

## 2008 Federal Budget – Treading Softly in Old Shoes

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### Introduction

Minister of Finance Jim Flaherty presented the minority government's third budget on February 26, 2008. Breaking with tradition, he had new soles put on his old shoes, rather than presenting the budget in new shoes, intending to demonstrate prudence in the face of economic uncertainty.

The budget contains a modest number of tax measures, but no tax rate or bracket changes or other broad-based tax initiatives. This is not surprising since the October 2007 Economic Statement was essentially a mini-budget that included an unexpected number of tax reductions, promising corporate and personal tax relief of almost \$60 billion over six years.

The most significant budget measure affecting individuals is the proposed Tax-Free Savings Account, which allows Canadians to contribute \$5,000 a year to the account. Investment earnings will not be taxed and withdrawals will be tax-free.

For corporations in the manufacturing and processing sector, tax assistance is provided by extending accelerated capital cost allowance treatment for investment in machinery and equipment for three years. For Canadian-controlled private corporations (CCPCs), the scientific research and experimental development (SR&ED) tax incentive program has been improved.

## Personal Tax Measures

### Personal tax rates

The budget does not change personal tax rates. Top combined 2008 personal tax rates are outlined in the following table.

#### Top 2008 Personal Tax Rates

(Taxable income above \$123,184)	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
<b>Federal only</b>	<b>29.00%</b>	<b>14.50%</b>	<b>14.55%</b>	<b>19.58%</b>
Alberta	39.00%	19.50%	16.00%	26.46%
British Columbia	43.70%	21.85%	18.47%	31.58%
Manitoba	46.40%	23.20%	23.83%	37.40%
New Brunswick	46.95%	23.48%	23.18%	35.40%
Newfoundland and Labrador	45.50%	22.75%	28.83%	33.96%
Non-resident <sup>1</sup>	42.92%	21.46%	21.53%	28.98%
Northwest Territories	43.05%	21.53%	18.25%	29.65%
Nova Scotia	48.25%	24.13%	28.35%	33.06%
Nunavut	40.50%	20.25%	22.24%	28.96%
Ontario	46.41%	23.20%	23.96%	31.34%
Prince Edward Island	47.37%	23.69%	24.44%	33.61%
Quebec	48.22%	24.11%	29.69%	36.35%
Saskatchewan	44.00%	22.00%	20.35%	30.83%
Yukon	42.40%	21.20%	17.23%	30.49%

<sup>1</sup> Non-resident rates for interest and dividends apply only in limited circumstances.

### Tax-Free Savings Account

To help Canadians save, the budget introduces the Tax-Free Savings Account (TFSA). Starting in 2009, any Canadian resident individual 18 years of age or older will be eligible to establish a TFSA. While contributions to a TFSA will not be deductible in computing income, income earned in the TFSA, and amounts withdrawn from the TFSA, will not be subject to tax and will not be taken into account to determine eligibility for the various credits and benefits delivered through the tax system, such as the Canada Child Tax Benefit and Old Age Security benefits.

This new saving vehicle allows individuals to contribute up to \$5,000 a year (indexed after 2009). Any unused contribution room for a year can be carried forward indefinitely. Furthermore, amounts withdrawn from an individual's TFSA will be added to the contribution room for the following year.

In general, a TFSA will be permitted to hold a broad range of investments, similar to Registered Retirement Savings Plans (RRSPs), but certain investments will be restricted. In particular, a TFSA will be prohibited from investing in an entity with which the holder does not deal at arm's

length, including an entity of which the holder is a "specified shareholder."

Interest on money borrowed to contribute to a TFSA will not be deductible. An individual can use funds provided by his or her spouse to make a TFSA contribution; the income earned in the TFSA will not attribute to the spouse.

The TFSA will lose its tax-exempt status upon the individual's death, unless his or her spouse has been named as the successor account holder. Alternatively, the balance in a deceased individual's TFSA may be transferred to a spouse's TFSA.

### Dividend tax credit

As a result of recently enacted corporate income tax rate reductions, the budget adjusts the dividend gross-up factor and the dividend tax credit rate for eligible dividends as follows:

	Eligible dividends			
	2008 and 2009	2010	2011	After 2011
<b>Dividend gross-up</b>	45%	44%	41%	38%
<b>Dividend tax credit (on grossed-up dividend)</b>	18.9655%	17.9739%	16.4354%	15.0198%
<b>Top federal rate<sup>1</sup></b>	14.55%	15.88%	17.72%	19.29%

<sup>1</sup> Assumes top federal marginal income tax rate after 2008 remains 29%.

The increasing effective federal tax rates on eligible dividends is intended to ensure that the combined corporate and personal tax on business income earned through a corporation is roughly the same as the tax payable by an individual who earns such income directly. However, for this objective to be achieved, further dividend gross-up and tax credit changes may be necessary.

### Capital gains tax exemption on donations of exchangeable securities

The budget extends the existing capital gains tax exemption for donations of publicly traded securities to capital gains realized on the exchange of certain unlisted securities (i.e., shares or partnership interests) for publicly traded securities that are then donated to a charity.

The capital gains tax exemption will apply to gains from an exchange, if:

- the unlisted securities include a condition, at the time of issuance, allowing them to be exchanged for publicly traded securities;

- the publicly traded securities are the only consideration received from the exchange; and
- the publicly traded securities are donated after February 25, 2008, to a registered charity or other qualified donee within 30 days of the exchange.

Additional rules apply to the exchange of partnership interests to ensure that only the economic appreciation of the partnership interests are exempt.

## Excess corporate holdings for private foundations

The 2007 budget introduced the Excess Corporate Holdings Regime for private foundations. Under these rules, a private foundation could be subject to a requirement to divest its holdings in certain corporations or be subject to a penalty tax.

The 2008 budget proposes to exempt from this regime unlisted shares (shares of a corporation not listed on a designated stock exchange) held by a private foundation on March 18, 2007. Unlisted shares of a corporation may still be subject to the divestment requirements if, on March 18, 2007, the corporation is controlled by the foundation, by a relevant person or by a group, including the foundation and/or relevant persons, and holds, directly or indirectly, listed shares of another corporation.

The budget introduces new rules for taxation years beginning after February 25, 2008, to deem shares held by a trust on March 18, 2007, to be owned by the private foundation in proportion to the value of the foundation's interest in the trust, if certain conditions are met, for purposes of applying the excess corporate holdings regime and its transitional provisions.

The budget proposes that substituted shares (shares acquired in the context of certain corporate reorganizations in exchange for other shares) be treated the same as the shares for which they were exchanged when:

- applying the divestment exemption rules (including the new exempt share rules and the existing entrusted share rules); and
- determining the timing of any divestment obligations.

The budget amends the entrusted share rules to clarify that entrusted shares that:

- are held by a foundation; and

- result in a divestment obligation because of the holdings of a "relevant person" (generally a person that does not deal at arm's length with the private foundation) that the foundation itself cannot meet, need not be divested.

For taxation years beginning after February 25, 2008, the budget extends the regime's anti-avoidance provisions to include certain inappropriate uses of trusts.

## Registered Education Savings Plans

To increase the flexibility of the Registered Education Savings Plan (RESP) program, the budget extends the RESP time limits by 10 years as follows:

		RESP time limits	
		2007	After 2007
Number of contribution years after plan entered into	Disability Tax Credit (DTC) beneficiary plans	25 years	35 years
	Other	21 years	31 years
Deadline for plan termination	DTC beneficiary plans	30th anniversary year	40th anniversary year
	Other	25th anniversary year	35th anniversary year
Contribution age limit for family plan		No contributions for beneficiary over 20 years old	No contributions for beneficiary over 30 years old

## Educational Assistance Payments

For RESP beneficiaries who cease to be enrolled in a qualifying program after 2007, the budget allows the beneficiary to be eligible to receive Educational Assistance Payments (EAPs) for up to six months after ceasing enrolment, provided that the payment would have qualified as an EAP had it been made immediately before the student's enrolment ceased.

## Medical expense tax credit

Commencing 2008, the budget expands the list of expenses eligible for the medical expense tax credit to include:

- altered auditory feedback devices for the treatment of a speech disorder;
- electrotherapy devices for the treatment of a medical condition or a severe mobility impairment;
- standing devices for standing therapy in the treatment of a severe mobility impairment;
- pressure pulse therapy devices for the treatment of a balance disorder; and

- certain expenses for service animals specially trained to assist an individual who is severely affected by autism or epilepsy.

Furthermore, the budget clarifies the medical expense tax credit provisions to ensure that after February 26, 2008, vitamins, supplements and other drugs that can be purchased without a prescription will be ineligible even if prescribed by a medical practitioner.

## Registered Disability Savings Plans

The 2007 budget introduced the Registered Disability Savings Plan (RDSP) for individuals eligible for the Disability Tax Credit (DTC). Starting 2008, the budget amends the rule that an RDSP must be collapsed if the individual ceases to be DTC-eligible. Instead, collapsing is mandatory only if the beneficiary's condition has "factually improved" such that he or she no longer qualifies for the DTC.

## Mineral exploration tax credit for flow-through shares

The mineral exploration tax credit equals 15% of specified mineral exploration expenses incurred in Canada. The budget extends the credit by one year to flow-through share agreements entered into before April 1, 2009. Therefore, the credit is available for expenditures that are incurred before 2010, or in 2010 pursuant to the "look-back" rules.

## Tracking of motor vehicle use

To reduce the record-keeping burden associated with the business use of motor vehicles, the budget proposes that maintaining a logbook for a sample period (which should be representative of the vehicle's annual usage) will be sufficient to support calculations for motor vehicle expenses and taxable benefit calculations. Consultations will take place in 2008, and the Canada Revenue Agency (CRA) will implement a revised administrative policy in 2009.

## Northern Residents Deduction

Commencing 2008, the budget increases the maximum Northern Residents Deduction.

## Life income funds

Individuals who change employment may opt to take the vested pension benefits they acquired under a registered pension plan in the form of a locked-in RRSP. A locked-in

RRSP may be converted into a Life Income Fund (LIF). The budget increases the LIF withdrawal options available to individuals who are facing financial hardship or are 55 years of age or older.

## Business Tax Measures

### Corporate tax rates

The budget does not change federal corporate income tax rates. The following rates apply to December 31 year ends:

	General and M&P income <sup>1</sup>	CCPCs	
		Active business income up to \$400,000	Investment income
2007	22.12%	13.12%	35.79%
2008	19.5%		
2009	19%		
2010	18%	11%	34.67%
2011	16.5%		
2012	15%		

<sup>1</sup> The rates do not apply to the income of certain credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

### Scientific Research and Experimental Development

The budget enhances Canada's scientific research and experimental development (SR&ED) incentives by:

- increasing the annual expenditure limit and the taxable income and capital phase-out ranges; and
- allowing certain salary or wages incurred for SR&ED activities outside Canada to qualify for the SR&ED investment tax credit (ITC).

Administrative improvements will also be made to the SR&ED program.

### Expenditure limit, taxable income and taxable capital phase-out ranges

For taxation years ending after February 25, 2008, the limit and ranges used to determine the enhanced SR&ED ITCs available to CCPCs will increase as follows:

	Existing	Proposed <sup>1</sup>
<b>Annual expenditure limit</b>	\$2 million	\$3 million
<b>Phase-out range</b>	Taxable income	\$400,000 to \$600,000
	Taxable capital	\$10 million to \$15 million
		\$400,000 to \$700,000 \$10 million to \$50 million

<sup>1</sup> For the first taxation year ending after February 25, 2008, the proposed limits and ranges will be pro-rated based on the number of days in the taxation year that are after February 25, 2008.

The rules that apply to qualified SR&ED in Canada as a result of these changes are outlined below.

	Investment tax credit rate	Refund rate
<b>Qualifying CCPCs</b>	35% of annual expenditures up to threshold (\$3 million <sup>1</sup> or less) + 20% of qualified expenditures not eligible for the 35% rate	100% of ITCs on current expenditures computed at the 35% rate + 40% of ITCs on capital expenditures computed at the 35% rate and of ITCs computed at the 20% rate
<b>Other corporations</b>	20%	N/A
<b>Individuals</b>		40% of ITCs

1 Generally, a CCPC's \$3 million expenditure limit in respect of the 35% credit is reduced by:

- \$10 for every \$1 by which its previous year's taxable income exceeded \$400,000, up to \$700,000; and
- \$0.075 for every \$1 of its previous year's taxable capital employed in Canada above \$10 million, up to \$50 million.

Thresholds are on an associated basis.

The table below illustrates the maximum refundable ITCs earned with a \$3 million expenditure limit under the proposed rules:

		Taxable income <sup>1</sup>				
		\$400,000	\$500,000	\$600,000	\$700,000	
<b>Taxable capital<sup>1</sup></b>	\$10 million	\$1,050,000	\$700,000	\$350,000	Nil	
	\$20 million	\$787,500	\$525,000	\$262,500		
	\$30 million	\$525,000	\$350,000	\$175,000		
	\$40 million	\$262,500	\$175,000	\$87,500		
	\$50 million	Nil				

1 Previous year's taxable capital and/or taxable income on an associated basis.

## SR&ED carried on outside Canada

The budget proposes to extend the SR&ED ITC to permissible salary or wages incurred by a taxpayer in respect of SR&ED carried on outside Canada after February 25, 2008.

Permissible salary or wages:

- must be incurred in respect of Canadian-resident employees carrying on SR&ED activities outside Canada and the activities must be directly undertaken, and performed solely in support of SR&ED carried on, by the taxpayer in Canada; and
- will not include remuneration based on profits or bonus, or salary or wages subject to an income or profits tax imposed by a foreign country.

Permissible salary or wages will be limited to 10% of the total salary and wages directly attributable to SR&ED carried on in Canada by the taxpayer. For the first taxation year ending after February 25, 2008, the 10% limit will be pro-rated based on the number of days in the taxation year that are after February 25, 2008.

## Administrative improvements

The CRA will implement a plan to improve the administration of the SR&ED program. The plan includes:

- introducing a new SR&ED claim form and guide and an eligibility self-assessment tool;
- reviewing the program's policies and procedures to ensure they are aligned with current business practices and applied in a consistent manner across the country;
- increasing the CRA's scientific capacity and improving its services to claimants by hiring and training SR&ED technical reviewers;
- enhancing the quality assurance methodology at the national and local levels, including real-time review of claim decisions; and
- reviewing dispute resolution procedures to ensure their effectiveness.

## Sale of property by a non-resident

When a non-resident sells "taxable Canadian property" (TCP), the purchaser generally must withhold a portion of the amount paid and remit it to the CRA on account of the non-resident vendor's possible Canadian tax liability. The withholding obligation does not apply to certain excluded property (e.g., listed shares) or when the vendor obtains a section 116 clearance certificate from the CRA.

However, most tax treaties allow Canada to tax capital gains only on Canadian real and resource properties and on shares of companies that derive most of their value from those properties. Currently, the purchaser's withholding requirements and the rules in section 116 do not take into account the effect of tax treaties. This has resulted in administrative burdens and delays when it is clear that no Canadian tax is due. The budget proposes three changes to simplify the rules that apply to sales of TCP by non-residents after 2008.

The first change will exempt from the withholding requirements a disposition of a property the gain from which will not be taxable in Canada by virtue of a tax treaty. If the disposition is between related persons, the purchaser must provide basic information to the CRA about the transaction and the vendor. This "treaty-exempt property" will be excluded property with the result that the disposition will not give rise to the need to obtain a section 116 clearance certificate.

The second change will provide protection from liability to the purchaser for failure to withhold if:

- the purchaser concludes after reasonable enquiry that the vendor is resident in a country that has a tax treaty with Canada;
- the property will not be subject to tax by virtue of the treaty; and
- the purchaser provides basic information to the CRA about the transaction and the vendor.

Purchasers will have to carefully consider what information and representations they require to satisfy themselves that the property is “treaty-protected property.”

The third change will exempt non-residents from filing a Canadian income tax return in respect of a sale of TCP if no tax is payable by the non-resident and certain other tests are met. Currently, a non-resident must file a tax return whenever there is a sale of TCP, even if a tax treaty will exclude the gain for Canadian tax purposes.

## Manufacturing and processing: Accelerated capital cost allowance

The enhanced annual capital cost allowance (CCA) deduction for eligible manufacturing and processing (M&P) machinery and equipment is extended to eligible investments made before 2010. This measure, which is restricted to businesses engaged in M&P in Canada of goods for sale or lease, had applied only to investments made before 2009.

The 50% straight-line rate will be implemented by making Class 29 applicable to assets (that would otherwise be included in Class 43) acquired after March 18, 2007, and before January 1, 2010.

Eligible assets acquired in calendar years 2010 and 2011 will be included in a separate Class 43 for each year and, in addition to the regular 30% declining balance CCA, will be eligible for additional CCA deductions. In both cases, such assets will be merged into the regular Class 43 for subsequent taxation years, and the 30% declining balance rate will apply. This rate will also apply to all Class 43 assets acquired after 2011.

As a result, for assets acquired in 2010 the following rates apply:

- a 50% declining balance rate for the first taxation year ending after the asset is acquired and in which it is first available for use; and
- a 40% declining balance rate for the following taxation year.

Assets acquired in 2011 will be entitled to a 40% declining balance rate for the first taxation year ending after the asset is acquired and in which it is first available for use.

The “half-year rule”, which generally restricts CCA for the first year an asset becomes available for use to one-half of the amount otherwise deductible, will continue to apply to assets that are covered by this proposal.

Taxpayers may also elect to include eligible assets acquired in 2010 or 2011 in separate Class 43's on an asset-by-asset basis, in which case any assets remaining in these separate classes will revert to the regular Class 43 at the beginning of the fifth taxation year following the end of the first year in which the enhanced CCA is deductible for that separate class.

The following table summarizes the revised system.

		CCA Class	CCA rate and method (all subject to half-year rule)		
Period in which M&P machinery and equipment acquired	Before March 19, 2007 and after 2011	43	30% declining balance (D.B.)		
	Between March 19, 2007 and December 31, 2009	29	50% straight-line		
	Calendar 2010	Separate class 43	First year	50% D.B.	Second year
		43	Thereafter	40% D.B.	
	Calendar 2011	Separate class 43	First year	40% D.B.	
		43	Thereafter	30% D.B.	

## Clean energy generation: Accelerated CCA

Certain “clean energy” generation equipment acquired before 2020 is currently eligible for accelerated CCA of 50% per year on a declining balance basis (and subject to the half-year rule), under Class 43.2. The budget expands eligibility for Class 43.2 for assets acquired after February 25, 2008, that are used in a number of additional applications:

		General description
Type of application	Ground source heat pump systems (GSHP)	GSHP equipment for installations that meet Canadian Standards Association standards for earth energy systems, other than swimming pool heating applications
	Biogas production equipment	Equipment used to produce biogas from (i) animal matter or (ii) sludge from a licensed sewage treatment facility
	Waste-to-energy equipment	Removal of restrictions that require energy output to be used by the taxpayer

## Aligning CCA rates with useful life

The budget modifies the existing CCA rates for certain assets acquired after February 25, 2008, to more closely align the rates with the estimated useful life of the assets.

		Existing rate	Proposed rate
Type of asset	Railway locomotives	15%	30%
	Carbon dioxide pipelines	4%	8%
	Pumping and compression equipment for carbon dioxide pipelines		15%

The budget indicates that the government will continue to review CCA rates to ensure that they reflect, as closely as possible, the useful life of assets.

## Eligible non-residential buildings: Accelerated CCA

The budget includes draft regulations to implement the enhanced CCA rates that were proposed in the 2007 federal budget for certain non-residential buildings. These regulations confirm that the enhanced rates of:

- 10%, for buildings of which more than 90% of the floor space is used at the end of the year for manufacturing and processing in Canada; and
- 6%, for other buildings in Canada acquired for use by the taxpayer or a lessee of the taxpayer for a non-residential use,

will apply only to such buildings that are acquired after March 18, 2007, and that are new.

Buildings that were used, or acquired for use, by any person or partnership before March 19, 2007, will not be eligible for the enhanced rates. Additions or alterations to these buildings made after March 18, 2007, will, however, be eligible. Furthermore, the enhanced rates will apply to all construction costs for buildings that were under construction on March 19, 2007.

## Source deductions

For remittances of source deductions due after February 25, 2008, the budget:

- allows large remitters (who are otherwise required to make their remittances directly to a financial institution) to remit their withholdings directly to the CRA provided the CRA receives the payment at least one full day before the due date; and
- introduces graduated penalties for late payroll remittances as follows:

	Rate	If payroll remittance is late by:
Existing rules <sup>1</sup>	10%	One day
	3%	One to three days
Proposed rules <sup>1</sup>	5%	Four or five days
	7%	Six or seven days
	10%	More than seven days

<sup>1</sup> The penalty that applies to late remittances made knowingly or in circumstances that amount to gross negligence remains 20%.

## Business Number initiative

To reduce the paper burden on small business, the budget:

- broadens the scope of the Business Number (BN)-related information that may be shared with BN Partners (i.e., certain federal and provincial government departments) to include relevant contact, identification and status information;
- expands the government entities that qualify as BN Partners to include other levels of government in Canada (e.g., municipalities); and
- allows BN Partners to publish the BN for programs or services that they provide.

Implementing legislation will be developed in consultation with the Office of the Privacy Commissioner to ensure that privacy concerns are addressed.

## Donation of medicines

Corporations that make donations of medicines from their inventory to registered Canadian charities and other qualified donees are permitted to claim a charitable donations deduction equal to the fair market value (FMV) of the donated property. This deduction is, however, offset by FMV proceeds the corporation is deemed to receive. Accordingly, to encourage such donations, an additional deduction can be claimed if the donee is a registered charity that has received a disbursement under a Canadian International Development Agency (CIDA) program and the gift is for charitable activities to be carried on outside Canada.

For the purposes of the additional deduction, the budget proposes that, for eligible donations of medicines made after June 30, 2008:

- an eligible charity will be a registered charity that, in the opinion of the Minister of International Cooperation, meets certain conditions that will be prescribed by regulation; and
- the medicine must be donated at least six months before its expiry date.

## Employment Insurance

To enhance the independence of the setting of Employment Insurance (EI) premium rates and ensure that EI premiums are dedicated to the EI program, the federal government is creating the Canada Employment Insurance Financing Board (CEIFB), a new, independent Crown corporation. The CEIFB's responsibilities will include:

- managing a separate bank account in which any annual EI surpluses will be held and invested until needed for EI program costs;
- implementing a new EI premium rate-setting mechanism, starting in 2009, that takes into account any future surpluses or deficits and ensures that EI revenues and expenditures break even over time (the maximum annual change in the premium rate set by the CEIFB will be 15¢); and
- maintaining a cash reserve with an initial \$2 billion that would fund a shortfall if the projected break-even EI premium rate results in a premium rate increase greater than the 15¢ limit.

## SIFT tax: provincial component

The tax on certain distributions from "specified investment flow-through" trusts and partnerships (SIFTs) is made up of two components:

- the federal general corporate tax rate for the year (19.5% for 2008 and declining to 15% by 2012); and
- an additional tax of 13% in lieu of provincial tax.

This second component is intended to approximate the average provincial corporate income tax rate, and resulting taxes will be distributed to provincial governments.

The budget proposes that the provincial component instead be determined based on the general provincial corporate income tax rates for each province in which the SIFT has a permanent establishment. The rate would be computed by applying the general corporate taxable income allocation formula to notionally allocate the SIFT's taxable distributions to those provinces. However, the provincial tax rate component for taxable distributions allocated to Quebec will be nil, because Quebec imposes its own SIFT distribution tax directly.

## Sales and Excise Tax Measures

### Health measures

To improve the application of GST/HST to a range of health care services, prescription drugs and medical devices, the budget proposes the following measures, generally applicable to supplies made after February 26, 2008:

- the exemptions for basic health and education services will include training that is specially designed to assist individuals coping with a disability or disorder (e.g., autism) if certain conditions are met;
- expanding the exemption from GST/HST for nursing services provided outside a health care facility or an individual's residence (e.g., those provided by a registered nurse or a registered nursing assistant);
- the exemption from GST/HST of diagnostic services prescribed by regulation (e.g., blood tests and X-rays) will include those ordered by registered nurses;
- all supplies to final consumers of drugs prescribed by authorized health professionals will be zero-rated;
- the list of zero-rated medical and assistive devices will include:
  - certain devices and furniture when supplied on the written order of a medical practitioner; and
  - service animals specially trained to assist an individual with a disability or impairment; and
- services rendered by provincially regulated health professionals through a corporation will be GST/HST exempt.

### Long-term residential care facilities

The budget clarifies the GST/HST treatment of certain transactions after February 26, 2008 (with retroactive application in some cases), for long-term residential care facilities, to ensure that the GST New Residential Rental Property Rebate and GST/HST exempt treatment on a resale apply.

### Property leases for wind and solar power equipment

The budget proposes that GST/HST will not apply to payments for the supply of a right of entry or use to generate, or evaluate the feasibility of generating, electricity from the sun or wind. This relief, which will not apply if the supply is made directly to a consumer or to a person who is not a GST/HST registrant and who acquires the right in the course of a business of making supplies to consumers, generally applies to supplies made after February 25, 2008.

## Tobacco taxation

A number of measures intended to enhance tobacco taxation enforcement and compliance are proposed.

## Excise duty on imitation spirits

The budget treats “imitation spirits” in line with other spirits effective February 27, 2008, resulting in an increased duty rate. Further, producers or importers of imitation spirits with alcohol content exceeding 11.9% will be required to obtain a licence to produce spirits and report and remit excise duty, as appropriate.

## Other Measures

### Aboriginal tax policy

The budget reaffirms the government’s willingness to discuss and implement direct taxation arrangements with Aboriginal governments.

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