Finance Minister Jim Flaherty had few surprises in the federal budget he unveiled in Ottawa Thursday, pledging to continue the stimulus measures rolled out in the last year while vowing to return to balanced books as soon as possible.

Harper's conservative minority government tabled a rather frugal budget today, intent on curtailing spending while capitalizing on real, though "fragile", growth in the economy.

Budget 2010 aims to contribute to this recovery through a three point approach:

1. The Government will follow through with the exit strategy built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned with stimulus spending ending in March 2011.

2. The Government will restrain spending through targeted measures. Towards achieving this objective, Budget 2010 proposes $17.6 billion in savings over five years.

3. The Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

Firstly, Jim Flaherty has planned a firm end to the stimulus package in March of 2011 and he promised the Conservative Government has a plan to return to balanced books in the medium term. The plan calls for the reduction of Canada's deficit by 50% in 2 years and 67% in 3 years time and confirmed $19 billion in new federal stimulus spending in this final year, focused on creating and maintaining jobs.

Secondly, today's budget promises to invest in "a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen Canadian innovation, and make Canada a destination of choice for new business investment." Spending will, however, be frugal. Much of these savings will be attained through a reliance on the expected economic growth in coming years after a deep recession.

The third plan of attack will require extensive collaboration with public sector employees and unions in order to achieve realistic savings. There were initial expectations of deeper cuts to Public Service Pension plans and Government departments are expected to have their expenses cut to realize success on this.

EMPLOYEE STOCK OPTIONS

Stock Option cash-outs

Budget 2010 proposes to prevent both the stock option deduction for employees and the deduction by the employer in situations where employees cash out their stock option rights for a cash payment from the employer. Generally, the stock option deduction will only be available to employees where they acquire securities of their employer or if the employer makes an election to forgo the deduction for a cash payment. An employer will generally not be allowed a tax deduction for stock-based compensation after March 4, 2010 where the employee is entitled to preferential tax treatment. Further proposed changes effective after 2010 clarify the obligation on employers to ensure that withholding remittances related to such stock-based compensation is remitted for the period that includes the date on which the security was issued or sold.

Elimination of tax deferral election

In addition this budget proposes to repeal the tax deferral election for public company stock options effective for employee stock options exercised after March 4, 2010.

Relief for tax deferral election

Introduction of a relieving tax election for taxpayers who elected to defer the stock option benefit on the acquisition of public company securities that have since declined in value and are disposed of before 2015. The election effectively ensures that the tax liability on a deferred stock option benefit does not exceed the proceeds of disposition of the underlying securities. This special election is available for individuals who elect on or before their tax return filing deadline for the year of disposition. This election is also available retroactively for individuals who dispose of their securities before 2010 and elect on or before their 2010 tax return filing deadline.

For stock option employment benefits arising on the issuance of securities after 2010, the rules regarding source deductions will be clarified to require that tax on the value of an employment benefit be withheld at source.

Amendment to clarify that a disposition by an employee of rights under a stock option agreement to a non-arm's-length person results in an employment benefit at the time of disposition or cash-out of the stock option rights. This measure applies to dispositions of employee stock options that occur after March 4, 2010.

BUSINESS INCOME TAX MEASURES

Corporate tax reductions

No new corporate rate reductions were announced but restated the government's intention to collaborate with the provinces and territories to achieve a 25% combined federal-provincial corporate income tax rate.

Federal Corporate Income Tax Rates			
	2010	2011	2012
General Corporate Rate	18.00%	16.50%	15.00%
Small Business Rate	11.00%	11.00%	11.00%

Employment insurance premiums

The government will freeze EI premiums at $1.73 per $100 insurable earnings to the end of 2010.

Information reporting of tax avoidance transactions

A public consultation on proposals requiring the reporting of certain potentially abusive tax-avoidance transactions will be initiated. This information reporting regime would be in addition to, for example, the general anti-avoidance rule (GAAR) and the tax-shelter rules. The minister notes that the proposals would not be as strict as those of the US and the UK, or those recently introduced by Quebec.

Under the proposed regime, an avoidance transaction will be a reportable transaction if it features at least two of three hallmarks that commonly exist when taxpayers enter into avoidance transactions. These hallmarks would include circumstances in which a promoter or tax advisor is entitled to fees to the extent they are attributable to the amount of the tax benefit or contingent on obtaining a tax benefit, the promoter or tax advisor requires confidential protection related to the transactions, and where the taxpayer or the person who entered the transaction for the benefit of the taxpayer obtains contractual protection in respect of the transaction. Flow-through shares and tax shelters will not be subject to the new rules, but the existing rules applicable to these types of transactions will continue to apply.

A taxpayer would be denied the benefit related to an unreported avoidance transaction, subject to providing the required information and being assessed a penalty. These proposals, as modified as a consequence of further consultation, would apply to transactions entered into after 2010 and any part of a series of transactions completed after 2010.

Taxable Canadian property

The government has proposed two relieving measures for foreign investors that bring Canadian tax rules closer to international norms.

The first measure is intended to permit Canadian businesses to attract foreign venture capital by narrowing the circumstances in which tax reporting and filing requirements are imposed. The definition of taxable Canadian property will be amended to exclude the shares of corporations (and certain other interests) that, within the previous 60 months, do not derive their value principally from real or immovable property situated in Canada, Canadian resource property and timber resource property. As a consequence, section 116 filing requirements will no longer apply to most share investments in private and public corporations, regardless of the level of ownership. The amended definition will apply to determinations of taxable Canadian property status after March 4, 2010.

The second proposal fixes a technical anomaly that inappropriately prevented taxpayers in certain situations from applying for refunds of overpayments of tax withheld under section 105 of the Regulations or section 116 of the Act. This measure is effective for refunds claimed in returns filed after 4 March 2010.

PERSONAL INCOME TAX MEASURES

Registered Disability Savings Plans

Currently, RRSP distributions paid to a deceased's surviving spouse or partner or a disabled dependent child may be transferred to the recipient's RRSP, resulting in a deferral of tax. For deaths occurring on or after 4 March 2010, this budget extends this tax-deferred rollover rule to allow a transfer of a deceased individual's RRSP proceeds to a registered disability savings plan (RDSP) of a financially dependent infirm child or grandchild. The RDSP beneficiary or his/her legal representative must make an election to transfer the eligible RRSP proceeds to an RDSP on a rollover basis.

The amount of RRSP proceeds eligible for rollover to an RDSP is limited to a beneficiary's available RDSP contribution room (the lifetime maximum is $200,000). However, unlike other contributions, the transferred amount will not attract Canada Disability Savings Grants (CDSGs). The transferred amounts will form part of the taxable portion of disability assistance payments, resulting in an income inclusion when withdrawn from the plan

Transitional relief: This budget also includes special transitional rules that will provide for comparable relief for deaths of RRSP annuitants after 2007 and before 2011. Under these rules, an eligible individual may make an election to contribute up to the amount of a deceased annuitant's RRSP proceeds to an

RDSP of a financially dependent infirm child or grandchild of the deceased. An offsetting deduction will be permitted in the deceased's terminal tax return or the return of the contributor (depending on where the income inclusion was taxed), if the RDSP contribution is made before 2012.

Carryforward of RDSP grant room: Annual RDSP contributions attract CDSGs and Canada Disability Savings Bonds (CDSBs). Currently, there is no carryforward of unused CDSG and CDSB entitlements to future years. This budget proposes to amend the Canada Disability Savings Act to allow a 10-year carryforward of CDSG and CDSB entitlements.

Child benefits

The budget proposes to allow two eligible individuals to each receive one-half of Canada Child Tax Benefits, Universal Child Care Benefits and GST/HST credit amounts in respect of a child where the child lives with both individuals, who live separately. This proposal applies for benefits payable beginning July 2011.

Single parents: Beginning 2010, a single parent will have the option of including the aggregate Universal Child Care Benefit received in his/her own income or the income of certain dependants.

Tax credits

Medical expense tax credit: Starting 5 March 2010, expenses incurred for purely cosmetic procedures will not be eligible for the medical expense tax credit.

Mineral exploration credit: The mineral exploration tax credit, equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors, will be extended to flow-through share agreements entered into on or before 31 March 2011. This program, initially introduced in 2000, was previously extended and scheduled to expire on 31 March 2010.

Scholarship exemption and education tax credit

The budget proposes to clarify that a post-secondary program that consists principally of research will be eligible for the education tax credit and the scholarship exemption only if it leads to a college or CEGEP diploma, or a bachelor's, master's or doctoral degree, or an equivalent degree.

In addition, the amount eligible for the scholarship exemption must reasonably be considered received in connection with enrolment in an eligible educational program for the duration of the period of study related to the scholarship. If the scholarship, fellowship or bursary amount is provided in connection with a part-time program, the scholarship exemption will generally be limited to the amount of tuition paid for the program, plus the costs of program-related materials.

These measures apply for 2010 and subsequent years.

CHARITIES

Disbursement quota reform measures

The budget proposes to eliminate all disbursement quota requirements except those related to the requirement to annually disburse a minimum amount of investments and other assets not used directly in a charity's operations. The specific measures include:

- Repeal of the charitable expenditure rule
- Modification of the capital accumulation rule to increase the exemption threshold from $25,000 to $100,000 for charitable organizations (other than charitable foundations)

- Strengthening of related anti-avoidance rules

These proposed measures apply to fiscal years of a charity ending on or after 4 March 2010.

GST/EXCISE TAX

GST definition of financial service, 14 December 2009

The Department of Finance announced proposed amendments to the Excise Tax Act that would make investment management services, certain facilitatory services and credit management services subject to goods and services tax (GST) by excluding them from the definition of financial service under the GST. The proposal is in response to recent court decisions that ruled such services were exempt from GST, contrary to what Finance alleges to be the longstanding policy intent.