On track to eliminate the deficit–the 2011-12 federal budget (April 2011)

The 2011-12 federal budget brought down by Minister of Finance Jim Flaherty on March 22, 2011 includes projections that call for the elimination of the federal deficit, and a return to a surplus position, by the 2015-16 fiscal year. The deficit for the 2010-11 fiscal year which ends on March 31, 2011 is expected to be just over $40 billion, and to decline by about $10 billion per year until a surplus of just over $4 billion is realized in 2015-16.

When the Minister rose to deliver the budget, the possibility of a spring election was on the minds of many those listening, and the budget does indeed include many pre-election "goodies" for taxpayers in a variety of situations. Most of the budget provisions were directed at individual taxpayers, and most of those measures were of a relieving nature. The current non-refundable tax credit provided for the cost of enrolling children in fitness-related activities will be joined by a similar credit of up to $75 per year for the cost of "artistic, cultural, recreational or developmental" activities in which a child under 16 is enrolled. A new family caregiver tax credit of up to $300 per year will be provided, beginning in 2012, to those who provide care to spouses and minor children who have a mental or physical infirmity. Students will benefit from a broadening of the rules governing eligibility for the tuition, education, and textbook tax credits, particularly with respect to courses of study taken abroad. Changes to the rules governing registered education savings plans (RESPs) will permit amounts to be transferred between individual RESPs of siblings without incurring a tax penalty. Finally, the mineral exploration tax credit, which was to have applied only to flow-through share agreements entered into on or before March 31, 2011, has been extended to March 31, 2012.

Some of the individual tax measures put forward in the budget do, however, restrict or eliminate tax benefits currently available to individual taxpayers. Beneficiaries of individual pension plans (IPPs) will, for the 2012 and subsequent taxation years, be subject to minimum withdrawal rules similar to those which govern beneficiaries of registered retirement income funds (RRIFs). Current anti-avoidance rules in respect of registered retirement savings plans (RRSPs) will be broadened to address concerns on the part of the Department of Finance with planning schemes which allow RRSP annuitants to access their RRSP funds without including those funds in income. Finally, the ambit of the tax on split income ("kiddie tax") which limits income splitting within a family unit, will be broadened to include capital gains realized on non-arm's length dispositions of shares, where taxable dividends on those shares would currently be subject to the tax.

While most of the budget's provisions were directed toward individual taxpayers, there were some measures affecting business. The measure of greatest benefit to small business is likely the proposal to provide a one-time credit of up to $1,000 to offset any increase in the amount of employment insurance (EI) premiums paid by a business in 2011 over that paid in 2010. The credit is available only to employers whose 2010 EI premiums were less than $10,000. Other measures relate to the capital cost allowance (CCA) system under which depreciation is claimed on assets for tax purposes. The current accelerated CCA for manufacturing and processing assets, which allows for a 50% deduction on a straight line basis, was scheduled to expire at the end of 2011. Instead, the enhanced deduction will be available for qualifying assets purchased before 2014. As well, the list of assets to be included in CCA Class 43.2 (clean energy generation) and therefore eligible for accelerated CCA is to be expanded to include equipment used to generate electrical energy from waste heat. Finally, the energy sector will also benefit from proposed changes to the rules governing qualifying environmental trusts and the tax treatment of intangible capital expenses in oil sands projects.