

March 2007 Federal Budget

By Florence Hui, CGA

On March 19, 2007, the Federal Government released its 2007 budget. In this budget, the government proposed a few tax measures to help families with children, give incentive for people to join the workforce, and allow older workers to stay longer in the labour market.

The following are the highlights on how the 2007 federal budget affects our families, working individuals and seniors.

Families with children

- **Spouse or Common-law Partner Credit:** Increase \$1,348 (or \$209 tax credit for 2007) to the same level as the basic personal amount.
Before 2007, two working parents can each fully claim their basic personal amount, but if one parent stays home to care for a child, the unused basic personal amount allowed to be transferred to the other working parent is smaller than the basic personal amount. The increase of this amount means a one-income family can now claim just as much personal amount as a two-income family, eliminating the so-called “marriage penalty”. It benefits both single-parent families as well as two-parent families with a stay-at-home spouse.
- **Child Tax Credit:** A \$2,000 new credit amount for each child under the age of 18. For 2007, this will reduce federal tax by \$310 and definitely is a big welcome to families raising children, same as the new Universal Child Care Benefit introduced in the 2006 budget.
- **Children’s Fitness Tax Credit:** The proposed children’s fitness tax credit will allow parents to claim a maximum of \$500 per year for eligible fees paid for each child who is under 16 at any time during the year. An eligible program must be ongoing (e.g. one session per week for a minimum of eight weeks) & supervised and include a significant amount of physical activity. The year in which the tax credit can be claimed is determined by the date when the fees are paid, not when the activity takes place.
- **Public Transit Tax Credit:** Starting July 2006, the credit allows those who use public transit for travel to claim payments they made to buy monthly public transit passes. The credit now extends to weekly passes and electronic payment

cards used on an ongoing basis. If your employer paid for your transit, it will be a taxable benefit to be included on your T4 and you can again claim the same amount as a credit. You can claim the tax credit on behalf of your spouse, common law partner, and your children under the age of 19.

- Registered Education Savings plans (RESP):
 - eliminate the \$4,000 limit on annual contributions.
 - increase the lifetime RESP contribution limit from \$42,000 to \$50,000.
 - increase the maximum Canada Education Savings Grant annual amount from \$400 to \$500.

This means that the maximum annual RESP contribution qualifying for the 20% grant will be increased from \$2,000 to \$2,500. This could encourage families to contribute more to the RESP. The elimination of the annual \$4,000 limit also provides better flexibility that allows families to plan their contribution according to their cash flow.
- Full tax exemption on scholarships and bursaries.

Examples of new tax savings for families

	<u>Spouse credit</u>	<u>Child tax credit</u>	<u>Total</u>
Single, no kids	-	-	-
Single, 1 kid	-	\$310	\$310
Couple, spouse stays home, no kids	\$209	-	\$209
Couple, spouse stays home, 1 kid	\$209	\$310	\$519
Couple, spouse works, no kids	-	-	-
Couple, spouse works, 1 kid	-	\$310	\$310

From the above simple examples, we can see that the one-income families with children benefit the most from the 2007 Federal Budget.

Working individuals

- Working Income Tax Benefit \$1,000 for families or \$500 for individuals: Low-income individuals or families must have over \$3,000 of income from employment and business. The benefit will be reduced by an amount equal to 15% of the net family income (\$14,500 family or \$9,500 for individual). On top of the new Employment credit introduced in the 2006 Budget, this benefit encourages unemployed persons to join the work force.

Seniors

- Age Credit: Increase non-refundable age amount by \$1,000 to \$5,066 effective January 1, 2006. The maximum is available only to those seniors with net income below \$30,270 and the credit is fully phased-out when net income reaches \$64,043.
- Increase the age limit from 69 to 71 for converting a registered retirement savings plan (RRSP). This means that seniors can have extra two years of tax-deferred savings.
- Allow pension income splitting: This allows couples with eligible pension income to reduce their combined taxes by transferring up to one-half of the income to the lower-earning spouse. This could mean higher Old Age Security entitlements for some couples.
- Permit phased retirement: This allows seniors to work part-time while collecting a portion of pension from a defined benefit pension plan (RPP).

The above measures help seniors who wish to work longer or part-time after their retirement.

Comments

As we see from above, most of the tax measures in the Budget are non-refundable tax credits except the Working Income Tax Benefit. Tax benefits are cash payments to eligible taxpayers, like child tax benefits. Tax credits are used to reduce federal tax. If the total of the credits is more than the federal tax owed, we will not get a refund for the difference. That is why they are called non-refundable tax credits. Non-refundable tax credits are calculated based on the lowest personal income tax rate (15.50 percent in 2007). No matter how high the income is, the tax savings stay the same. An eligible taxpayer with income earning more than \$116,000 or with income at \$30,000 will still save the same \$310 federal tax on the \$2,000 child tax credit.

Unlike tax credits, tax deductions directly reduce our total income and can bring down our taxable income to a lower tax bracket. Therefore, the higher the income, the more tax we save with tax deductions. For example, a taxpayer earning more than \$116,000 could save \$580 federal tax on a \$2,000 tax deduction while a taxpayer earning \$30,000 could only save \$310. In the 2007 Federal Budget, there are no new tax deductions.

So, how much can a family earn without paying federal income tax based on basic personal tax amount, spouse or common-law partner amount, and child tax amount?

	<u>Personal</u>	<u>Spouse</u>	<u>Child/Age</u>	<u>Total</u>
Single, no kids	\$8,929	-	-	\$ 8,929
Single, 1 kid	\$8,929	\$8,929	\$2,000	\$19,858
Couple, spouse stays home, no kids	\$8,929	\$8,929	-	\$17,858
Couple, spouse stays home, 1 kid	\$8,929	\$8,929	\$2,000	\$19,858
Couple, spouse works, no kids	\$8,929	\$8,929	-	\$17,858
Couple, spouse works, 1 kids	\$8,929	\$8,929	\$2,000	\$19,858
Single senior	\$8,929	-	\$5,066	\$13,995
Couple seniors	\$8,929	\$8,929	\$10,132	\$27,990

Please note that the above amounts will be increased as they have not included other non-refundable tax amounts such as children's fitness amount, public transit amount, new employment amount, CPP and EI contributions, pension income amount, etc.

And, if you are making less than the total non-refundable tax amounts you can claim, you cannot take advantage of the tax savings proposed by the 2007 Federal Budget.

For highlights of the budget, please check into my website at www.florencehuicga.com.