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INVESTMENT COUNSELLORS-PORTFOLIO MANAGERS

Federal Budget 2010

A special report for clients of R.N. Croft Financial Group Inc.

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March 5, 2010 – In the first federal budget release since the economy began to show signs of recovery, the Canadian government laid out a budget consisting of targeted measures designed to provide relief to some at the cost of others. With a projected deficit of \$53.8 billion, debt management is the key to this budget.

Some tinkering with the legislation will result in some savings for some taxpayers, additional taxes for others, and of course, some plain old rearranging. While no new taxes or tax increase were introduced, various deductions and tax-deferral options that were previously available are now gone.

The Child Tax Benefit (CTB) and **Universal Child Care Benefit (UCCB)** will, as of July 2011, become eligible to be split between supporting parents in the event of family breakup, providing there is shared custody. Currently these benefits are paid only to one parent.

Effective for the 2010 tax year, a single parent receiving the UCCB will have the option of including the UCCB benefit as income to the eligible child. Depending on the marginal tax rate of the parent, this will result in a federal tax savings to the single parent.

Medical expenses for purely cosmetic procedures are no longer qualified medical procedures for tax purposes effective March 5, 2010. These procedures, including liposuction, hair replacement procedures, and teeth whitening among others, will also become subject to GST/HST.

RRSP rules for disposition on death have been enhanced effective March 4, 2010. Currently, on the death of the taxpayer, the outstanding value of RRSPs and RRIFs may become immediately taxable (exceptions include a rollover to a surviving spouse or financially dependent child or grandchild.) The budget will allow an enhancement to the rollover rules by allowing a rollover of a deceased individual's RRSP proceeds to a Registered Disability Savings Plan (RDSP) for a financially-dependent infirm child or

grandchild. The rollover remains subject to the \$200,000 lifetime maximum contribution as well as the income test for “financial dependence.”

Transitional rules will be introduced in the future that will allow a contribution to an RDSP retroactive to January 1, 2008, when the RDSP was introduced. This measure is targeted for implementation July 2011 in order to allow financial institutions to adjust their systems to allow for the retroactive rollover.

Employee stock options take the big hit as a loophole is closed. Before March 4, 2010, executives and employees enjoyed benefits where they were able to take options on shares in the company they worked for, and defer any taxes on these benefits until such time as they actually exercised and sold the options. This was often used as a method of paying “bonuses” to key employees in a way that was tax friendly to both the employee and the company. Major changes to the tax treatment of employee stock options will result in increased revenues for the government, estimated at \$270 million this year and \$1.66 billion over the next five years.

If you have any questions about these proposed changes, and how they might affect your financial plan, your portfolio, or your business compensation arrangements, please give Robyn Thompson a call at 905-695-2320 or e-mail rthompson@croftgroup.com. ■

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