

## **Economic Statement—October 30, 2007**

A number of proposed changes to tax legislation were announced in the Department of Finance's Economic Statement on October 30, 2007. The most important from the perspective of the Personal Tax Planner are outlined below.

### **Reducing the General Federal Corporate Income Tax Rate**

This Economic Statement proposes to reduce the general corporate income tax rate (after the 10% abatement for income earned in a province) to 19.5% effective January 1, 2008, to 19% effective January 1, 2009, to 18% effective January 1, 2010, to 16.5% effective January 1, 2011 and to 15% effective January 1, 2012. The rate will be pro-rated for taxation years that include any of those dates.

The rate reductions will apply to income that is taxed at the general corporate income tax rate.

Budget 2006 legislated an enhanced dividend tax credit (DTC) to ensure that the combined corporate and personal income tax rate on dividends from large corporations is comparable to that on other forms of income. As a consequence of the corporate income tax rate reductions announced in this Economic Statement, consideration will be given to adjustments to the enhanced DTC to ensure the appropriate tax treatment of dividend income, as well as adjustments to other rules in the *Income Tax Act* that assume a specific underlying corporate income tax rate.

### **Accelerating the Tax Reduction for Small Business**

In order to help small businesses, this Economic Statement proposes to accelerate to 2008 the 0.5 percentage point reduction in the small business tax rate currently scheduled for 2009. The small business tax rate would fall to 11% effective January 1, 2008.

The reduction in the small business rate will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

### **Cutting the GST to 5%**

This Economic Statement proposes to reduce the GST rate by one percentage point, from 6% to 5%, effective January 1, 2008.

To facilitate the transition to the lower rate, this Economic Statement proposes transitional rules for determining the GST rate applicable to transactions that straddle the January 1, 2008 implementation date.

These rules are intended to minimize the compliance and administrative costs of changing to the new 5% rate. In general, they are the same as those implemented when the GST was reduced from 7% to 6% on July 1, 2006.

### **Reducing the Lowest Personal Income Tax Rate**

The lowest personal income tax rate will be reduced to 15% from 15.5% effective January 1, 2007. This rate will also generally be used to calculate non-refundable tax credits and the alternative minimum tax for the 2007 and subsequent taxation years.

### **Raising the Basic Personal Amount**

The basic personal amount—the amount that an individual can earn without paying federal personal income tax—is proposed to be increased to \$9,600 for 2007 and 2008, and to \$10,100 for 2009, from its current 2007 value of \$8,929. Amounts in 2010 and following years will be the amount from the previous year indexed according to inflation in the manner specified in the *Income Tax Act*. This Economic Statement also proposes to increase the amount upon which the spouse or common-law partner and wholly dependent relative credits are calculated by the same amount as the basic personal amount, so that its value remains equivalent to the basic personal amount.

**PLEASE NOTE:** The Tax Tables at the end of this book do not reflect these changes. Please consult your Chartered Accountant for clarification.