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Federal Budget
March 29, 2012

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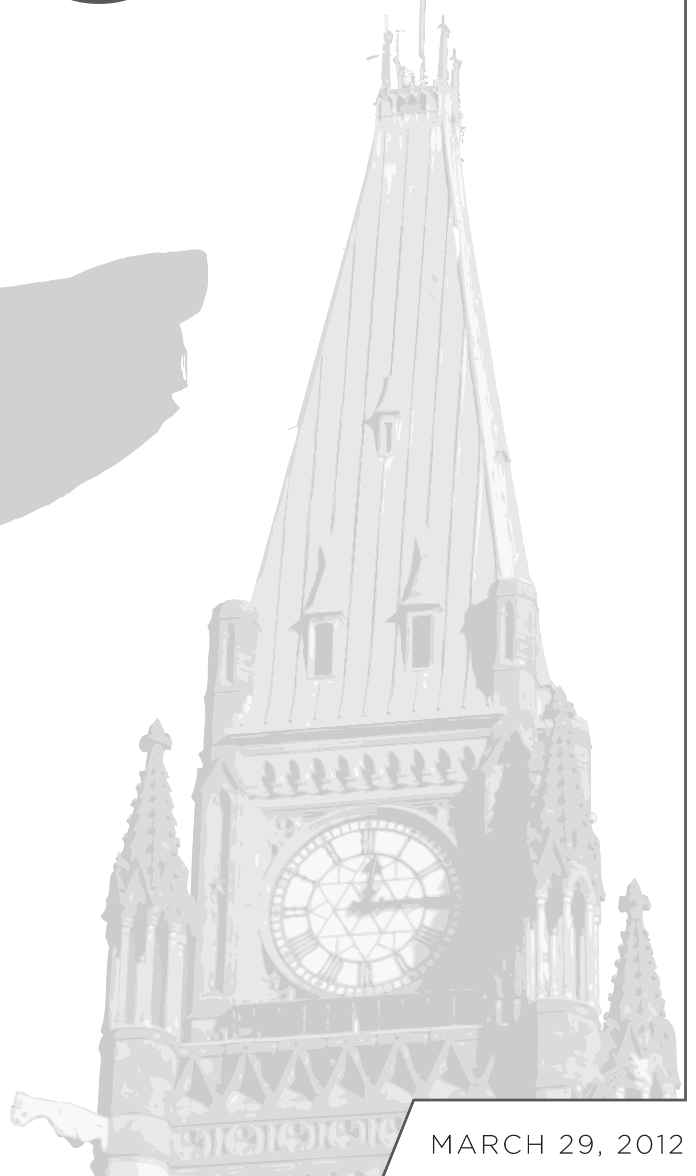
FEDERAL BUDGET COMMENTARY 2012



MARCH 29, 2012

2012 BUDGET OVERVIEW

Federal Finance Minister Jim Flaherty tabled the government's 2012 Budget in the House of Commons on Thursday, March 29. Leaving aside the government's re-presentation of its pre-election 2011 Budget, it was the first Budget presented by a majority government in Canada since 2004, and the first by a Conservative majority government in almost twenty years.

Presented in a 498-page document entitled "Economic Action Plan 2012: Jobs, Growth and Long-Term Prosperity," the Budget will likely be considered to be favorable to businesses, as it includes provisions to increase funding for research and development, improve access to risk capital and extend the hiring tax credit for small businesses. It also focuses on reducing deficits and moving towards a balanced budget through spending restraint rather than increased taxation. Expenditure-reduction proposals include raising the age threshold for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) to 67 from the current 65 (effective in 2023), reducing the total number of federal civil servants by 19,200, or 4.8%, including the elimination of some 12,000 positions, and significantly reducing funding to the CBC (by $27.8 million in 2012-13, or about 10%) and others including Canadian Heritage, the National Film Board and Telefilm Canada.

The Minister said that an improved economic outlook should see a return to a balanced budget after 2014-15, leading to a surplus of $3.4 billion in fiscal 2015-16. The projected deficit for the fiscal year 2011-12 is $24.9 billion, about $8.5 billion lower than in 2010-11. The federal debt to GDP ratio of just under 34% for 2011-12 is expected to grow slightly in 2012-13 and then decline to 28.5% by 2016-17. The Minister also predicted real GDP growth of 2.1% in calendar year 2012, rising to 2.4% in 2013 and for a five-year period thereafter.

Direct program spending by the government is expected to decline over the next four years. Spending reductions and operating efficiencies are expected to result in ongoing savings of about $5.2 billion a year. Notable among the proposed spending provisions were $1 billion to support science and technology development, $500 million to support the growth of innovative start-up companies, $5.2 billion over 11 years to renew the Canadian Coast Guard, and $275 million over three years for First Nations education, including building and renovating schools.

The Budget proposes no new personal or corporate tax rate changes, nor are there any proposed changes to previously promised tax rate reductions. It does, however, contain a wide array of tax and tariff changes, most of them designed to

increase revenue by eliminating perceived abuses. Proposed tax and tariff changes are projected to raise some $3.5 billion of new revenue over the next five years. Significant technical changes to taxation rules are discussed in this document.

In a news release, the CICA gave the federal government a “B Plus” rating for the Budget, saying it positions Canada well for the future while providing prudent fiscal management. “Budget measures being introduced are designed to serve the short term while maintaining a vision that embraces the long term,” said Kevin Dancey, FCA, president and CEO of the CICA. “It is encouraging to see the government bringing the books back into balance through expenditure controls rather than tax increases or provincial off-loading.”

The CICA supports the government’s actions to put long-term budgetary expenditures within a sound fiscal framework, including the plan to protect OAS, a proposal to bring public service and MP pension plans more into line with those in the private sector, proposed measures to reduce the red-tape burden on businesses, and the government’s intention to support further improvements to foreign credential recognition.

However, the CICA once again registered concern that the government has not addressed the pivotal issue of tax complexity, which it believes is crucial to easing the regulatory burden placed on Canadian businesses and attracting investment. CICA vice-president Gabe Hayos, FCA said: “Tax complexity must be addressed if Canada is going to establish a competitive environment that sets the stage for sustainable recovery and economic growth. Canada’s tax system must become more competitive, simpler and efficient.”

The CICA also expressed disappointment with proposals related to the Scientific Research and Experimental Development tax credit which will result in more direct government funding of the program. “We hoped to see the tax credit become partially refundable for all businesses,” said Kevin Dancey. “We challenge the notion that government officials are better able to allocate funds to innovation than those on the front lines.”

Overall, Budget-related headlines are likely to focus on the proposed OAS-eligibility changes, downsizing of the federal civil service, the CBC budget cuts, and a proposal to increase the allowable duty-free dollar-value of goods purchased while outside of Canada from $50 to $200 for a stay of 24-48 hours and from $400 to $800 for a stay of more than 48 hours. Some prominence will also likely be given, however, to a proposal to save $11 million per year by doing away with the

venerable Canadian one-cent piece, or penny. Calling the coin ”currency without currency,” the Finance Minister noted that the present cost of producing a penny is approximately 1.5 cents.

CORPORATE

ELIGIBLE DIVIDENDS: SPLIT–DIVIDEND DESIGNATION AND LATE DESIGNATION

Currently, a corporation may designate a taxable dividend to be an “eligible dividend” (eligible for the enhanced dividend tax credit), if it notifies each shareholder in writing at or before the time the dividend is paid. A late designation cannot be filed. Where an excessive eligible dividend designation is made, the corporation may correct the designation by filing a valid election under which the shareholders accept that the excess is a separate taxable dividend, which is “other than eligible”. Failure to so elect will render the corporation liable to a special 20% tax in respect of the amount of the excess.

The Budget proposes to simplify these rules by allowing the corporation to designate, at or before the time it pays a taxable dividend, any portion of the dividend to be an eligible dividend. This proposal eliminates the need to pay separate eligible and other than eligible dividends.

In addition, the Budget proposes to allow a late designation of an eligible dividend if the corporation makes the late designation within three years after the designation was required to be made and the Minister considers that it is ‘just and equitable” to allow it.

These measures apply to taxable dividends paid on or after March 29, 2012.

SCIENTIFIC RESEARCH & EXPERIMENTAL DEVELOPMENT PROGRAM

An Expert Review Panel on Research and Development made a series of recommendations which called for a simplified and more focused approach. The Budget proposes the following changes to the SR & ED tax incentive program to make it simpler, more cost effective and predictable.

- The general 20% SR & ED tax credit rate will be reduced to 15% effective January 1, 2014, prorated for taxation years which straddle this date.
- The enhanced 35% SR & ED tax credit rate for eligible CCPCs will still be eligible on the first $3 million of qualified expenditures annually.
- Effective January 1, 2014, capital expenditures will be excluded for property acquired, and to amounts paid or payable for the use, or the right to use, property, during any period after 2013. This measure will also apply to otherwise eligible contract payments to the extent that the payment is in respect of a capital expenditure.
- The prescribed proxy amount, which is in lieu of itemizing overhead expenditures, will be reduced from 65% to 60% for 2013, and to 55% after 2013, prorated for taxation years which straddle the applicable calendar years.
- With respect to expenditures incurred on or after January 1, 2013, only 80% of payments made to arm's length contractors will qualify as SR & ED, down from 100%. The intent of this proposal is to parallel the tax rules with respect to payments to non-arm's length contractors by excluding the profit portion where the contractor is at arm's length.
- Any capital expenditures included in the SR & ED contracted out will be excluded prior to the reduction to 80%. Consequently, SR & ED contractors will be required to inform the contract payers of these amounts.

RETIREMENT COMPENSATION ARRANGEMENTS (RCAs)

The government introduced RCAs in the 1980s as a mechanism to allow employers to fund tax-deductible pension payments in excess of the tax-deductible amounts for Registered Pension Plans. An employer can make a tax-deductible payment to an RCA, provided that the payment is considered to be reasonable based on an actuarial calculation. An RCA is basically subject to a 50% tax on the contributions that it receives plus any income that it earns. The tax is refundable when the RCA makes payments to the employee. The refund is equal to the lesser of the RCA's

refundable tax or 50% of the payment. The RCA can also recover the refundable taxes when it realizes a loss by making a special election if the only assets of the RCA consist of cash, debt obligations or listed securities. This would typically occur if the RCA invested in debt of the employer. This situation might entitle the RCA to a refund of all or a portion of its refundable taxes. The existing rules with respect to allowable investments and prohibited advantages are not as restrictive as the rules related to registered plans such as RRSPs, TFSAs etc.

The CRA has been investigating various RCA arrangements over the past number of years and is concerned about what it considers to be inappropriate structures involving RCAs. The Budget proposes to deal with these issues even though the CRA is still pursuing existing arrangements. The proposals are generally prospective.

REFUNDS OF REFUNDABLE TAX

An RCA will still be entitled to a refund of its refundable taxes on a permanent erosion of the value of its assets, including prohibited investments, as discussed below. The Minister will examine the erosion of pre-budget prohibited investments or advantages to determine if a refund is reasonable in the circumstances.

PROHIBITED INVESTMENTS

A prohibited investment will include assets that are prohibited investments under the TFSA rules or debts of an employer where the employee (along with persons not at arm's length with the employee) has more than a 10% interest in the employer. The RCA will be subject to a 50% penalty tax on any such investment made on or after Budget day. There are provisions to refund this penalty tax if the prohibited investment is disposed of by the end of the year following the year it was acquired or if the Minister decides that it is "just and equitable" to do so.

ADVANTAGES

A similar 50% penalty tax applies to an advantage. This tax will apply where an employee receives an asset at less than fair market value from the RCA, where steps are taken to erode the value of an asset in a manner that entitles the RCA to

a refund of the refundable tax (referred to as RCA strips) or where there are non-commercial terms between an RCA and a non-arm's length debtor which gives an advantage to the RCA.

If an advantage is related to assets acquired before Budget day, transitional rules allow the employee to include the amount of the advantage in income and the RCA to receive the appropriate refund of its refundable tax.

The employee is jointly liable with the RCA for the penalty taxes.

EMPLOYEE PROFIT SHARING PLANS (EPSPs)

The Budget proposes new rules to deal with excess contributions to EPSPs for "specified employees". A specified employee is an employee who together with persons not at arm's length with the employee, has more than a 10% interest in the employer. The excess contribution will be the amount in excess of 120% of the employee's employment income from that employer, excluding allocations from the EPSP, stock option benefits and normal employment deductions.

The employee will be subject to a special tax on the excess, computed at the combined top federal and provincial (excluding Quebec) marginal income tax rates. If the employee is not a resident of Quebec or another province, the deemed provincial rate is 14%. The employee will exclude the excess amount from income and will not be able to claim any other deductions or credits in respect thereof. In effect, this treatment will be similar to the "kiddie tax".

The Minister will be authorized to waive or cancel the application of these rules.

CLEAN ENERGY GENERATION EQUIPMENT – ACCELERATED CAPITAL COST ALLOWANCE

The Budget proposes to 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. In addition, this CCA class will include equipment that uses the residue of plants, generally produced by the agricultural sector, to generate electricity and heat.

PERSONAL

GROUP SICKNESS OR ACCIDENT INSURANCE PLANS

Under the current legislation, employer contributions to a group sickness or accident insurance plan in respect of wage replacement benefits are not taxable benefits. The Budget proposes that contributions made after 2012 will be taxable benefits unless they are in respect of wage replacement benefits payable on a periodic basis. Benefits under the plan are also taxable if they are payable where there is no loss of employment income. If the employer makes a 2013 contribution in 2012 to avoid the application of these rules, the employee will recognize the taxable benefit in 2013.

LIFE INSURANCE POLICIES

Life insurance policies, as well as providing protection, often have a savings or investment component. The income that a life insurance policy earns is not subject to tax on a current basis if the policy is an "exempt policy". Furthermore, the income is not taxed when received as a component of a death benefit. This provides an opportunity for taxpayers to avoid taxes using a life insurance policy as an investment vehicle.

There will be consultations to review the rules concerning the tax status of life insurance and to recalibrate the rules concerning the exempt status of life insurance policies. These new rules will apply to life insurance policies issued after 2012.

TAX SHELTER ADMINISTRATIVE CHANGES

The Budget proposes to encourage tax shelter registration and reporting by:

- Modifying the calculation of the penalty applicable to a promoter where a person participates in an unregistered charitable donation tax shelter.
- Introducing a new penalty for a promoter who fails to meet their reporting obligations with respect to the annual information returns.
- Limiting the period for which a tax shelter identification number is valid to one calendar year for applications made on or after March 29, 2012.

Currently, there is a penalty to a promoter of an unregistered charitable donation tax shelter equal to the greater of $500 and 25% of the consideration received. The Budget proposes to increase this penalty to the greater of the amount determined under the existing rules and 25% of the amount asserted by the promoter to be the value of the property that participants in the tax shelter transfer to a donee. This measure will generally apply on Royal Assent.

The current penalty for not filing the annual information return on time is a maximum of $2,500. The Budget proposes an additional penalty if the promoter fails to file an annual information return in response to a demand from the CRA or fails to report in the return an amount paid by a participant in respect of the tax shelter. This additional penalty will be equal to 25% of the consideration received or the greater of 25% of the consideration received and the amount asserted by the promoter to be the value of the property that those participants can transfer to a donee.

This measure will apply to demands by the CRA to file an annual information return made after Royal Assent and to returns filed after Royal Assent.

REGISTERED DISABILITY SAVINGS PLANS (RDSPs)

The Budget proposes the following changes to RDSPs:

- Certain family members, such as a spouse, common-law partner or parent, of a disabled individual will be allowed to become the plan holder of a RDSP as agent for an adult individual who might not be able to legally enter into a contract. This measure will ensure that individuals in all provinces and territories who might not

be contractually competent and who do not have a legal representative may still benefit from RDSPs. This measure will apply from the date of Royal Assent until the end of 2016.

- There is a current repayment rule which provides that all Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) are required to be repaid if received within ten years of a withdrawal from the RDSP, the termination or deregistration of the RDSP or the RDSP beneficiary ceases to be eligible or dies. The Budget proposes to introduce a proportional repayment rule which would apply as opposed to the current 10-year repayment rule, unless the RDSP beneficiary ceases to be eligible or dies. This proportional repayment rule requires that only $3 of any CDSGs or CDSBs received in the prior ten years be repaid for every $1 withdrawn from an RDSP. Consequently, a small withdrawal from an RDSP would not necessarily require the full repayment of all assistance received in the previous ten years. This measure applies to withdrawals after 2013.
- The current maximum and minimum withdrawals allowed from RDSPs are proposed to be changed in order to provide greater flexibility in making withdrawals and ensure that RDSP assets are used to support the beneficiary during their lifetimes. The maximum annual limit for withdrawals from a primarily government assisted plan (PGAP) is proposed to be increased to the greater of the amount determined by the standard formula and 10% of the fair market value of plan assets at the beginning of the year. The minimum annual withdrawal requirement is proposed to apply to all RDSPs, not just to PGAPs. These measures will apply after 2013.
- To provide greater flexibility for parents who save in a RESP for a child with a severe disability, the Budget proposes to allow the rollover of investment income earned in an RESP to a RDSP, where certain conditions are met, up to the beneficary's available RDSP contribution room. Consequently, the regular tax on withdrawals from the RESP and the 20% penalty tax, which would otherwise potentially apply to a lump-sum distribution of income from an RESP, would not be payable. However, additional CDSGs cannot be earned as a result of the rollover of this RESP income. The contributions to the RESP will be returned to the RESP subscriber on a tax-free basis and can then be contributed to the RDSP in the future, potentially earning CDSGs. This measure will apply to rollovers of RESP income made after 2013.
- Currently, where a RDSP beneficiary ceases to be eligible for the disability tax credit (DTC), the RDSP is required to be terminated by the end of the following year. This would result in the 10-year repayment rule applying and any remaining assets in the RDSP being paid to the beneficiary. The Budget proposes that a RDSP holder will be able to elect to extend the period during which the plan will remain open for four additional years, where a medical practitioner certifies

that the nature of the beneficiary's condition makes it likely that the beneficiary will be eligible for the DTC in the foreseeable future. This measure will apply to elections made after 2013. There is also a transitional rule which provides that RDSPs will not be required to be terminated until the end of 2014 where the RDSP would have been required to have been terminated prior to 2014 under the current rules.

OVERSEAS EMPLOYMENT TAX CREDIT (OETC)

Canadian resident employees can currently qualify for a tax credit equal to the federal tax otherwise payable on 80% of their qualifying foreign employment income, up to a maximum foreign employment income of $100,000. In order to qualify, the employee must be employed outside Canada for more than six consecutive months and be employed in connection with certain natural resource exploration or exploitation, or construction, installation, engineering or agricultural activities.

The Budget proposes to phase out the OETC over four years, commencing with the 2013 taxation year. The 80% factor will be reduced to 60% for 2013, to 40% for 2014, to 20% for 2015 and to zero for 2016. Projects which were committed to in writing before March 29, 2012 will be grandfathered - the 80% factor will still apply for the 2013 to 2015 taxation years. The OETC will be eliminated in 2016 even for such grandfathered projects.

MEDICAL EXPENSE TAX CREDIT

The Budget proposes to add to the medical expense tax credit after 2011 blood coagulation monitors, along with associated disposable peripherals such as prickling devices, lancets and test strips, for anti-coagulation therapy, when prescribed by a medical practitioner.

GIFTS TO FOREIGN CHARITABLE ORGANIZATIONS

Donations made to foreign charities are generally not eligible for tax credits to individuals or deductions to corporations. However a foreign charity which receives a gift from the Canadian government may register as a qualified donee under the Income Tax Act and thus be eligible to issue an official donation receipt to Canadian donors.

The Budget proposes to provide the Minister with the discretion to grant qualified donee status to a foreign charity if the charity pursues disaster relief or urgent humanitarian aid, or its activities are in the national interest of Canada. 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

Charities are required to operate exclusively for charitable purposes. However, a charity is allowed to engage in political activity provided these activities represent a limited portion of its resources, are non-partisan and are ancillary and incidental to its charitable purposes and activities. There is a concern that some charities may be exceeding these limitations.

The Budget proposes to increase the disclosure required by charities regarding political activities and to provide additional enforcement tools. Where a charity makes a gift to another qualified donee and the purpose of the gift is to support the political activities of the donee, the Budget proposes to consider the gift to be an expenditure made by the charity on political activities.

The Budget also proposes to grant the CRA the authority to suspend for one year the tax-receipting privileges of a charity which exceeds the limitations on political activities.

Lastly, the Budget proposes to allow the CRA to impose similar penalties where a charity provides inaccurate or incomplete information in its annual information return until the charity provides the required information.

These measures will also apply to registered Canadian amateur athletic associations.

INTERNATIONAL

THIN CAPITALIZATION

In broad terms, these rules may restrict the deductibility of interest paid or payable, by a corporation resident in Canada, on debts owing to certain "specified non-resident shareholders" ("SNRS"). (SNRS are shareholders that own shares to which are attached 25% or more of the corporation's votes or value.) After budget day, the debts in question will include a corporate partner's share of partnership debts.

Currently, interest is not deductible on the portion of the debt ("tainted debt") that exceeds 2 times the corporation's equity. (For this purpose, equity is the aggregate of unconsolidated retained earnings, contributed surplus contributed by a SNRS and the paid-up capital of shares held by SNRS.) The budget proposes to decrease the debt ceiling to 1.5 times equity for taxation years that begin after 2012.

The rules have been extended, indirectly, to partnerships. After budget day, rather than disallow interest to the partnership, which would impact all partners, a corporate partner resident in Canada will be required to include, in income, an amount equal to its share of the interest incurred by the partnership on tainted debt.

After budget day, interest that is not deductible under these rules will be treated as a dividend paid to the non-resident, for withholding tax purposes. In this regard, special provisions will be enacted to avoid double tax; interest included in the "foreign accrual property income" of a foreign affiliate of a Canadian resident corporation will be excluded from the application of the new rules.

FOREIGN AFFILIATE AVOIDANCE

The Canadian income tax system provides a number of advantages to a Canadian corporation that earns income through a non-resident corporation that qualifies as its “foreign affiliate”. Subject to a business purpose test, where, after Budget day, a non-resident parent of a Canadian corporation transfers the shares of another non-resident corporation to the Canadian corporation in order to avail itself of these advantages and the Canadian corporation transfers property to the foreign parent, the value of the property transferred could be considered to be a dividend for Canadian tax purposes.

INTERCOMPANY PRICING

If, after Budget day, a Canadian corporation is found to have conferred a benefit on a non-arm’s length non-resident (other than a “controlled foreign affiliate”) by virtue of an intercompany pricing arrangement, the amount of the benefit will be deemed to be a dividend paid for withholding tax purposes. If the non-resident, with the concurrence of the Minister, pays an amount back to the Canadian corporation, the Minister is empowered to reduce the deemed dividend and associated interest to amounts that the Minister considers appropriate.

PARTNERSHIPS

WINDUP BUMP

In certain circumstances, the tax value of non-depreciable capital property held by a newly acquired subsidiary corporation can be stepped-up (or “bumped”) by combining the subsidiary and its parent corporation by way of a windup of the subsidiary or by way of a vertical amalgamation. The government is concerned that the tax value of ineligible property (such as depreciable property, eligible capital property or inventory) can be bumped, indirectly, by transferring it to a partnership formed for this purpose. Because an interest in a partnership is generally non-depreciable capital property, its tax value could then be bumped.

Subject to certain grandfathering rules, the bump to the tax value of a partnership interest may be restricted on windups or vertical amalgamations that occur on or after Budget day. The bump will be denied to the extent that the excess of the FMV

of the partnership interest over its tax value is, generally, referable to the portion of that excess that is attributable to depreciable property, eligible capital property or inventory of the partnership.

SALE OF PARTNERSHIP INTEREST TO NON-RESIDENT

Section 100 of the Act provides that a taxpayer's taxable capital gain on the disposition of a partnership interest to a tax exempt entity is increased to include the full unrealized gains inherent in underlying property other than non-depreciable capital property (such as inventory and depreciable property).

Subject to certain grandfathering rules, this treatment is extended to dispositions of partnership interests, after budget day, to non-residents. The new rule does not apply, however, if, immediately before and immediately after the disposition, the partnership uses all of its property in carrying on business through a Canadian permanent establishment.

PARTNERSHIP WAIVERS

Upon Royal Assent, a partnership will be able to designate a single partner to file a waiver of the three year determination limitation period, on behalf of all partners.

MISCELLANEOUS TAX CREDITS

- Subject to certain grandfathering rules, the 10% Mineral Exploration and Development Tax Credit available to corporations in connection with "pre-production mining expenditures" will be reduced and phased out by 2015.
- The mineral exploration tax credit available to flow-through share investors has been extended through March 31, 2013.
- Subject to certain grandfathering rules, the 10% Atlantic Investment Tax Credit for certain oil and gas mining activities will be reduced and phased out by 2015.
- The Budget proposes to extend the Atlantic Investment Tax Credit to certain energy generation and conservation equipment acquired on or after Budget day for use in certain activities.

- The 2011 Budget introduced a “temporary” $1,000 (maximum) credit against the increases, compared to 2010, in employment insurance premiums incurred by certain businesses. This credit has been extended for one year to employers whose employment insurance premiums were $10,000 or less in 2011.

SALES & EXCISE TAXES

GST/HST STREAMLINED ACCOUNTING THRESHOLDS INCREASED

Effective for reporting periods beginning after 2012, the threshold for determining the eligibility of small businesses and public service bodies to use the Streamlined GST/HST Accounting methods will be doubled. The annual taxable sales threshold applicable for the Quick Method will increase to $400,000 of tax-included sales, from the present $200,000. The annual thresholds for using the Streamlined Input Tax Credit Method and the Prescribed Method for calculating rebates will be $1,000,000 of tax-included sales and $4,000,000 of taxable purchases.

EXPANDED GST REBATES FOR BOOKS GIVEN AWAY BY PRESCRIBED LITERARY ORGANIZATIONS

Where charities and qualifying non-profit literary organizations purchase printed books or audio recordings of books to give away, a rebate will be available for the GST or federal portion of the HST. This rebate will be applicable for purchases and importations after March 29, 2012.

EXPANDED GST/HST HEALTH-RELATED RELIEF

GST/HST exempt status and zero-rating has been expanded to the following health-related supplies made after March 29, 2012 :

- Specified non-dispensing health related services provided by pharmacists will be afforded exempt status. Drug dispensing services continue to qualify for zero-rating.
- Supplies of corrective eyeglasses or contact lenses prescribed by an authorized individual (e.g. an optician) will be zero-rated.
- The zero-rating of certain medical devices prescribed by a medical practitioner will be extended to supplies made on the written order of a registered nurse, physiotherapist or occupational therapist as part of their professional practice.

GST/HST APPLICATION ON FOREIGN-BASED RENTAL VEHICLES

Effective June 1, 2012, to facilitate access to Canadian tourist destinations, GST/HST will be eliminated or reduced on temporary importations of foreign-based rental vehicles by Canadian residents.

GREEN LEVY ON FUEL INEFFICIENT VEHICLES

The Ministry of Natural Resources recently changed fuel consumption testing requirements. This Budget adjusts the application of the Green Levy to ensure that these changes do not impact current tax application. This measure will take effect with Royal Assent.

DUTY REDUCTIONS ON CERTAIN IMPORTED OILS

The Budget proposes to eliminate the 5% Most-Favoured-Nation duty rate on certain oils used as production inputs in refining and electricity production, effective for importations after March 29, 2012.

INCREASED TRAVELLERS' EXEMPTIONS

Travellers' exemptions for goods brought into the country by Canadian residents after May 31, 2012 have been increased as follows:

- For absences of between 24 and 48 hours the duty and tax-free exemption will be increased from $50 to $200.
- For absences of more than 48 hours the duty and tax-free exemption will be $800.