

2006 Federal Budget Highlights for the Small Business

On May 2, 2006 the conservative government tabled its first budget which delivered broad-based tax relief over the next 2 years for both individual and corporate taxpayers. This newsletter is a summary of the tax measures proposed that affect small businesses. A previous newsletter was issued regarding personal tax reductions in the budget. It can be seen on our website at www.deansinclair.com.



Business Highlights

- The general corporate income tax rate will be reduced to 20.5% effective January 1, 2008, 20% effective January 1, 2009 and 19% effective January 1, 2010. These rates will be prorated for taxation years that straddle the effective dates.
- The small business limit will increase to \$400,000 effective January 1, 2007 and the federal small business tax rate will be reduced to 11.5% for 2008 and to 11% effective January 1, 2009.
- For losses incurred in taxation years that end after 2005, these losses can now be carried back 3 years and forward 20 years (previously 10 years). Similarly, investment tax credits can now be carried forward for 20 years.
- There will be a new non-refundable tax credit equal to 10% of the salaries and wages paid after May 1, 2006 to qualifying apprentices, to a maximum of \$2,000 per year per apprentice. Unused credits may be carried back 3 years and forward 20 years.
- Tools, kitchen utensils and medical and dental instruments acquired after May 1, 2006 that cost less than \$500 (previously \$200) are eligible for a 100% CCA rate under Class 12 of the Income Tax Regulations. Tools over \$500 are generally placed in Class 8 and eligible for a 20% CCA rate.

2006 Federal Budget Highlights

GST Highlights

The new budget has cut the rate of the GST from 7% to 6%, effective July 1, 2006. The budget proposes transitional rules for determining the GST rate applicable to transactions that straddle the July 1, 2006 implementation date. The general transitional rule is outlined below:

- If GST becomes payable, or is paid without having become payable, before July 1, 2006, the rate of 7% will apply.
- If GST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% will apply.
- If GST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% will apply.

For example, for an existing automobile lease, the GST on a monthly payment before July 1, 2006 will be calculated at 7%; after June 30, it will be calculated at 6%.

Certain types of transactions will have specific transitional rules. These include sales of real property, imported goods and taxable benefits. The sales of real property will usually be taxed at 6% if closing occurs on or after July 1, 2006. However, a special transitional rule will apply to sales of new residential real property when the purchase agreement was entered into on or before May 2, 2006 and the closing occurs after June 30, 2006.

- If ownership or possession is transferred before July 1, 2006, the rate of 7% will apply.
- If an agreement of purchase and sale was entered into before May 2, 2006 but ownership and possession is transferred on or after July 1, 2006, the rate of 7% will apply, but the purchaser may claim a partial rebate from the CRA.
- If an agreement of purchase and sale was entered into after May 2, 2006 and ownership and possession is transferred on or after July 1, 2006, the rate of 6% will apply.

