

## TAX BULLETIN

February 2008

### BUDGET 2008: CORPORATE TAX HIGHLIGHTS

On February 26, 2008, Finance Minister Jim Flaherty delivered the federal government's 2008 Budget. The corporate tax highlights of Budget 2008 include the following:

#### TAXATION OF SIFTS: PROVINCIAL COMPONENT

At present, the tax on particular distributions from specified investment flow-through trusts and partnerships ("SIFTs") is comprised of two components: the federal general corporate tax rate (19.5% for 2008 and reduced to 15% by 2012) and an additional tax in lieu of provincial tax at a rate of 13%.

Budget 2008 proposes that for a SIFT's 2009 and subsequent taxation years, the provincial component of the SIFT tax will be determined based on the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment.

To determine the applicable rate for a SIFT, the SIFT's taxable distributions will be notionally allocated to provinces in accordance with the general corporate taxable income allocation formula. Taxable distributions that are not allocated to any province would be subject to tax at the rate of 10%. To account for the SIFT tax imposed by the Province of Quebec, the rate applicable to taxable distributions allocated to Quebec will be deemed to be nil.

#### SR&ED PROGRAM

Budget 2008 proposes to enhance the scientific research and experimental development ("SR&ED") tax incentive program by increasing the annual expenditure limit and the taxable income and capital phase-out thresholds.

For taxation years ending after February 25, 2008, the following limits and thresholds will be used (pro-rated, as required) to determine the enhanced SR&ED investment tax credits ("ITCs") available to Canadian-controlled private corporations:

	Current	Proposed
Expenditure Limit	\$2 million	\$3 million
Taxable Income Phase-Out Range	\$400,000 - \$600,000	\$400,000 - \$700,000
Taxable Capital Phase-Out Range	\$10 million - \$15 million	\$10 million - \$50 million

Expenditures incurred on SR&ED carried on outside Canada do not currently qualify for the SR&ED ITC. Budget 2008 proposes to extend the SR&ED ITC regime to capture permissible salary and wages in respect of Canadian-resident employees carrying on SR&ED activities outside Canada, provided the activities are directly undertaken by the taxpayer and completed solely in support of SR&ED carried on by the taxpayer in Canada. Permissible salary and wages will be limited to 10% of the total salary and wages directly attributable to SR&ED carried on in Canada by the taxpayer throughout the year.

Budget 2008 also proposes to improve the administration of the SR&ED program.

ENHANCED CAPITAL COST ALLOWANCE INITIATIVES

Budget 2008 proposes a number of initiatives to improve the capital cost allowance (“CCA”) system, including:

- **Manufacturing and Processing:** Last year’s budget proposed a temporary incentive to permit CCA to be claimed on an accelerated basis in respect of eligible machinery and equipment acquired on or after March 19, 2007 and before 2009 that are used in manufacturing or processing. CCA in respect of machinery and equipment eligible for the temporary incentive may be claimed on a 50% straight-line basis. Budget 2008 proposes to extend the accelerated CCA treatment for an additional three years, which will include a one-year extension of the availability of the 50% straight-line rate, followed by a two-year period during which accelerated CCA will be provided on a declining basis.
- **Aligning CCA Rates with Useful Life:** To better reflect the rate at which capital property depreciates, Budget 2008 proposes adjustments to the existing CCA rates for railway locomotives, carbon dioxide pipelines and pumping and compression equipment for carbon dioxide pipelines.
- **Clean Energy Generation:** Building on the proposals from the previous year, Budget 2008 expands the list of particular energy-generation equipment that falls within the class of property in respect of which CCA may be claimed at the accelerated rate of 50% on a declining balance basis.

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*The foregoing provides only an overview. Readers are cautioned against making any decisions based on this material alone. Rather, a qualified lawyer should be consulted.*

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