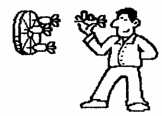

On ***February 26, 2008*** the Honourable ***Jim Flaherty***, Minister of Finance, presented his third Budget to the House of Commons.

The ***Government's fiscal position*** includes:

(i) Planned debt reduction of $10.2 billion in 2007-08, $2.3 billion in 2008-09 and $1.3 billion in 2009-10.

(ii) Surpluses to rise from $3.1 billion in 2010-11 to $5.3 billion in 2012-13, allowing for debt reduction of at least $3 billion per year in those years.

(iii) After taking into account planned debt reduction, remaining surpluses are $0.1 billion in 2010-11, rising to $2.3 billion in 2012-13.

	Actual	**Projection**		
	2006-07	**2007-08**	**2008-09**	**2009-10**
Budgetary revenues	236.0	244.5	241.9	252.0
Program expenses	188.3	201.2	208.1	218.3
Public debt charges	33.9	33.1	31.5	32.4
Total expenses	222.2	234.3	239.6	250.7
Planned debt reduction	13.8	10.2	2.3	1.3
Federal debt	467.3	457.1	454.8	453.5

*The above figures are in billions of dollars

The ***Budget*** includes:

(i) a ***Tax Free Savings Account*** with an annual limit of $5,000,

(ii) an additional three years of accelerated capital cost allowance treatment for new investment in ***machinery and equipment***,

(iii) improvements to the ***Scientific Research and Experimental Development Program***, and

(iv) a 10% increase in the ***Northern Residents Deduction***.

For information on ***tax measures*** – see the following.

HIGHLIGHTS

A. PERSONAL INCOME TAX MEASURES

1. Tax-Free Savings Account (TFSA)

Budget 2008 proposes to introduce the ***TFSA***.

Eligibility

Any individual (other than a trust) who is resident in Canada and 18 years of age or older will be eligible to establish a TFSA.

Contribution Limits

An individual will be able to make TFSA contributions up to the contribution room he or she has available.

Starting in 2009, individuals will acquire $5,000 (indexed annually) of TFSA contribution room each year.

Unused contribution room will be carried forward to future years.

For example, if an individual contrib-

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utes $2,000 to a TFSA in 2009, the individual's contribution room for 2010 will be $8,000 ($5,000 for 2010 plus $3,000 carried forward from 2009). There will be no limit on the number of years that unused contribution room can be carried forward.

Any amounts withdrawn from an individual's TFSA in a year will be added to the individual's contribution room for the following year.

Excess contributions will be subject to a tax of one per cent per month.

Treatment of TFSA Income for Tax and Income-Tested Benefit Purposes

While contributions to a TFSA will not be deductible in computing income for tax purposes, income, losses and gains in respect of investments held within a TFSA, as well as amounts withdrawn, will not be included in computing income for tax purposes or taken into account in determining eligibility for income-tested benefits or credits delivered through the income tax system (for example, the Canada Child Tax Benefit, the Goods and Services Tax Credit and the Age 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 benefits, the Guaranteed Income Supplement or Employment Insurance benefits.

Qualified Investments

A TFSA will generally be permitted to hold the same investments as a Registered Retirement Savings Plan.

However, a TFSA will be prohibited from holding investments in any entities with which the account holder does not deal at arm's length— including an entity of which the account holder is a "specified shareholder" as defined in the Income Tax Act.

Interest Deductibility and Collateralization

Interest on money borrowed to invest in a TFSA will not be deductible in computing income for tax purposes. However, TFSA assets may be used as collateral for loans.

Attribution Rules

An exception to the "attribution rules" will allow individuals to take advantage of the TFSA contribution room available to them using funds provided by their spouse or common-law partner.

Treatment Upon Death

Generally, an individual's TFSA will lose its tax-exempt status upon the death of the individual. However, an individual will be permitted to name his or her spouse or common-law partner as the successor account holder, in which case the account will maintain its tax-exempt status.

Transfers

On the breakdown of a marriage or a common-law partnership, an amount may be transferred directly from the TFSA of one party to the TFSA of the other.

Non-Residents

An individual who becomes non-resident will be allowed to maintain his or her TFSA and continue to benefit from the exemption from tax on investment income and withdrawals.

Issuers

Financial institutions currently eligible to issue RRSPs will be permitted to issue TFSAs.

Reporting

CRA will determine TFSA contribution room for each eligible individual who files an annual income tax return. Individuals who have not filed returns for prior years will be permitted to establish their entitlement to contribution room by filing a return for those years or by other means acceptable to the CRA.

Entry Into Force

This measure will have effect after 2008.

2. Registered Education Savings Plans (RESPs)

Contributions and Plan Termination

Currently, contributions to an RESP can be made for 21 years following the year in which the plan is generally entered into. An RESP must be terminated by the end of the year that includes the 25th anniversary of the opening of the plan. These limits are extended by an additional four and five years, respectively, for single-beneficiary RESPs if the beneficiary qualifies for the Disability Tax Credit (DTC). Finally, no contributions may be made to a family plan for a beneficiary who is 21 years of age or older.

Budget 2008 proposes to increase each of these limits by an additional 10 years.

These changes will apply for the 2008 and subsequent taxation years.

Educational Assistance Payments (EAPs)

Budget 2008 proposes to allow a six-month grace period for receiving EAPs.

This measure will apply to RESP beneficiaries who cease to be enrolled in a qualifying program after 2007.

3. Northern Residents Deduction

Individuals who live in prescribed areas in northern Canada for at least six consecutive months beginning or ending in a taxation year may claim the northern residents deductions in computing their taxable income for that year.

Budget 2008 proposes to increase the residency deduction by 10 per cent, increasing the maximum deductions to $8.25 and $16.50, respectively. This will apply to the 2008 and subsequent taxation years.

4. Medical Expense Tax Credit (METC)

Budget 2008 proposes to add to the qualifying medical expense list the cost to purchase, operate, and maintain the following devices prescribed by a medical practitioner:

- altered auditory feedback devices for the treatment of a speech disorder;
- electrotherapy devices for the treatment of a medical condition or a severe mobility impairment;
- standing devices for standing therapy in the treatment of a severe mobility impairment; and
- pressure pulse therapy devices for the treatment of a balance disorder.

In addition, Budget 2008 also proposes to extend eligibility under the METC to recognize eligible expenses for service animals specially trained to assist an individual who is severely affected by autism or epilepsy to cope with the individual's impairment.

Budget 2008 proposes to clarify the wording for eligible drugs and medications to ensure that those that may be purchased without a prescription remain ineligible.

The additions to the list of eligible expenses for the METC will be effective for the 2008 and subsequent taxation years. The clarification in respect of eligible drugs and medications will be effective for expenses incurred after February 26, 2008.

5. Registered Disability Savings Plans (RDSP)

Three-Year Review of Registered Disability Savings Plans

The RDSP program will be reviewed three years after plans become operational.

Preventing the Premature Collapse of a Registered Disability Savings Plan

Budget 2008 proposes to amend the RDSP rule that provides for a mandatory collapse of the plan if the beneficiary ceases to be DTC-eligible, to provide instead for a mandatory collapse of the plan only where the beneficiary's condition has factually improved to the extent that the beneficiary no longer qualifies for the DTC.

This will be effective for 2008 and subsequent taxation years.

6. Mineral Exploration Tax Credit

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

7. Capital Gains and Donations: Exchangeable Securities

Budget 2008 proposes to extend 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 or partnership interests (other than prescribed interests in a partnership) for certain publicly traded exchangeable securities.

This will apply to donations made on or after February 26, 2008.

8. Private Foundations: Excess Corporate Holdings

Budget 2007 introduced an excess corporate holdings regime for private foundations.

Budget 2008 proposes to exempt from this regime certain holdings of shares that are not listed on a designated stock exchange and that were held on March 18, 2007.

These amendments will apply to taxation years that begin on or after March 19, 2007.

9. Dividend Tax Credit (DTC)

Budget 2008 proposes to adjust the dividend gross-up factor and DTC rate for eligible dividends to reflect corporate income tax rate reductions.

By 2012, an eligible dividend will be grossed up by 38% (45% currently) and the DTC will be reduced to 15% (currently 19%).

B. Business Income Tax Measures

1. Scientific Research and Experimental Development (SR&ED) Program

Expenditure Limit

Budget 2008 proposes to increase the maximum qualified expenditures on which the enhanced 35 per cent rate can be earned to $3 million from $2 million.

Taxable Income Phase-Out Limit

Budget 2008 proposes to increase the upper limit of the phase-out range for prior-year taxable income to $700,000 from $600,000.

Taxable Capital Phase-Out Limit

Budget 2008 proposes to increase the upper limit of the phase-out range for prior-year taxable capital to $50 million from $15 million.

SR&ED Carried On Outside Canada

Budget 2008 proposes to recognize, for the purpose of the SR&ED ITC, certain salary or wages incurred by a taxpayer in respect of SR&ED carried on outside Canada.

2. Manufacturing and Processing: Accelerated CCA

Budget 2008 proposes to allow the current accelerated 50-per-cent straight-line CCA treatment to investment in manufacturing and processing machinery and equipment acquired in 2009 that would otherwise be included in Class 43. Such assets will be included in Class 29.

In addition, Budget 2008 proposes a two-year transition on a declining basis that will apply to eligible assets acquired in calendar years 2010 and 2011.

The "half-year rule" will apply to the properties that are subject to this measure and a separate class election may be made.

3. Clean Energy Generation: Accelerated CCA

Budget 2008 proposes to expand eligibility for Class 43.2 to Ground Source Heat Pump Systems, Biogas Production Equipment and Waste-To-Energy Applications for assets acquired on or after February 26, 2008.

4. Aligning CCA Rates with Useful Life

Budget 2008 proposes adjustments to CCA rates for railway locomotives and carbon dioxide pipelines and related pumping and compression equipment on such pipelines.

5. Remittance of Source Deductions

Late Remittances of Source Deductions

Budget 2008 proposes to enact a graduated penalty regime for remittances that are due on or after February 26, 2008 (3 per cent of the amount required to be remitted if the remittance is one to three days late; 5 per cent if it is four or five days late; 7 per cent if it is six or seven days late; and 10 per cent if it is more than seven days late).

Mandatory Remittances to Financial Institutions

Budget 2008 proposes that a remittance that is received by the CRA at least one full day before the due date will be considered to be in compliance with the requirement that it be remitted to a financial institution. These changes apply to remittances due on or after February 26, 2008.

6. Business Number (BN) Initiative

Budget 2008 proposes to:

- broaden the scope of the BN-related information that may be shared with BN Partners;
- expand the type of government entities that qualify as BN Partners to include other levels of government in Canada such as municipalities and Aboriginal governments; and
- allow for the publication of the BN by BN Partners in connection with programs or services provided by the BN Partner.

7. Cross-Border Business and Investment

Exemption From Withholding Requirements

Budget 2008 will exempt from withholding requirements a disposition of property if the property is, at the time of its disposition, a treaty-protected property and, in the case of a disposition between related persons, the purchaser sends to the Minister of National Revenue, on or before the day that is 30 days after the date of the disposition, a notice setting out basic information about the transaction and the vendor.

"Reasonable Inquiry" Protection

Budget 2008 proposes to expand the safe-harbour provision to ensure that the purchaser of property from a non-resident vendor need not withhold if the purchaser concludes that the vendor is protected under a tax treaty and the purchaser sends to the Minister of National Revenue, on or before the day that is 30 days after the date of the acquisition, a notice setting out basic information about the transaction and the vendor.

Exemption From Filing Returns

Budget 2008 proposes to exempt certain non-residents from filing a Canadian income tax return in respect of certain dispositions of Taxable Canadian Property which is non-taxable in Canada.

These changes to Section 116 of the Income Tax Act will apply in respect of dispositions that take place after 2008.

8. Donations of Medicines

Budget 2008 proposes that eligible medicine gifts must be donated at least six months prior to the expiration date of the medicines.

These changes will apply to eligible donations of medicines made on or after July 1, 2008.

9. SIFT Tax: Provincial Component

"Specified Investment Flow-Through" trusts and partnerships (SIFTs)—publicly traded income trusts (including business and energy trusts) and partnerships—are subject to a tax (SIFT Tax) on their distributions of "non-portfolio earnings".

Budget 2008 proposes that for a SIFT's 2009 and subsequent taxation years the provincial component of the SIFT Tax be based on the general provincial corporate income tax rate in each province.

C. Sales and Excise Tax Measures

1. GST/HST Health Measures

Currently, basic health care services are exempt from the GST/HST. Also, prescription drugs and certain medical devices are zero-rated.

Budget 2008 proposes to change the application of the GST/HST to a range of health care services, prescription drugs and medical devices to reflect the evolving nature of the health care sector.

A number of clarifying measures related to Training for Individuals with Autism or Other Disabilities, Nursing Services, Prescription Drugs, Medical and Assistive Devices and Exempt Health Service Supplies Through a Corporation are covered.

These changes will apply to supplies made after February 26, 2008.

2. GST/HST Treatment of Long-Term Residential Care Facilities

Budget 2008 proposes to clarify the GST/HST treatment of long-term residential care facilities to ensure that the GST New Residential Rental Property Rebate and GST/HST exempt treatment apply to such facilities on a going forward basis. This change will also apply to certain past transactions where the owner has paid tax on the facility or elects to have the new rules apply.

Budget 2008 also proposes to clarify the GST/HST exempting provisions to ensure that "head lease" payments by an operator to an owner of a long-term residential care facility are exempt.

3. GST/HST Treatment of Property Leases for Wind and Solar Power Equipment

Budget 2008 proposes that relief be expanded to include a supply of a right of entry or use to generate, or evaluate the feasibility of generating, electricity from the sun or wind.

This proposal will apply to supplies made on or after February 26, 2008.

4. Tobacco Taxation

Budget 2008 proposes a number of changes to tobacco taxation enforcement and compliance, and minor changes to the duty on certain tobacco products.

5. Excise Duty on Imitation Spirits

Budget 2008 proposes to change Canada's alcohol excise taxation system by treating imitation spirits like its competition, rather than like beer.

D. Other Tax Measures

Aboriginal Tax Policy

To date, the Government has entered into 30 sales tax arrangements whereby Indian Act Bands and self-governing Aboriginal groups levy a sales tax within their reserves or their settlement lands.

The Government will discuss and put into effect direct taxation arrangements with interested Aboriginal governments.

E. Previously Announced Measures

Budget 2008 confirms the Government's intention to proceed with the following:

- Certain measures relating to the income taxation of foreign affiliates that were released in draft form on February 27, 2004;
- Proposed improvements to the application of the GST/HST to the financial services sector announced on January 26, 2007;
- Draft amendments released on November 7, 2007, aligning the applicable income tax rules more closely to accounting standards;
- Technical modifications announced on December 20, 2007 to the income tax rules that apply to "specified investment flow-through" (SIFT) trusts and partnerships;
- The 2008 automobile expense figures announced on December 24, 2007;
- The extension, from 10 years to 20 years, of the carry-forward period for Canadian businesses' unused investment tax credits, as announced on January 29, 2008.