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STEP Canada Tax Technical Committee

2013 Federal Budget Bulletin

1. Amendments to Non-resident Trust Rules and Reversionary Trust Rules Addressing the Federal Court Decision in *The Queen v. Sommerer (2012)*

Subsection 75(2) of the Act currently provides that income from property held by a trust will be attributed to a Canadian-resident taxpayer if the property is held by the trust on condition that the property can revert to the taxpayer or the taxpayer has influence over the trust's dealings in respect of the property. Specifically, subsection 75(2) states:

> 75(2) Trusts – Where, by a trust created in any manner whatever since 1934, property is held on condition
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> (a) that it or property substituted therefor may
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> (i) revert to the person from whom the property or property for which it was substituted was directly or indirectly received (in this subsection referred to as "the person"), or
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> (ii) pass to persons to be determined by the person at a time subsequent to the creation of the trust, or
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> (b) that, during the existence of the person, the property shall not be disposed of except with the person's consent or in accordance with the person's direction,

any income or loss from the property or from property substituted for the property, and any taxable capital gain or allowable capital loss from the disposition of the property or of property substituted for the property, shall, during the existence of the person while the person is resident in Canada, be deemed to be income or a loss, as the case may be, or a taxable capital gain or allowable capital loss, as the case may be, of the person.

A related rule in subsection 107(4.1) (the rollout denial rule) prevents a tax-deferred distribution (rollout) of property from a trust if the trust is, or has been, subject to subsection 75(2). The CRA has always interpreted subsection 75(2) in a broad manner; however, recent court decisions have narrowed its application, starting with *The Queen v. Howson* in 2006 which confirmed that subsection 75(2) does not apply to a bona fide loan arrangement. In the summer of 2012, the Federal Court of Appeal released its decision in *The Queen v. Sommerer*, in which it discussed the application of subsection 75(2) in the context of a fair market value sale of property by a beneficiary to a non-resident trust, holding that the provision would not apply in those circumstances.

To respond to the Federal Court of Appeal's decision, Budget 2013 proposes to amend the proposed deemed residence trust rules (in proposed section 94) to incorporate a rule which adopts a test similar to that contained in subsection 75(2). If the test is met, the non-resident trust will be caught by the proposed rules and will be deemed to be resident in Canada for the purposes set out therein. In essence, if a non-resident trust holds property on conditions substantially similar to those set out in subsection 75(2), then every transfer or loan by the transferor person (or a partnership or trust of which the particular person is a member or beneficiary), of the particular property, of another property for which the particular property is a substitute, or of property from which the particular property derives, or the other property derived, its value in whole or in part, directly or indirectly, is deemed to be a transfer or loan, as the case may be, of restricted property. As a result, the transfer cannot fall within the meaning of "arm's length transfer" in proposed subsection 94(1).

Further, proposed paragraph 94(2)(c), which constitutes a deeming rule to determine when a transfer has occurred, is to be read without reference to subparagraph (iii). Draft paragraph 94(2)(c) provides:

> (c) a person or partnership is deemed to have transferred, at any time, property to a trust if
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> (i) at that time the person or partnership transfers restricted property, or loans property other than by way of an arm's length transfer, to another person (referred to in this paragraph and paragraph (c.1) as the "intermediary"),
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> (ii) at or after that time, the trust holds property (other than property described by paragraph (14)(b)) the fair market value of which is derived in whole or in part, directly or indirectly, from property held by the intermediary, and
>
> (iii) it is reasonable to conclude that one of the reasons the transfer or loan is made is to avoid or minimize a liability under this Part;

The proposed rules, which apply only to non-resident trusts, are much broader than subsection 75(2) and will apply to virtually any transfer or loan of the property (regardless of the consideration exchanged) made directly or indirectly by a Canadian resident to be a transfer of restricted property. As a result, the Canadian resident taxpayer will generally be treated as having made a contribution to the trust and the deemed residence rules will apply to the trust. Further, the rollout denial rule will be extended to apply to the trust.

To clarify the application of the tax rules that apply to non-resident trusts discussed above, Budget 2013 also proposes to restrict the application of subsection 75(2) so that it applies only in respect of property held by a trust that is resident in Canada (determined without regard to the deemed residence rules). Of note, the proposed amendment to subsection 75(2) will change the introductory language to "if a trust, that is resident in Canada and that was created in any manner whatever since 1934, holds property on condition…". It is unclear whether this change is intended to only restrict its application to Canadian resident trusts or whether the modification had any other intended purpose. This measure will apply to taxation years that end on or after March 21, 2013.

2. Closing Tax Loopholes – Tax Integrity Measures

Leveraged Life Insurance Arrangements

Budget 2013 proposes certain measures that would constrain the use of leveraged insured annuity ("LIA") structures and the 10-8 leverage strategy ("10-8") after 2013, provide limited grandfathering to LIA structures and provide limited transitional relief to those who have used the 10-8 strategy. LIA and 10/8 planning have been of concern to CRA for a number of years and have been the focus of audits and litigation, including the recently decided Federal Court of Appeal decision in MNR v RBC Life Insurance Company (February 21, 2013).

In a typical LIA plan, a private corporation purchases a life insurance policy and an annuity contract on the life of the principal shareholder. Simultaneously the corporation enters into a borrowing arrangement with the insurer or with a third party lender working in conjunction with the insurer. The insurance policy and the annuity are used as security for the borrowing. The borrowing is used to earn business or property income. Properly implemented, the interest payments and a portion of the premium payments would be deductible, capital would accumulate in the policy free of tax, the value of the shares (on death) would be reduced by the borrowing, and the corporate surplus would be transformed on death into an addition to the capital dividend account. There are a number of variations in this planning.

Under a typical 10/8 plan, the taxpayer funds a life insurance policy in a way that builds up the cash surrender value very quickly, then borrows from or against the policy and uses the borrowed funds to earn business or property income. Under the proverbial "10/8" plan, the investments inside the policy would earn a return of 8% and the taxpayer would pay interest at a rate of 10% on the borrowing. The investment income inside the policy would be exempt from tax and the interest payments would be deductible. Properly implemented, the economics of this planning could be quite advantageous to the taxpayer.

The central concepts of the proposed provisions in Budget 2013 are the defined terms "LIA policy" and "10/8 policy". Where a life insurance policy falls under the definition of an "LIA policy", Budget 2013 proposes to subject the policy to accrual basis taxation, deny deductibility of the premium payments, deny the addition of the death benefit to the capital dividend account and deem the annuity to be worth, on death, the total amount of premiums paid for it. Existing policies are not caught by the ILA definition provided there are no additional borrowings on or after March 21, 2013.

Where a life insurance policy falls under the definition of a "10/8 policy", Budget 2013 proposes to deny deductibility of the premium payments and interest payments and reduce the amount of the death benefit that is otherwise added to the capital dividend account by the amount of the loan outstanding under the arrangement at the time of death. There are no grandfathering rules. Instead, Budget 2013 proposes transitional arrangements intended to facilitate the termination of existing 10/8 plans and to alleviate the tax consequences of policy withdrawals to repay the borrowing. As well, it is important to consider that the insurance policy, even absent the loan arrangement, may continue to be a very important element in the policyholder's estate and/or business succession planning arrangements.

Consultation on Graduated Rate Taxation of Trusts and Estates

Budget 2013 proposes a consultation to review the graduated rate system that applies to testamentary trusts.

Inter vivos trusts are subject to a flat rate of federal tax of 29%. Testamentary trusts are subject to graduated or progressive rates, with the consequence that income earned in a testamentary trust can be retained by the trustees in the trust and subjected to a lower aggregate rate of tax than if it had been distributed to a beneficiary. Budget 2013 suggests that this result is anomalous and leads to planning, such as the artificial creation of multiple testamentary trusts, that might be inappropriate.

Testamentary trust planning is such a common feature of Canadian estate planning it is not hard to see why the Government is proposing a 'trial balloon' consultation paper approach. It will be interesting to see how the Canadian estate planning industry will respond and whether this balloon will fly.

Synthetic Dispositions

Budget 2013 proposes to introduce a new concept "synthetic disposition arrangement" and to attach income tax consequences to the tax benefits that arise from them.

In a synthetic disposition arrangement, the taxpayer enters a transaction or arrangement under which the taxpayer disposes of the economic attributes attaching to a property, but not title to the property itself, in exchange for the economic attributes of other property the value of which is equal to the value of the property "disposed of". The purpose of the synthetic disposition is typically to defer the income tax that would otherwise arise on an actual disposition of the property. Taxpayers might also arrange synthetic dispositions in order to avoid the application of the stop-loss rules in section112 of the Act. Budget 2013 proposes to treat synthetic disposition arrangements as dispositions, and to tax them as such

The explanatory notes accompanying Budget 2013 explain that synthetic dispositions can be challenged using other anti-avoidance rules, but that a more general provision is now required to deal with the issue.

A synthetic disposition is to be defined in subsection 248(1) to mean one or more agreements or other arrangements… "that (a) are entered into by the taxpayer or by a person or partnership that does not deal at arm's length with the taxpayer, (b) have the effect …. of eliminating all or substantially all the taxpayer's risk of loss and opportunity for gain or profit in respect of the property for a period of more than one year, (c) can … reasonably be considered to have been entered into, in whole or in part, for the purpose of obtaining the effect described in paragraph (b), and (d) do not … result in a disposition of the property within one year of the time they are entered into".

Proposed section 80.6 determines the consequences of an arrangement being considered a synthetic disposition arrangement. Where the concept applies, the taxpayer is deemed to have disposed of the property and to have reacquired the property at that time at an amount equal to its fair market value. In addition, for the purposes of section 112 and 126, the taxpayer is deemed not to own the property at all, with the effect that the taxpayer cannot benefit under those sections by virtue of continued ownership. For the purpose of this particular rule, the synthetic disposition arrangement need only be in place 30 days, not one year. Section 126 deals with foreign tax credits. Section 112 contains stop-loss rules that 'stop' losses on shares caused by tax-free inter-corporate dividends. The section 112 stop-loss rules do not apply if the dividend is received by a shareholder who, together with non-arm's length persons, owns less than 5% of the shares, where such shares were owned for a period of at least 365 days.

Character Conversions Transactions

Budget 2013 introduces rules that deal with what it refers to as "character conversion transactions". Budget 2013 explains that character conversion transactions seek to reduce income tax by converting, through the use of derivative contracts, ordinary income into capital gains.

In a typical character conversion transaction, the taxpayer enters into a forward agreement to sell or purchase a capital property. The price under the sale agreement or the quantum of the delivery obligation under the purchase agreement is determined by reference to a portfolio of investment assets, and not by reference to the performance of the capital property. The portfolio of investment assets typically produce ordinary income that is fully included in income. When the forward sale or purchase contract is settled, the price received by or the quantum of property delivered to the taxpayer is, if the implementation is properly done, taxable to the taxpayer as a capital gain.

Budget 2013 introduces a new concept, "derivative forward agreement" to deal with character conversion transactions. A derivative forward agreement is an agreement to sell or purchase a capital property with a term that exceeds 180 days where, in the case of a sale, the sale price is determined by reference to an underlying interest other than the value of the capital property or other than income or capital gains in respect of the property, and, in the case of a purchase, the amount of property to be delivered to the taxpayer is determined by reference to an underlying interest other than the value of the capital property or other than income or capital gains in respect of the property,

Budget 2013 proposes rules that characterize the whole of the economic gain or loss realized by a taxpayer using a derivative forward agreement as being on income account.

Corporate Loss Trading

Budget 2013 proposes a rule to target a particular type of corporate loss trading the Government considers unacceptable. Under a typical version of the targeted arrangements, a Profitco would transfer a profitable business to a Lossco in exchange for a substantial economic interest in the Lossco in the form of 75% or more of non-voting equity. Since the equity would not be voting, there would not be an acquisition of control. In an elegant, but somewhat complex set on proposed new rules, there will be an acquisition of control in these circumstances, and the the Lossco will not be able to use its losses.

Loss Trading: Trusts

The rules contained in the Act which restrict the use of corporate losses where there has been an acquisition of control will be extended to trust losses. The amendments to the specific provisions of the Act which will restrict the losses of trusts are not contained in the budget but will be released at a future time. However, the budget documents do contain the provisions of new section 251.2 which set out rules for determining when an event has occurred in relation to a trust which may give rise to loss-streaming.

Because of the different nature of trusts, the concept of acquisition of control used for corporations is replaced with the concept of 'loss restriction event' for trusts. A 'loss restriction event' is described in new subsection 251.2(2) as occurring when a person becomes a 'majority-interest beneficiary' or a group of persons becomes a 'majority-interest group of beneficiaries' of the trust. The terms 'majority-interest beneficiary' and 'majority-interest group of beneficiaries' are defined in existing subsection 251.1(3) of the Act. A 'majority-interest beneficiary' is a beneficiary who, together with all persons affiliated with the beneficiary, hold either an income interest or a capital interest having a fair market value in excess of 50% of all income or capital interests, as the case may be. A 'majority-interest group of beneficiaries' is a group, each of whom is a beneficiary, where if one person held all the group's interests, that person would be a majority-interest beneficiary.

Similar to the loss restriction rules for corporations, there are various situations in which a person is deemed not to have become a majority-interest beneficiary (or a group of persons is deemed not to have become a majority-interest group of beneficiaries) and a loss restriction event is deemed not to have occurred. For example, under subsection 251.2(3), a person is deemed not to become a majority-interest beneficiary solely because of:

(1) the acquisition of equity of a trust from a person affiliated with the particular person or the trust;

(2) the acquisition of equity of a trust by an estate from an individual where the estate arose as a consequence of the individual's death and the individual contributed the trust equity;

(3) the acquisition of equity by a person from an estate if the person was affiliated with the deceased before death;

(4) a variation of a trust, the exercise of a trust power or the reduction of an equity interest if all of the majority-interest beneficiaries are affiliated;

(5) the transfer of all the equity of a trust to a new corporation, trust or partnership in exchange for equity of the acquirer and the acquirer does not become controlled by a person or group of persons and not more than 50% of the acquirer's equity value is owned by a person; or

(6) a transfer of equity of a trust to a corporation, partnership or another trust if the majority-interest beneficiary of the trust controlled the acquirer corporation or was a majority-interest of the acquirer partnership or a majority-interest beneficiary of the acquirer trust.

Subsection 152(4) also contains rules which deem a person to become a majority-interest beneficiary (and therefore a loss restriction event to occur) in certain circumstances. These rules parallel some of the provisions of subsection 256(7) which contain deeming rules in respect of the acquisition of control of a corporation.

These changes apply to transactions that occur on or after March 21, 2013, other than transactions that the parties are obligated to complete pursuant to the terms of a written agreement entered into before March 21, 2013.

The federal government is inviting comments as to any additional transactions or events that should not give rise to a loss restriction event. Comments need to be provided within 180 days of March 21, 2013.

Thin Capitalization Rule Changes

Similar to the way in which the 2012 budget extended the thin capitalization rules to partnerships, the 2013 budget extends those rules to Canadian-resident trusts (and to partnerships in which a Canadian-resident trust is a member) by amending subsection 18(4) of the Act. The same debt-to-equity ratio of 1.5 to 1 will apply such that interest on debt owing by a trust to specified non-residents in excess of that ratio will not be deductible to the trust. To tailor the rules to trusts, the beneficiaries of the trust will be used in determining whether a person is a specified non-resident. This is done through the introduction of the concept of 'specified non-resident beneficiary' in subsection 18(5) of the Act. The equity of the trust for purposes of calculating the ratio will generally be the contributions to the trust from specified non-residents plus the tax-paid earnings of the trust, less any capital distributions from the trust to specified non-residents.

Interest expenses which are not deductible under the thin capitalization rules can be designated by the trust under new subsection 18(5.4) of the Act as a payment of income to the non-resident person as a beneficiary. Part XIII withholding tax will apply to the deemed income paid and the amount will be deductible to the trust.

The 2013 budget also proposes to extend the thin capitalization rules to Canadian branches of non-resident corporations and trusts. A loan that is used in a Canadian branch of a non-resident corporation or trust will be considered an outstanding debt to a specified non-resident for thin capitalization purposes if it is a loan from a non-arm's length non-resident. The debt-to-equity ratio for these purposes is 3 to 5.

These changes apply to taxation years that begin after 2013. Transitional rules for trusts that exist on March 21, 2013 allow equity to be determined as at that day based on the fair market value of the trust assets less its liabilities.

3. <u>Measures to Improve Compliance and Enforcement</u>

Extended Reassessment Period: Tax Shelters and Reportable Transactions

The budget will replace paragraph 152(4)(c) of the *Income Tax Act* (Canada) (the "Act") with new paragraphs 152(1)(b.1), (b.2), (c) and (c.1) to extend the normal reassessment period in respect of certain information returns for tax shelters and reportable transactions (being certain avoidance transactions described in the definition of 'reportable transaction' in subsection 237.3(1)). In particular, for any taxation year in which a taxpayer claims a deduction in relation to a tax shelter or in which a taxpayer realizes a tax benefit in connection with a reportable transaction, the normal reassessment period will be extended to three years after the date that the relevant information return is filed. This is intended to address situations where information returns have been filed late. This change will apply to 2013 and subsequent years.

Taxes in Dispute and Charitable Donation Tax Shelters

The budget will modify the rule which prevents the Canada Revenue Agency ("CRA") from taking collection action in respect of an amount which is the subject of a notice of objection filed by a taxpayer. If the objection relates to a deduction or tax credit claimed in respect of a tax shelter that involves a charitable donation, subparagraph 164(1.1)(d)(i) of the Act will be amended to permit CRA to collect 50% of the disputed tax, interest and penalties in respect of an amount claimed under section 110.1 or 118.1 of the Act. This change will apply to taxation years that end after 2012.

International Tax Evasion and Aggressive Tax Avoidance

The Act will be modified to accommodate the new "Stop International Tax Evasion Program". Under this new program, individuals will be paid financial rewards for providing information to CRA which leads to the collection of outstanding taxes for situations of international tax non-compliance. To receive the reward, the federal tax collected must exceed $100,000 and the non-compliance must involve foreign property or property located or transferred outside Canada, or transactions conducted partially or entirely outside Canada. The maximum reward payable will be 15% of the federal tax collected.

The budget will also amend the Act, the *Excise Tax Act* and the *Excise Act, 2001* to require certain financial intermediaries (such as banks) to report international electronic funds transfers of $10,000 or more to CRA. This change will apply beginning in 2015.

Foreign Reporting Requirements: Form T1135

Form T1135 is the *Foreign Income Verification Statement* on which taxpayers must report specified foreign property with an aggregate cost in excess of $100,000. The budget proposes two changes in connection with foreign reporting and Form T1135:

1) the normal reassessment period for a taxation year of a taxpayer will be extended by three years under paragraph 152(4)(b.2) of the Act if the taxpayer failed to report income from a specified foreign property and the taxpayer either has not filed Form T1135 on time or has failed to report the required information on the form. This change is effective for 2013 and subsequent taxation years;

2) form T1135 will be revised to require taxpayers to include the name of any institution holding funds outside of Canada, the country to which the property relates, and the foreign income generated from the property. A system will be implemented to permit the electronic filing of the form.

GST/HST Business Information Requirement

Budget 2013 introduces changes that will result in the withholding of GST/HST refunds claimed by a business until all prescribed business identification information is provided. This measure increases CRA's ability to authenticate GST/HST registrations and the information obtained will be used by CRA to assess risk of non-compliance.

ESS "Zapper" Software Sanctions

Taxpayers are responsible for maintaining accurate books and records. Electronic suppression of sales ("ESS") software allows businesses to hide their sales to evade payment of GST/HST and income tax. Budget 2013 proposes sweeping new civil and criminal sanctions to combat this type of activity. Use or possession of ESS software will result in an administrative penalty of $5,000 for a first infraction and $50,000 for subsequent infractions. The manufacture, development, sale or possession for sale, offer for sale or otherwise making ESS available will result in a penalty of $10,000 (first infraction) and $100,000 (subsequent infraction). A due diligence defence is available where a person exercises the degree of care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances. Criminal sanctions can also be applied.

SR&ED Reporting and Penalties

Starting in 2014, additional reporting will be required under the Scientific Research & Experimental Development ("SR&ED") Program rules, including information about third party assistance in preparing SR&ED claims, and billing arrangements (including contingency fee arrangements) relating thereto. Budget 2013 also introduces a penalty of $1,000 in respect of each incomplete or inaccurate SR&ED claim form, for which the claimant together with any third party tax preparer will be jointly and severally, or solidarily, liable.

Treaty Shopping

The Government has been largely unsuccessful at challenging treaty shopping arrangements in the courts. As a result, measures are being considered that will be aimed at combating treaty shopping. A consultation paper will be released shortly for public comment.

4. Other Measures of Interest

Lifetime Capital Gains Exemption

The lifetime capital gains exemption available to individuals for dispositions of certain qualified property (such as qualified small business corporation shares, qualified farm property and qualified fishing property) will be increased from $750,000 to $800,000 effective for the 2014 taxation year. The amount of the exemption will be indexed for inflation for taxation years after 2014.

Dividend Tax Credit

The budget amends subparagraph 82(1)(b)(i) to reduce the gross-up factor for non-eligible dividends from 25% to 18% and to increase the corresponding dividend tax credit for non-eligible dividends under paragraph 121(a) of the Act from 2/3 to 13/18. We understand this results in the federal effective tax rate for non-eligible dividends increasing from 19.58% to 21.22%. This change is effective for non-eligible dividends paid after 2013. We will have to wait to see what changes the provinces make to their respective rates to know what the impact will be on integration.

GST/HST on Health Care Services

Two changes are proposed that will impact on the taxability of health care services. First, the GST/HST exemption for basic health care services will be expanded to cover homemaker services so at to exempt publicly subsidized or funded personal care services (such as bathing, feeding and other assistance with dressing and taking medications). Second, the GST/HST exemption for health care services will be tightened to ensure that non-health care services, even if provided by a health professional, will not be exempt from GST/HST. Non-health care services would include services that are not performed for the purpose of protection, maintenance or restoration of health or a person, or of palliative care. Taxable services would include, for example reports, examinations and other services (including ancillary services relating thereto) performed for the purpose of determining liability in a court proceeding or under an insurance policy.

Personal Tax

Additionally, Budget 2013 contains the following proposals relating to personal taxation:

- commencing in 2013, the introduction of a 15% non-refundable tax credit for adoptive parents claimable against eligible adoption expenses to a maximum of $11,669;

- a first time charitable donor's super credit which will increase the regular credit (15% on first $200, 29% thereafter) by 25% (resulting in a credit of 40% on the first $200 and $54% on donations between $200 and $1000);

- the cost of safety deposit boxes will no longer be deductible;

- the introduction of a streamlined process for correcting over-contribution errors in pension plans;

- extension of the mineral exploration tax credit for flow-through share investors for contracts entered into before March 31, 2014;

- the Labour-Sponsored Venture Capital Corporations ("LSVCC") Tax Credit, which currently provides a 15% tax credit for individuals acquiring shares of LSVCCs up to $5000, will be gradually phased out by 2017;

- of note, the GST/HST exemption enjoyed by the Governor General will cease as of June 30, 2013;

- customs tariffs will be eliminated as of April 1, 2013 on all baby clothes and sporting equipment.

Miscellaneous

Budget 2013 contains the following additional business income tax measures and measures relating to international taxation:

- the temporary accelerated capital cost allowance (at a rate of 50%) for Class 29 assets, which was set to expire at the end of 2013, will be extended for an additional 2 years. Assets acquired in 2014 and 2015 will be continue to be eligible for the accelerated rate;

- further capital cost allowance changes will expand Class 43.2 (eligible for a CCA rate of 50%) to include biogas production equipment, and cleaning and upgrading equipment used to treat eligible gases (biogas, digester gas and landfill gas) relating to biomethane production;

- the deductions available for expenses in the mining sector will be aligned with those of the oil and gas sector, including the gradual phase-out of accelerated CCA commencing in 2017 (fully implemented by 2021;

- budget 2013 proposes that pre-production mine development expenses be transitioned from fully deductible Canadian exploration expenses (CEE) to Canadian development expenses, which are deductible at a rate of 30% per year on a declining balance basis The proposal will apply to expenses incurred on or after Budget Day, subject to certain relieving transition provisions applicable to certain existing arrangements;

- a reserve for future services will not be available in respect of costs relating to future reclamation of land previously used for waste disposal or similar purposes. Taxpayers may fund such future reclamation expenses by making deductible contributions to a Qualifying Environmental Trust;

- the additional deduction (which is over and above the small business deduction), available to credit unions will be phased out over a 5 year period commencing in 2013;

- in response to the Supreme Court of Canada's 2012 decision in *The Queen v.* Craig, the restricted farm loss rules have been tightened so that in order for a taxpayer's farming losses to be fully deductible (i.e. not restricted), the taxpayers other sources of income must be subordinate to farming. If the restricted farm loss rules apply, the deduction limit will be increased to $17,500 ($2,500 plus ½ of the next $30,000);

- the government announced that its consultations relating to the taxation of corporate groups, including whether consolidating reporting rules should be adopted, has been completed and no changes are proposed at this time;

- intentional Banking Centre (IBC) rules, introduced to attract Canadian banking activity normally conducted abroad, exempt certain financial institutions from tax earned in branches located in metropolitan Montreal and Vancouver if certain conditions are met. These incentives are underutilized and the rules will be repealed, effective to taxation years beginning after Budget Day.

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