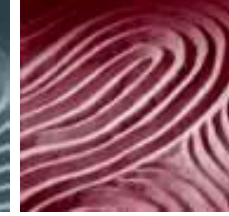


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LEGISLATION AND BUDGET UPDATE

By Gerald D. Courage

MAY 25, 2005

MILLER THOMSON LLP

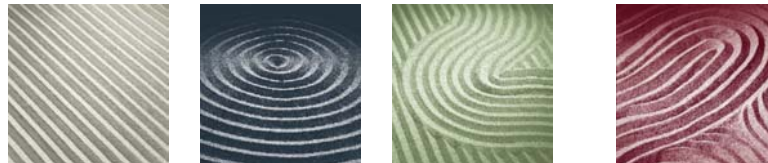
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Canadian Life and Health Insurance Association

Legislation & Budget Update

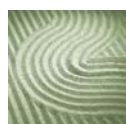
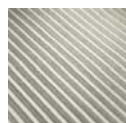
May 25, 2005

Gerald D. Courage



Legislation & Budget Update

2005 Federal Budget (Bill C-43)



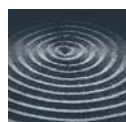
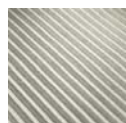
- Impending Federal election?

Tax Reductions

- Elimination of 4% surtax effective January 1, 2008
 - status in doubt
- Corporate tax reductions of 0.5% in 2008, a further 0.5% in 2009 and a further 1% in 2010
 - status in doubt
- To be put in a separate bill

Legislation & Budget Update

2005 Federal Budget (Bill C-43)

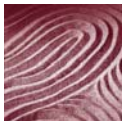
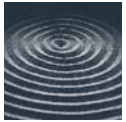


Elimination of Foreign Property Rules

- Part XI repealed for months ending after 2004
- Penalty tax in section 206.1 to be moved to Part XI.1 and renumbered as 207.1(5)
- Consequential changes to other provisions of Act
- Qualified investment rules remain

Legislation & Budget Update

2005 Federal Budget (Bill C-43)

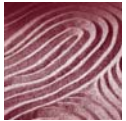
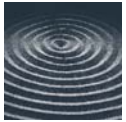


- Impact:
 - More flexibility in investment
 - Limited partnership offerings more attractive
 - Clone funds unnecessary
 - Small business property incentive eliminated
 - Substantial presence test eliminated

Legislation & Budget Update

2005 Federal Budget

Update on Other Tax Measures



Interest Deductibility and Reasonable Expectation of Profit

- October 31, 2003 draft legislation to be amended in light of technical concerns expressed by private sector
- CRA to address certain administrative questions relating to deductibility in the context of the new alternative proposal



Legislation & Budget Update

2005 Federal Budget

Update on Other Tax Measures

Cross-border Share-for-Share Exchanges

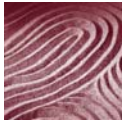
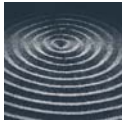
- Detailed proposals to be released in the near future

FIE / NRT Legislation

- To be introduced “at a suitable time, consistent with other legislative priorities”

Legislation & Budget Update

2004 Federal Budget

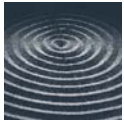


Income Trusts

- 2004 budget proposal suspended pending further consultation
- Elimination of foreign property rule has impact on this issue
 - Government to consult with stakeholders on tax issues relating to business income trusts and other flow-through entities
 - Consultation paper to be released by the Department of Finance soon

Legislation & Budget Update

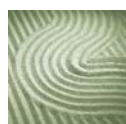
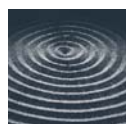
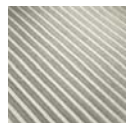
2004 Federal Budget (Bill C-33)



- Passed by House of Commons on February 25, 2005
- Received Third Reading in Senate on May 10, 2005
- Royal Assent expected shortly
- Non-deductibility of fines and penalties
- Extension of carryforward for non-capital losses to ten years

Legislation & Budget Update

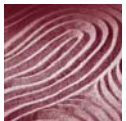
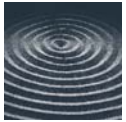
2004 Federal Budget (Bill C-33)



- Charities reform
- Extension of GAAR to regulations, treaties and ITARs
- Imposition of tax liability on gains on dispositions of TCP and non-taxable amounts distributed by mutual fund trust to non-residents
- Amendment of affiliated person rules relating to trusts

Legislation & Budget Update

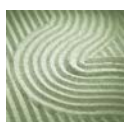
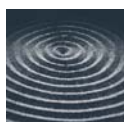
February 27, 2004 Technical Bill



- No Bill before Parliament as yet
- Foreign affiliate amendments
- Amendments regarding securities lending arrangements
- Taxation of restrictive covenants
- Rules on return of paid-up capital by public corporations

Legislation & Budget Update

Provincial Budgets

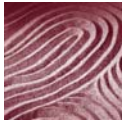
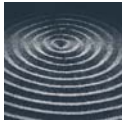


British Columbia

- Election called for May 17, 2005, but Budget was passed
- Record surplus of \$1.74 b for 2004–05
- Expected surplus of \$220 m for 2005–06 (plus cushion of \$670 m)
- No increases to insurance premium or corporate income tax rates
- Small business income threshold increased from \$300,000 to \$400,000 effective January 1, 2005

Legislation & Budget Update

Provincial Budgets

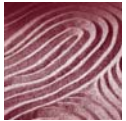
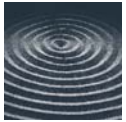


British Columbia

- Provincial sales tax rate reduced from 7.5% to 7% effective October 21, 2004
- New rules on record retention under *Corporation Capital Tax Act* (“CCTA”)
- CCTA investment allowance deduction for financial corporations owning shares in another financial corporation having PE in BC to be restricted to shares in corporations having same year end as corporation claiming the deduction

Legislation & Budget Update

Provincial Budgets

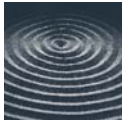


British Columbia

- Exemption to be provided under *Insurance Premium Tax Act* for healthcare premiums received by non-profit extra-provincial health insurance corporation for medical service and healthcare plans contracted with BC residents
 - Insurer must be licensed to carry on business in BC under *Financial Institutions Act*
 - Exemption retroactive to January 1, 1997

Legislation & Budget Update

Provincial Budgets



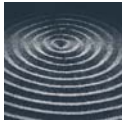
Alberta



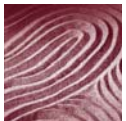
- \$4.3 b surplus for 2004–05
- \$1.5 b surplus estimated for 2005–06
- No net accumulated debt at end of 2004–05
- No corporate tax changes
- Significant expenditures on health, education, and social services and infrastructure
- Modest tax reductions for individuals

Legislation & Budget Update

Provincial Budgets



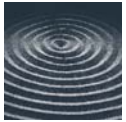
Saskatchewan



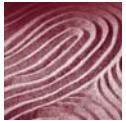
- 2005–06 is 12th consecutive balanced budget
- No tax increases
- Committee of independent tax experts to be appointed to conduct review of business taxation and competitiveness over the next few months to develop 2006–07 budget
- Effective April 1, 2005 resource trusts owning oil and natural gas producing properties in Saskatchewan will be subject to Corporation Capital Tax Surcharge

Legislation & Budget Update

Provincial Budgets



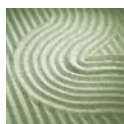
Manitoba



- Surplus of \$417 b surplus for 2004–05
- Balanced budget for 2005–06
- Reduction in general corporate tax rate from 15% to 14.5% effective July 1, 2006 and to 14% effective July 1, 2007

Legislation & Budget Update

Provincial Budgets



Manitoba

- Reduction in small business tax rate from 5% to 4.5% effective January 1, 2006 and to 4% on January 1, 2007
- Capital cost allowance rates raised for specified property
- Legislation to be introduced to limit liability of investors in income trusts

Legislation & Budget Update

Provincial Budgets



Ontario



- Deficit of \$3 b for 2004 – 05
- Projected deficit of \$2.8 b for 2005 – 06
- No tax increases; no new taxes; no changes to previously announced changes in prior budgets (e.g. capital tax phaseout)
- Enhancement of tax credits for various media and book publishing
- Ontario to follow proposed Federal regulatory changes to align CCA rates with useful life of assets

Legislation & Budget Update

Provincial Budgets

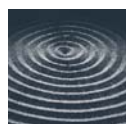
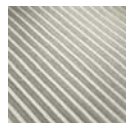


Ontario

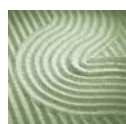
- Review of various avoidance transactions and discussion with other provinces and Federal Government to develop common rules to address aggressive interprovincial tax planning arrangements
- Ontario corporate tax liability to be determined with reference to whether corporation is resident (rather than incorporated) inside or outside Canada (to parallel Federal and other provincial rules)
- Family members to be permitted to be shareholders in professional corporations of physicians and dentists

Legislation & Budget Update

Provincial Budgets



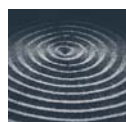
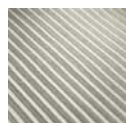
Quebec



- Balanced budget for 2004–05
- Balanced budget projected for 2005–06
- 50% phased decrease in tax on capital for general corporations and financial institutions (not including insurers) by 2009
- No indication of reduction in tax on capital of life insurers (CLHIA to be making submissions on this)
- Corporate tax rate on large businesses will increase from 8.9% to 11.9% by 2009 (commencing January 1, 2006)

Legislation & Budget Update

Provincial Budgets



Quebec

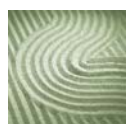
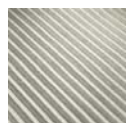


	<i>Tax on Capital</i>	<i>Income Tax on Large Companies</i>
2005	0.6	8.9
2006	0.525	9.9
2007	0.49	9.9
2008	0.36	11.4
2009	0.29	11.9

- Reduction in tax rate of SMEs to 8.5% effective January 1, 2006

Legislation & Budget Update

Provincial Budgets



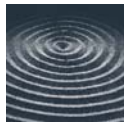
New Brunswick

- \$112.3 m surplus for 2004–05
- \$98.9 m surplus projected for 2005–06
- No tax increases; No new taxes

	<i>Small Business Income Tax Rate</i>	<i>Small Business Threshold</i>
Present	2.5%	\$425,000
July 1, 2005	2.0%	\$450,000
July 1, 2006	1.5%	\$475,000
July 1, 2007	1.0%	\$500,000

Legislation & Budget Update

Provincial Budgets



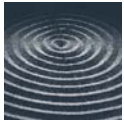
Nova Scotia



- \$87.5 m surplus for 2004–05
- Surplus of \$63.3 m projected for 2005–06
- No new taxes
- Increase in small business tax threshold from \$300,000 to \$350,000 effective April 1, 2005 and to \$400,000 effective April 1, 2006
- Effective July 1, 2005 large corporation tax (which applies to life and health insurers) will be reduced from 0.3% to 0.275% with succeeding annual reductions of 0.25% until the rate reaches 0.2%
- Business occupancy assessment tax to be eliminated

Legislation & Budget Update

Provincial Budgets



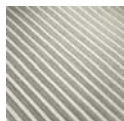
Prince Edward Island



- \$39.5 m deficit for 2004–05
- \$22 m deficit projected for 2005–06
- Small business will be lowered from 7.5% to 6.5% effective April 1, 2005
- Special corporate tax rate reduction for manufacturers and processors eliminated
- New land transfer tax on property sales based on gross value of property sales
- Insurance companies, adjusters and salespersons will pay \$50 to \$300 more for their operating licence

Legislation & Budget Update

Provincial Budgets



Newfoundland

- \$473 m deficit for 2004–05 (target was \$840 m)
- Projected deficit of \$492 m for 2005–06
- Significant improvements in Newfoundland’s fiscal circumstances:
 - New Atlantic Accord arrangement;
 - Improvements to the Equalization Program; and
 - Higher offshore royalties
- No new taxes and only one tax rate increase (on tobacco)