2012 Federal Budget Commentary

"Jobs, Growth and Long-Term Prosperity"

March 29, 2012

INTRODUCTION

The Honourable Jim Flaherty, Minister of Finance, today tabled Economic Action Plan 2012, a comprehensive agenda to bolster Canada's long-term economic strengths and promote job growth.

Budget 2012 focused on four key areas:

- **Economic Developments and Prospects** – Budget 2012 addresses the challenges and helps take advantage of the opportunities of the global economy, while ensuring sustainable social programs and sound public finances for future generations.
- **Supporting Jobs and Growth** – Budget 2012 proposes measures to strengthen incentives for employment and skills training, support a more efficient Employment Insurance program, expand opportunities for Aboriginal peoples to fully participate in the economy, and build a fast and flexible economic immigration system.
- **Sustainable Social Programs and a Secure Retirement** – To address that Canadians are living longer and healthier lives, Budget 2012 is making changes to Old Age Security.
- **Responsible Management to Return to Balanced Budgets** – In an effort to ensure the Government's commitment to managing the public finances in a sustainable and responsible manner, the Government is taking measures to find efficiencies in its operations and achieve greater relevance and effectiveness in government programs and services.

The following is a brief overview of the key tax measures.

OLD AGE SECURITY CHANGES

Budget 2012 puts the Old Age Security (OAS) program on a sustainable path by proposing the following legislation:

- To raise the age of eligibility for OAS and Guaranteed Income Supplements (GIS) benefits gradually from 65 to 67 starting in April 2023 and fully implemented by January 2029.
- To increase the age at which the OAS Allowance and the Allowance for the Survivor are provided from 60 to 64 today, to 62 to 66 starting in April 2023.
- Allow for the voluntary deferral of the OAS pension, for up to five years, starting on July 1, 2013 in exchange for a higher, actuarially adjusted pension.
- Reduce the burden on seniors by proactively enrolling seniors for the OAS and GIS, to be phased in from 2013 to 2015.

- This measure will not affect anyone who is 54 years of age or older as of March 31, 2012.

PENNIES

Budget 2012 indicates that the increased cost for production, eroding purchasing power and the cost to supply pennies has resulted in the Government eliminating the penny from Canada's coinage system. The Fall of 2012 will see the Royal Canadian Mint cease to distribute the coin, despite its remaining Canada's smallest unit for pricing goods and services. Pennies will still be used for transactions indefinitely, but rounding to the nearest five cent increment will be required on the final bill of sale after the calculation of the GST/HST. Non-cash payments such as cheques, credit and debit cards will continue to be settled to the cent.

PERSONAL TAX MEASURES

There are no proposed changes to personal tax rates.

Registered Disability Savings Plans

Budget 2012 proposes a number of changes to the rules governing Registered Disability Savings Plans (RDSP).

Plan Holders

Budget 2012 proposes to allow, on a temporary basis, certain family members (not necessarily the legal representative) to become the plan holder of the RDSP for an adult individual who might not be able to enter into a contract.

This measure will apply from the date of Royal Assent of the enacting legislation until the end of 2016. A qualifying family member who becomes a plan holder under this measure will be able to remain the plan holder after 2016.

Proportional Repayment Rule

Budget 2012 proposes to introduce a proportional repayment rule that will apply when a withdrawal is made from an RDSP. This rule will replace the 10-year repayment rule only in respect of RDSP withdrawals. The existing 10-year repayment rule will continue to apply where the RDSP is terminated or deregistered, or the RDSP beneficiary ceases to be eligible for the Disability Tax Credit (DTC).

The proportional repayment rule will require that, for each $1 withdrawn from an RDSP, $3 of any Canada Disability Saving Grant (CDSG) or Canada Disability Savings Bonds (CDSB) paid into the plan in the 10 years preceding the withdrawal be repaid, up to a maximum of the assistance holdback amount. This measure will apply to withdrawals made from an RDSP after 2013.

Maximum and Minimum Withdrawals

Budget 2012 proposes changes to the rules governing maximum and minimum withdrawals from RDSPs. These measures will apply after 2013.

Rollover of Registered Education Savings Plan (RESP) Investment Income

Budget 2012 proposes to allow investment income earned in an RESP to be transferred on a tax-free (or "rollover") basis to an RDSP if the plans share a common beneficiary.

In order to qualify for this measure, the beneficiary must meet the existing age and residency requirements in relation to RDSP contributions. As well, one of the following conditions must be met:

- the beneficiary has a severe and prolonged mental impairment that can reasonably be expected to prevent the beneficiary from pursuing post-secondary education;
- the RESP has been in existence for at least 10 years and each beneficiary is at least 21 years of age and is not pursuing post-secondary education; or
- the RESP has been in existence for more than 35 years.

Under this proposal, when RESP investment income is rolled over to an RDSP, contributions in the RESP will be returned to the RESP subscriber on a tax-free basis. The subscriber can contribute these amounts to the RDSP (immediately or over time) if they so choose, potentially attracting CDSGs. This measure will apply to rollovers of RESP investment income made after 2013.

Termination of an RDSP following Cessation of Eligibility for the DTC

Budget 2012 proposes to extend, in certain circumstances, the period for which an RDSP may remain open when a beneficiary becomes DTC-ineligible.

If an RDSP plan holder decides to take advantage of this measure, the plan holder will be required to elect on or before December 31st of the year following the first full calendar year for which the beneficiary is DTC-ineligible. An election will generally be valid until the end of the fourth calendar year following the first full calendar year for which a beneficiary is DTC-ineligible. This measure will apply to elections made after 2013.

Transitional rules are proposed for RDSPs that would have to be terminated before 2014.

Administrative Changes

Budget 2012 proposes to replace certain deadlines with a requirement that an RDSP issuer act “without delay” in notifying Human Resources and Skills Development Canada (HRSDC) of the establishment or transfer of an RDSP.

Employee Profit Sharing Plans

To ensure that Employee Profit Sharing Plans (EPSP) are used for their intended purposes, Budget 2012 proposes a targeted measure to discourage excessive employer contributions. This proposal introduces a special tax payable by a specified employee, on an “excess EPSP amount”. In general terms, an “excess EPSP amount” will be the portion of an employer’s EPSP contribution, allocated by the trustee to a specified employee that exceeds 20% of the specified employee’s salary received in the year by the specified employee from the employer.

The special tax will be made up of two components. The first component will be equal to the top federal marginal tax rate of 29%. The second component will be equal to the top marginal tax rate of the province of residence of the specified employee and will be shared with provinces and territories participating in a Tax Collection Agreement. The second component will be zero if the specified employee’s province of residence is Quebec.

This measure will apply in respect of EPSP contributions made by an employer on or after Budget Day, other than contributions made before 2013 pursuant to a legally binding obligation arising under a written agreement or arrangement entered into before Budget Day.

Overseas Employment Tax Credit

Budget 2012 proposes to phase out the Overseas Employment Tax Credit (OETC) over four taxation years, beginning with the 2013 taxation year. During the phase-out period, the factor (currently 80%) applied to an employee’s qualifying foreign employment income in determining the employee’s OETC will be reduced to 60% for the 2013 taxation year, 40% for the 2014 taxation year and 20% for the 2015 taxation year. The OETC will be eliminated for the 2016 and subsequent taxation years.

These phase-out rules will not apply with respect to qualifying foreign employment income earned by an employee in connection with a project or activity to which the employee’s employer had committed in writing before Budget Day. In such instances, the factor applied to an employee’s qualifying foreign employment income in determining the employee’s OETC will remain at 80% for the 2013, 2014 and 2015 taxation years. The OETC will be eliminated for the 2016 and subsequent taxation years.

Mineral Exploration Tax Credit for Flow-Through Share Investors

Budget 2012 proposes to extend eligibility for the mineral exploration tax credit, equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors, for one year, to flow-through share agreements entered into on or before March 31, 2013.

Group Sickness or Accident Insurance Plans

To provide for more neutral and fair tax treatment of beneficiaries under a group sickness or accident insurance plan, Budget 2012 proposes to include the amount of an employer’s contributions to a group sickness or accident insurance plan in an employee’s income for the year in which the contributions are made to the extent that the contributions are not in respect of a wage-loss replacement benefit payable on a periodic basis.

This measure will not affect the tax treatment of private health services plans or certain other plans.

This measure will apply in respect of employer contributions made on or after Budget Day to the extent that the contributions relate to coverage after 2012, except that such contributions made on or after Budget Day and before 2013 will be included in the employee’s income for 2013.

Medical Expense Tax Credit

Budget 2012 proposes to add to the list of expenses eligible for the Medical Expense Tax Credit blood coagulation monitors for use by individuals who require anti-coagulation therapy, including associated disposable peripherals such as pricking devices, lancets and test strips. The cost of these devices will be eligible for the Medical Expense Tax Credit when they are prescribed by a medical practitioner. This measure will apply to expenses incurred after 2011.

Retirement Compensation Arrangements

Budget 2012 proposes new prohibited investment and advantage rules to directly prevent Retirement Compensation Arrangements (RCA) from engaging in non-arm's length transactions. These rules will be based very closely on existing rules for Tax-Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSP). As well, Budget 2012 proposes a new restriction on RCA tax refunds in circumstances where RCA property has lost value.

Prohibited Investments

Budget 2012 proposes that the new prohibited investment rules apply in respect of RCAs that have a "specified beneficiary". In general terms, a specified beneficiary of an RCA will be an employee entitled to benefits under the RCA who has a significant interest in their employer. The custodian of an RCA will be liable to pay a 50% tax on the fair market value of any prohibited investment acquired or held by the RCA.

This tax will be refundable if the RCA disposes of the prohibited investment by the end of the year following the year in which it was acquired unless any of the persons liable for the tax knew or ought to have known that the investment was a prohibited investment.

This measure will apply in respect of investments acquired, or that become prohibited investments, on or after Budget Day.

Advantages

Budget 2012 also proposes that the definition of "advantage" be adapted to address the specific forms of tax planning that have been identified in relation to RCAs.

As is the case under the existing advantage rules, an RCA advantage will be subject to a special tax equal to the fair market value of the advantage. The custodian of the RCA will be liable for the special tax.

The special tax will generally apply to advantages extended, received or receivable on or after Budget Day, including advantages that relate to RCA property acquired, or transactions occurring, before Budget Day. However, advantages that relate to property acquired, or transactions occurring, before Budget Day will be eligible for special transitional rules on an elective basis, as is the case under the existing advantage rules.

Removing Disincentives to Work

To encourage Employment Insurance (EI) claimants to stay active and connected to the labour market, Budget 2012 has introduced a new pilot project. Currently, an EI claimant who earns a certain amount has their claim reduced dollar for dollar, discouraging them from accepting additional work. The pilot project will cut the current clawback rate in half and apply it to all earnings made while on EI.

Life Insurance Policy Exemption Test

Budget 2012 proposes to implement several changes to the exemption test to ensure that it continues to serve the intended purpose.

BUSINESS INCOME TAX MEASURES

There are no proposed changes to corporate income tax rates or the small business deduction limit of $500,000 applicable to active income for Canadian Controlled Private Corporations (CCPC).

Extending the Hiring Tax Credit for Small Business

In recognition of the challenges faced by small businesses across the country, Budget 2012 proposes to extend the temporary Hiring Credit for Small Business for one year, providing a credit of up to $1,000 against a small employer's increase in its 2012 EI premiums over those paid in 2011.

Eligible Dividends – Split-Dividend Designation and Late Designation

Budget 2012 proposes to simplify the manner in which a corporation resident in Canada pays and designates eligible dividends by allowing the corporation to designate, at the time it pays a taxable dividend, any portion of the dividend to be an eligible dividend. The portion of a taxable dividend that is designated to be an eligible dividend will qualify for the enhanced Dividend Tax Credit (DTC), and the remaining portion will qualify for the regular DTC.

Budget 2012 also proposes to allow the Minister of National Revenue to accept a corporation's late designation of a taxable dividend to be an eligible dividend. Under the proposal, the Minister will be allowed to accept a late designation of an eligible dividend if the corporation makes the late designation within the three-year period following the day on which the designation was first required to be made. These measures will apply to taxable dividends paid on or after Budget Day.

Scientific Research and Experimental Development Program

In October 2011, an Expert Review Panel on Research and Development submitted its report to the Government making a series of recommendations that call for a simplified and more focused approach to the Government's support for business research and development, including the Scientific Research and Experimental Development (SR&ED) tax incentive program. To support the key objectives identified by the expert panel, Budget 2012 proposes several changes to the SR&ED tax incentive program to make it simpler, and more cost effective and predictable.

SR&ED Investment Tax Credit Rate

Budget 2012 proposes to reduce the general 20% SR&ED investment tax credit rate applicable to SR&ED qualified expenditure pool balances at the end of a taxation year to 15%. The 15% investment tax credit rate will apply in respect of taxation years that end after 2013, except that, for a taxation year that includes January 1, 2014, the 5-percentage-point reduction in the investment tax credit rate will be pro-rated based on the number of days in the taxation year that are after 2013.

The enhanced 35% SR&ED investment tax credit rate applicable in respect of eligible CCPCs will remain unchanged on up to $3 million of qualified SR&ED expenditures annually.

The phase out of the $3 million expenditure limit for CCPCs whose taxable income for the previous taxation year is between $500,000 and $800,000 or whose taxable capital employed in Canada for the previous taxation year is between $10 million and $50 million will remain unchanged.

SR&ED Capital Expenditures

Budget 2012 proposes to exclude expenditures of a capital nature (including payments in respect of the use or the right to use property that would, if it were acquired by the taxpayer, be capital property of the taxpayer) from eligibility for SR&ED deductions and investment tax credits. This measure will apply to property acquired on or after January 1, 2014, and to amounts paid or payable in respect of the use of, or the right to use, property during any period that is after 2013.

This measure will also apply to exclude otherwise eligible contract payments made by a taxpayer from benefiting from SR&ED tax incentives to the extent that the payment is in respect of a capital expenditure made in fulfillment of the contract.

Expenditures that have been excluded because of this measure from the SR&ED tax incentives will be accorded the treatment otherwise applicable to such expenditures under the ITA.

SR&ED Overhead Expenditures

Budget 2012 proposes to reduce the rate at which the prescribed proxy amount is calculated from 65% to 60% for 2013 and to 55% after 2013. The proxy rate that will apply for taxation years that include days in 2012, 2013 or 2014 will be pro-rated based on the number of days in the taxation year that are in each of those calendar years.

SR&ED Contract Payments

Budget 2012 proposes to disallow from the expenditure base for investment tax credits the profit element of arm's length SR&ED contracts. For simplicity, it is proposed that this be achieved by way of a proxy, under which only 80% of the cost to a payer of arm's length SR&ED contracts will be eligible for SR&ED investment tax credits. This measure will apply to expenditures incurred on or after January 1, 2013.

Consistent with the measures described above concerning SR&ED capital expenditures, the amount of an arm's length contract payment eligible for SR&ED tax incentives for the payer will also exclude any amount paid in respect of a capital expenditure incurred by the performer in fulfillment of the contract. SR&ED contract performers will be required to inform the contract payers of these amounts. Once that measure is in force (beginning in 2014), the exclusion with respect to capital expenditures will reduce the amount of the contract payment before the 80% eligibility ratio is applied.

In addition, the amount that the performer is required to net against its qualifying SR&ED expenditures because of the contract payment will be reduced by the amount received by the performer that is in respect of capital expenditures by the performer.

Expenditures that have been excluded because of this measure from the SR&ED tax incentives will be accorded the treatment otherwise applicable to such expenditures under the ITA.

Clean Energy Generation Equipment: Accelerated Capital Cost Allowance

Budget 2010 expanded Class 43.2 to broaden the eligible range of applications for which heat recovery equipment and equipment of a district energy system can be used. Equipment that generates electricity using waste heat was added to Class 43.2 in Budget 2011.

Budget 2012 proposes to further expand Class 43.2 with respect to waste-fuelled thermal energy equipment, and equipment of a district energy system that uses thermal energy provided primarily by eligible waste-fuelled thermal energy equipment. Budget 2012 also proposes to expand Class 43.2 to include equipment that uses the residue of plants – generally produced by the agricultural sector – to generate electricity and heat.

Waste-Fuelled Thermal Energy Equipment

Budget 2012 proposes to eliminate the requirement that the heat energy generated from waste-fuelled thermal energy equipment be used in an industrial process or a greenhouse. This change will allow waste-fuelled thermal energy equipment to be used in a broad range of applications, including space and water heating.

Equipment of a District Energy System

Certain equipment that is part of a district energy system is currently included in Class 43.1 or Class 43.2, if the system distributes thermal energy primarily generated by one or more of an eligible cogeneration system, a ground source heat pump, active solar heating equipment and heat recovery equipment. Building on the proposed expansion of Class 43.2 to include waste-fuelled thermal energy equipment used for a broader range of applications, Budget 2012 also proposes to expand Class 43.2 by adding equipment that is part of a district energy system that distributes thermal energy primarily generated by waste-fuelled thermal energy equipment.

Energy Generation from Residue of Plants

Budget 2012 proposes to add the residue of plants to the list of eligible waste fuels (i.e., biogas, bio-oil, digester gas, landfill gas, municipal waste, pulp and paper waste, and wood waste) that can be used in waste-fuelled thermal energy equipment included in Class 43.2 or a cogeneration system included in Class 43.1 or Class 43.2.

Environmental Compliance

To ensure that taxpayers who benefit from Class 43.1 or 43.2 do so in an environmentally responsible manner, Budget 2012 proposes that equipment using eligible waste fuels not be eligible under Class 43.1 or Class 43.2 if the applicable environmental laws and regulations of Canada or of a province, territory, municipality, or a public or regulatory body are not complied with at the time the equipment first becomes available for use.

Corporate Mineral Exploration and Development Tax Credit

Budget 2012 proposes to phase out the corporate tax credit of 10% for pre-production mining expenditures incurred in respect of certain mineral resources in Canada.

The credit will apply at a rate of 10% for exploration expenses incurred in 2012, and at a rate of 5% for such expenses incurred in 2013. The credit will not be available for exploration expenses incurred after 2013.

The credit will apply at a rate of 10% for pre-production development expenses incurred before 2014, at a rate of 7% for such expenses incurred in 2014, and at a rate of 4% for such expenses incurred in 2015. The credit will not be available for pre-production development expenses incurred after 2015.

Additional transitional relief will be provided in recognition of the long timelines involved in developing mines.

Exploration and pre-production development expenses will continue to qualify as Canadian exploration expenses, and as such will continue to be fully deductible in the year incurred.

Atlantic Investment Tax Credit - Oil and Gas and Mining Activities

Budget 2012 proposes to phase out the 10% Atlantic Investment Tax Credit (AITC) for oil and gas and mining activities over a four-year period. In particular, this proposal will apply to assets acquired on or after Budget Day for use in any of the following activities:

- operating an oil or gas well;
- extracting petroleum or natural gas from a natural accumulation of petroleum or natural gas;
- extracting minerals from a mineral resource;
- processing ore from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent;
- processing iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent;
- processing tar sands ore from a mineral resource to any stage that is not beyond the crude oil stage or its equivalent;
- producing industrial minerals;
- processing heavy crude oil recovered from a natural reservoir to a stage that is not beyond the crude oil stage or its equivalent;
- Canadian field processing;
- exploring or drilling for petroleum or natural gas; and
- prospecting or exploring for or developing a mineral resource.

The availability of the AITC for assets acquired for use in other activities will not be affected.

The AITC will apply at a rate of 10% for assets acquired before 2014 for use in any of the activities listed above and at a rate of 5% for such assets acquired in 2014 and 2015. The AITC will not be available for such assets acquired after 2015.

Transitional relief will be provided in recognition of the long timelines involved in some oil and gas and mining projects.

Atlantic Investment Tax Credit - Electricity Generation Equipment

Budget 2012 proposes to improve the neutrality of the AITC by amending the Income Tax Act (ITA) and section 4600 of the Income Tax Regulations (ITR) so that qualified property will include certain electricity generation equipment and clean energy generation equipment used primarily in an eligible activity (i.e., farming, fishing, logging, and manufacturing and processing). In particular, “qualified property” will include the following equipment, if it is used in the Atlantic region primarily in an eligible activity set out in paragraph (c) of the definition of “qualified property” in subsection 127(9) of the ITA:

- electricity generation equipment described in Class 17 or 48; and
- clean energy generation and conservation equipment described in Class 43.1 or 43.2.

This measure will apply to assets acquired on or after Budget Day that have not been used or acquired for use before that date, except that the measure will not apply to acquisitions of assets that are used primarily in oil and gas or mining activities.

Tax Avoidance Through the Use of Partnerships

Budget 2012 proposes two measures to ensure that partnerships cannot be used to circumvent the intended application of sections 88 and 100 of the ITA.

The first measure will generally deny a section 88 bump in respect of a partnership interest to the extent that the accrued gain in respect of the partnership interest is reasonably attributable to the amount by which the fair market value of income assets exceed their cost amount. This measure will apply where the income assets are held directly by the partnership or indirectly through another partnership.

While exceptions will be provided, this measure will apply to amalgamations that occur, and windings-up that begin, on or after Budget Day.

Budget 2012 also proposes to extend the application of section 100 of the ITA to the sale of a partnership interest to a non-resident person, unless the partnership is carrying on business in Canada through a permanent establishment in which all of the assets of the partnership are used. In such cases, the income assets remain within the Canadian income tax base. This measure will also clarify that section 100 of the ITA applies to dispositions made directly, or indirectly as part of a series of transactions, to a tax-exempt or non-resident person.

While exceptions will be provided, this measure will apply to dispositions of interests in partnerships that occur on or after Budget Day.

Partnership Waivers

Under current rules, the members of a partnership may designate a partner to file an objection to a determination under the ITA on behalf of all its partners. Budget 2012 proposes that a single designated partner of a partnership may also be empowered to waive, on behalf of all its partners, the three-year time limit for making a determination. This measure will apply on Royal Assent to the enacting legislation.

INTERNATIONAL TAX MEASURES

Transfer Pricing Secondary Adjustments

Primary adjustments result when persons who do not deal with each other at arm's length, transact with each other at a price for goods, services or intangibles and do not reflect arm's length terms and conditions. The Canada Revenue Agency (CRA) may adjust such transactions for tax purposes to reflect arm's length terms and conditions. Once such "primary" adjustments have been made, a "secondary adjustment" is generally required to account for the benefit conferred on non-residents participating in such transactions. Budget 2012 proposes to clarify the treatment of secondary adjustments, and amend section 247 of the ITA to treat these adjustments as dividends under Part XIII for tax purposes. The Budget clarifies that a non-resident is allowed to repatriate to a Canadian corporation that which has been subject to a primary adjustment an amount equal to the portion of the primary adjustment that relates to the non-resident and no deemed dividend will arise (subject to the concurrence of CRA). This measure will apply to transactions that occur on or after Budget Day.

Thin Capitalization Rules

Implemented to limit the deductibility of interest expense of a Canadian resident corporation in circumstances where the amount of debt to certain non-residents exceeds a 2:1 debt to equity ratio, Budget 2012 proposes to improve the integrity and fairness of the thin capitalization rules by:

- Reducing the debt to equity ratio from 2:1 to 1.5:1 for all corporate taxation years that begin after 2012;
- Extending the scope of the thin capitalization rules to debts of partnerships of which a Canadian resident corporation is a member;
- Treating disallowed interest expense under the thin capitalization rules as dividends for Part XIII withholding tax purposes. This measure applies to taxation years ending on or after March 29, 2012; and
- Preventing double taxation in certain circumstances where a Canadian resident corporation borrows money from its controlled foreign affiliate.

Foreign Affiliate Dumping

Foreign affiliate dumping transactions often involve a Canadian subsidiary using borrowed funds to acquire shares of a foreign affiliate from its foreign parent corporation, in the expectation that interest paid by the Canadian subsidiary on such borrowed money is deductible in computing income for tax purposes while dividends received by the subsidiary on the shares of the foreign affiliate are exempt from tax. The result is an erosion of the Canadian corporate tax base.

Budget 2012 proposes that where certain conditions are met, a dividend will be deemed to be paid by a Canadian subsidiary to its foreign parent to the extent of any non-share consideration given by the Canadian subsidiary for the acquisition of the shares of a foreign affiliate. Such deemed dividends will be subject to non-resident withholding tax, and will disregard the paid up capital of any shares of the Canadian subsidiary that are given as consideration. This measure effectively extends an existing cross-border surplus stripping rule to cover transactions involving foreign affiliates. This measure will apply to transactions that occur on or after Budget Day, other than transactions that occur before 2013 between parties that deal at arm's length and that are obligated to complete the transactions pursuant to an agreement in writing entered into before March 29, 2012.

SALES AND EXCISE TAX MEASURES

Health Measures

Budget 2012 proposes to improve the application of the Goods and Services / Harmonized Sales Tax (GST/HST) to a number of health care services, drugs and medical devices to reflect the evolving nature of the health care sector.

Pharmacists' Services

Due to the expanding health care services rendered by pharmacists, Budget 2012 proposes to exempt services rendered by pharmacists within a pharmacist – patient relationship for the promotion of the patient's health or for the prevention or treatment of a disease, disorder or dysfunction of the patient. Pharmacists' services of dispensing prescription drugs will continue to be zero-rated. This measure will apply to supplies made after budget day.

Corrective Eyewear

To reflect recent provincial law changes as it relates to opticians, Budget 2012 proposes to zero-rate corrective eyeglasses or contact lenses supplied by a person who is entitled under the laws of the province in which the person practices to produce the record authorizing dispensing of corrective eyewear. This measure will apply to supplies made after Budget Day.

Medical Assistive Devices

The list of medical devices eligible for zero-rating will be expanded to include blood coagulation monitoring or metering devices and associated test strips and reagents. The definition of a medical practitioner for the purpose of supplying a written order for medical and assistive devices eligible for zero-rating, will be expanded to include a registered nurse, occupational therapist or physiotherapist if this is part of their professional practice. These measures will apply to supplies made after Budget Day.

GST Rebate for Books to Be Given Away for Free by Prescribed Literacy Organizations

To further promote literacy, Budget 2012 proposes to allow charities and qualifying non-profit literacy organizations prescribed by regulation to claim a rebate of the GST (and the federal portion of the HST) they pay to acquire printed books to be given away. The process to apply to be prescribed by regulation is available from Canada Revenue Agency. This measure will apply to acquisition of printed books for which tax becomes payable after Budget Day.

Doubling GST/HST Streamlined Accounting Thresholds

To simplify GST/HST compliance for small businesses and Public Sector Bodies (PSB), Budget 2012 proposes to double the existing streamlined accounting thresholds. Specifically:

- The annual taxable sales threshold at or below which eligible business can elect to the use the Quick Method will increase to $400,000 (from $200,000) of GST/HST included taxable sales; and
- The annual taxable sales and taxable purchases threshold at or below which eligible businesses or PSBs can elect to use the Streamlined Input Tax Credit Method and eligible PSBs can elect to use the Prescribed Method for Calculating Rebates will increase:
    - To $1,000,000 (from $500,000) of taxable sales, and
    - To $4,000,000 (from $2,000,000) of taxable purchases.

This measure will be effective in respect of a GST/HST reporting period of a person beginning after 2012.

OTHER TAX MEASURES

Gifts to Foreign Charitable Organizations

Budget 2012 proposes to modify the rules for registering certain foreign charitable organizations as qualified donees. Foreign charitable organizations that receive a gift from the Government may apply for qualified donee status if they pursue activities related to disaster relief or urgent humanitarian aid; or in the national interest of Canada. Granting qualified donee status in these situations will ensure that Canadians receive tax relief for donations made to approved foreign charities. This measure will apply to applications made by foreign charities on or after the later of January 1, 2013 and Royal Assent.

Charities – Enhancing Transparency and Accountability

Concerned that charities may be exceeding the limitations regarding their participation in political activities, Budget 2012 proposes to provide additional enforcement tools to the CRA to enhance compliance and increased disclosure by charities of their political activities. The tools include the authority to suspend for one year the tax-receipting privileges of a charity that exceeds the limitation on political activities or a charity that provides inaccurate or incomplete information in its annual information return until the charity provides the required information.

Tax Shelter Administrative Changes

To encourage tax shelter registration and reporting, Budget 2012 proposes to modify and implement new and harsher penalties to the promoter when a person participates in an unregistered charitable donation tax shelter; or if the promoter fails to meet the reporting obligations. The Budget proposes to limit the period for which a tax shelter identification number is valid to one calendar year.

Travellers' Exemptions

The travellers' exemptions that apply to travellers returning to Canada to bring back goods valued up to a specific dollar limit without having to pay duties or taxes, including custom duties, GST/HST and federal excise taxes are proposed to increase.

- For Canadians out of the country for 24 hours or more, the exemption will increase to $200 from $50.
- For Canadians out of the country for 48 hours or more, the exemption will increase to $800 replacing the current $400 exemption and the $750 7 day exemption.

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