released in draft form on March 16, 2011 relating to the deductibility of contingent amounts, withholding tax on interest paid to certain non-residents, and the tax treatment of certain life insurance corporation reserves.