

2006 Federal Budget Highlights Affecting Personal Taxes

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 personal taxes. A second newsletter will be issued regarding corporate tax reductions in the budget or visit our website at www.deansinclair.com.

Change to Personal Tax Rates, Credits and Exemptions

- The lowest rate of tax for 2005 was reduced to 15% from 16% (as proposed by the previous liberal government). Effective July 2, 2006 this rate will increase to 15.5% resulting in an effective rate of 15.25% in 2006 and 15.5% in 2007 and subsequent years.
- The basic personal exemption was increased to \$8839 in 2006 and will increase to \$10,000 by 2009. An individual with less than \$10,000 of total income in 2009 will not pay any federal income tax.
- The spousal or wholly dependent person exemption was increased to \$7,505 in 2006, increasing to \$8,500 by 2009.
- A new employment tax credit was added to offset the first \$250 of income in 2006, increasing to \$1,000 by 2007 and subsequent years.
- An increase to \$2,000 from \$1,000 of the non-refundable pension income tax credit.
- A non-refundable federal tax credit for the cost of public transit travel (local bus, subway, etc.) that has been purchased after June 30, 2006 and is valid for 1 month or longer. No maximum but keep your receipts.
- Students will receive a complete exemption of tax for scholarships or bursaries (previous exemption was \$3,000 per year) plus a new non-refundable text book tax credit of \$65 per month while in full-time attendance in post-secondary education.
- A new tax deduction of \$500 for the cost of new tools in excess of \$1,000 purchased by trades people.
- The child disability benefit increased to \$2,300 from \$2,044 and the maximum refundable medical expense supplement increased to \$1,000 from \$767.
- Effective July 2007, there will be a new non-refundable child's fitness tax credit for the cost of eligible physical fitness programs for up to \$500 of the cost.

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Other Measures

1) **GST Reduced to 6%**

Effective July 1, 2006 the GST rate charged will be reduced to 6% from 7%. This will affect all consumer purchases. Existing contracts, such as automobile leases, will be reduced to the 6% level for payments after June 30, 2006.

There are some special transitional rules for purchase of new homes, the calculation of the new housing rebate and purchase of imported goods. Contact us for details.

2) **Child Care Benefit**

The universal child care benefit for each child under the age of six will start July 1, 2006. The allowance is taxable to the lower income spouse or common-law partner.

3) **Dividends Tax Rate**

Dividends paid by public corporations in 2006 will have an increased tax credit attached to them. The reduced rate of tax will also apply to Canadian Controlled Private Corporations that have income subject to the non-small business rate of federal tax, other than investment income.

4) **Other**

- Capital gains tax eliminated on the donation of eligible property to a charity.
- Qualifying fishing property is now eligible for the enhanced \$500,000 capital gains exemption (qualifying property included real property, fishing vessels and equipment used principally in a fishing business in Canada.)
- Increased tobacco and alcohol tax levies.

