



Financial & Estate Planning Group

Scott Cummings, National Director, Taxation (416) 590-0180
Adam Salahudeen, LLB Senior Manager, Tax Advisory (416) 933-1797

2008 Federal Budget Highlights

The 2008 Federal Budget included a number of proposals for the taxation of individuals:

Tax-Free Savings Account (TSFA)

Starting in 2009, any individual (other than a trust) who is resident in Canada and 18 years of age or older will be eligible to establish a Tax Free Savings Account (TSFA). The TSFA is a registered account that will allow an individual to save up to a maximum of \$5,000 each year tax free. Contributions to TSFA will not be deductible for income tax purposes, however investment income, including capital gains, earned in a TSFA will not be taxed, even when withdrawn.

A TSFA will generally be permitted to hold the same investments as an RRSP. An individual will be permitted to hold more than one TSFA.

Any unused contribution room can be carried forward to future years, and there will be no limit on the number of years that unused contribution room can be carried forward. An individual can withdraw from the TSFA at any time and for any purpose. Excess contributions will be subject to a tax of one percent per month.

Neither income earned in the TSFA nor withdrawals will affect an individual's eligibility for federal income-tested benefits or credits such as the Canada Child Tax Credit. Nor will such amounts be taken into account in determining other benefits that are based on the individual's income level such as Old Age Security.

Contributions to a spouse or common-law partner's TSFA will be allowed and TSFA assets can be transferred to a surviving spouse or common-law partners upon death.

Medical Expense Tax Credit

Budget 2008 proposes to add to the list of medical expenses eligible for the METC, the cost to purchase, operate and maintain the following devices prescribed by a medical practitioner.

- Altered auditory feedback devices for the treatment of speech disorder
- Electrotherapy devices for the treatment of a medical condition
- Standing devices for standing therapy
- Pressure pulse therapy devices
- METC extends to recognize eligible expenses for service animals, specifically trained to assist individuals affected by severe autism or epilepsy. This includes the cost and the care of the service animal as well as reasonable travel expenses for the individual to attend an institution that trains the individual in the handling of the animal.
- Effective February 26, 2008, the Budget proposes to include as eligible drugs only those that are purchased with a prescription from a licensed practitioner.





Mineral Exploration Tax Credit

Budget 2008 proposes to extend eligibility for the mineral exploration tax credit to flowthrough share agreements entered into on or before March 31, 2009.

Registered Education Savings Plans

Currently, contributions can be made to a Registered Education Savings Plans (RESP) for 21 years and the plan must be terminated by the end of the year that includes the 25 anniversary of the opening of the plan. These limits are extended by an additional four and five years, respectively, for single-beneficiary plans where the beneficiary is qualified for the Disability Tax Credit. The Budget proposes to extend the contribution and termination terms by an additional 10 years. In addition, the period for receiving Education Assistance Payments is extended to include a six-month grace period after the beneficiary ceases to be enrolled in a qualified education program after 2007.

Northern Residents Deduction

The northern residents deduction provides taxpayers that live in prescribed areas in northern Canada for at least six consecutive months with a basic residency deduction. Effective to 2008 and subsequent taxation years, the residency deduction will be increased by 10%.

Registered Disability Savings Plans

Effective for 2008 and subsequent tax years, the rules will be changed to provide for a mandatory collapse of a Registered Disability Savings Plans (RDSP) only where the beneficiary's condition has factually improved to the extent that the beneficiary no longer qualifies for the Disability Tax Credit (DTC). This addresses concerns raised over the possibility that the beneficiary of a parent-initiated plan could force its premature collapse by rescinding their DTC certification.

Registered Charities

For donations made on or after February 26, 2008, it is proposed to extend, under certain conditions, the existing capital gains tax exemption for donations of publicly traded securities to capital gains realized on the exchange of unlisted securities that are shares of or partnership interests (other than prescribed interests in a partnership) for publicly traded securities.

It is also proposed to relieve registered charities from the obligation to dispose of certain unlisted share holdings. Also, the anti-avoidance rules related to these types of holdings will be extended to cover certain inappropriate uses by trusts.

Eligible Dividend Gross-up and Dividend Tax Credit

To reflect a decrease in corporate tax rates, it is proposed to reduce the eligible dividend gross-up from 45% to 44% on January 1, 2010, 41% on January 1, 2011 and 38% for January 1, 2012. The Dividend Tax Credit rate will also change at the same time, moving from 19% of the grossed-up amount to 18%, 16.5% and 15%.

This publication has been prepared by the Scotiabank Group. This publication is intended as a general source of information and should not be considered as personal investment, tax or pension advice. We are not tax advisors and we recommend that individuals consult with their professional tax advisor before taking any action based upon the information found in this publication. This publication and all the information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent Scotiabank Group refers to The Bank of Nova Scotia and its domestic subsidiaries.

