

The Honourable Jim Flaherty, Minister of Finance today announced a Tax Fairness Plan for Canadians. The plan will restore balance and fairness to the federal tax system by creating a level playing field between [income](#) trusts and corporations.

"The measures I am bringing forward today are necessary to restore balance and fairness to Canada's tax system, to ensure our economy continues to grow and prosper and to bring Canada in line with other jurisdictions," said Minister Flaherty. "Our plan is the result of months of careful consideration and evaluation. Our actions are clear, decisive and in the best interest of all Canadians."

For months there has been a growing trend toward [corporate tax](#) avoidance. Top Canadian companies, operating within the current rules, have announced their intention to convert to [income](#) trusts. They feel compelled to seek more favourable tax treatment by capitalizing on an available tax rule.

While these decisions offer corporations short-term tax benefits, they are creating an economic distortion that is threatening Canada's long-term [economic growth](#) and shifting any future tax burden onto hardworking individuals and families. If left unchecked, these corporate decisions would result in billions of dollars in less revenue for the federal government to invest in the priorities of Canadians, including more [personal income tax](#) relief. These decisions would also mean less revenue for the provinces and territories.

Canada stands alone in its treatment of income trusts. The structure being used in this country was shut down in the United States and Australia.

"The landscape has changed dramatically in the short time I have been Minister of Finance, and in fact, this year we have seen nearly \$70 billion in new trust announcements," said Minister Flaherty. "The current situation is not right and is not fair. It is the responsibility of the Government of Canada to set our nation's tax policy, not [corporate tax](#) planners."

The measures in the Tax Fairness Plan include:

- A Distribution Tax on distributions from publicly traded income trusts and limited partnerships.
- A reduction in the general [corporate income tax](#) rate of one-half percentage point as of January 1, 2011.
- An increase in the [Age Credit](#) Amount by \$1000 from \$4,066 to \$5,066 effective January 1, 2006. This will benefit low and middle-income seniors.
- A major positive change in tax policy for pensioners. The government will permit income splitting for pensioners beginning in 2007.

These measures represent a major tax reduction. Our Tax Fairness Plan will deliver over one billion dollars of new tax relief annually for Canadians.

For income trusts that begin trading after today, these measures will apply beginning with their 2007 taxation year. For existing income trusts and limited partnerships the government is proposing a four-year transition period. They will not be subject to the new measures until their 2011 taxation year.

"The time has come for Canada's New Government to act," said Minister Flaherty. "By introducing our Tax Fairness Plan today we are acting in the national interest, doing what's right for all Canadians, and significantly enhancing the incentives to save and invest for family retirement security."

The Tax Fairness Plan will build on the steps taken in Budget 2006. In that document Canada's New Government delivered significant tax relief for Canadians with 29 tax cuts amounting to \$20 billion in tax relief over the next two years.

Additional details are available in the attached backgrounder or on the [Department of Finance](#) web site.

For further information, media may contact:

Dan Miles
Director of Communications
Office of the Minister of Finance
613-996-7861

David Gamble
Media Relations
[Department of Finance](#)
613-996-8080

If you would like to receive automatic e-mail notification of all news releases, please visit the Department of Finance website at www.fin.gc.ca/scripts/register_e.asp

The Government's solution: continuing the Tax Fairness commitment

Given the difficulties FTEs cause, and faced with their accelerating [growth](#), the Government has concluded that it must act. The Government will not address the tax issues around FTEs in isolation. Rather, it is proposing a package that continues its commitment to tax fairness for all Canadians.

With that commitment in mind, the Government plans a four-fold approach that combines a measured response to the tax imbalance created by FTEs while also providing meaningful tax relief to Canadian pensioners and seniors and businesses in Canada. The elements of this approach are as follows:

1. Changes to the tax treatment of FTEs and their investors

A more appropriate tax regime will be introduced for FTEs. Under this regime their tax treatment will be more like that of corporations, and their investors will be treated more like shareholders.

Specifically, certain distributions of FTEs' income will be subject to tax at corporate income tax rates. Those distributions will – like the dividends that corporations pay – not be deductible by an FTE that is a trust, and will be taxed in the hands of an FTE that is a partnership. The investors in the FTE will be taxed as though the distributions were dividends.

The FTEs that will be subject to these new rules will be fully defined in the legislation to implement these measures. As a practical matter, however, it can be assumed that the rules will apply to any publicly-traded "income trust" (or publicly-traded partnership), other than one that only holds passive real estate [investments](#).

These changes will generally take effect beginning with the 2007 taxation year for trusts that begin to be publicly-traded after October 2006, but will only apply beginning with the 2011 taxation year for those FTEs that are already publicly-traded.

The measures will be effective in rebalancing the income tax treatment of FTEs. As a result, the legal form a given business takes – whether as a corporation, a trust or a partnership – will come to depend less on the peculiarities of the tax law, and more on the substantive business attributes of each of those structures.

The attached Technical Annex provides further detail on the new tax rules for trusts and partnerships.

Table 2 summarizes the effects of these changes.

Table 2: Simplified Comparison of Investor Tax Rates in 2011

Investor	Current System		New System	
	FTE (Income)	Large Corporation (Dividend)	FTE (Non-Portfolio Earnings)	Large Corporation (Dividend)
Taxable Canadian (*)	46%	46%	45.5%	45.5%
Canadian tax-exempt	0%	32%	31.5%	31.5%
Taxable U.S. investor (**)	15%	42%	41.5%	41.5%

(*) All rates in the table are as of 2011, include both entity- and investor-level tax (as applicable) and reflect already-announced rate reductions and the additional .5% corporate rate reduction described below. Rates for "taxable Canadian" assume that top [personal income](#) tax rates apply and that provincial governments increase their dividend tax credit for dividends of large corporations.

(**) Canadian taxes only. U.S. tax will in most cases also apply.

2. Corporate income tax reduction

The 2006 Budget announced that the general corporate income tax rate would be reduced from 21% to 19% by 2010. The Government will reduce the rate by a further one-half percentage point, to 18.5%, beginning in 2011. Table 3 sets out the general corporate income tax rates for 2007 to 2011, taking into account this change.

This will further enhance the [competitiveness](#) of Canada's corporate income tax system.

Table 3: Federal Corporate Income Tax Rates, 2007-2011

	2007	2008	2009	2010	2011
			(percent)		
General corporate income tax rate	21.0	20.5	20.0	19.0	19.0
Proposed rates	21.0	20.5	20.0	19.0	18.5

3. [Age credit](#) enhancement

The age credit, a special federal income [tax credit](#) for Canadians 65 years of age and older, will be significantly enhanced, with the increase taking effect retroactively to January 1, 2006.

The age credit is calculated by multiplying the lowest [personal income](#) tax rate by an amount that is indexed to inflation; for 2006, this amount is \$4,066. The credit is subject to an income test that targets

the assistance to seniors who need it most. The unused portion of the credit may be transferred to a spouse or common-law partner.

- For 2006, the age credit amount begins to be phased out when net income reaches \$30,270. The phase-out rate is 15%, which means that the credit is fully phased out when [net income](#) reaches \$57,377.

The amount on which the age credit is computed will be increased by \$1,000 to \$5,066, effective January 1, 2006. This increase will help low- and middle-income seniors by providing up to \$155 (\$152.50 for 2006) of federal income tax relief each year for those eligible to receive the credit.

- With this enhancement, the age credit will be fully phased out when [net income](#) reaches \$64,043.

4. Pension income splitting

Canada's income tax system generally requires each individual taxpayer to report and pay tax on all of the income they earn. This is the case even if the individual, like many Canadians, actually uses much of their income to support other family members. The current system gives some limited relief for taxpayers in this situation, for example through [tax credits](#) for the support of a spouse or common-law partner or dependent children, but it still attributes the income itself exclusively to the person who earns it.

Recognizing the special challenges of planning and managing retirement income, and to provide targeted assistance to pensioners, this package includes a new mechanism for pension income splitting. The measure will allow any Canadian resident who receives income that qualifies for the existing pension income tax credit to allocate to their resident spouse (or common-law partner) up to one-half of that income. This measure will significantly increase the incentive to save and invest for family retirement security.

For individuals aged 65 years and over, eligible pension income includes lifetime [annuity](#) payments under a [registered pension plan](#), a [registered retirement savings plan](#) or a [deferred profit-sharing plan](#) and payments out of or under a registered retirement income fund. For individuals under 65 years of age, eligible pension income includes lifetime [annuity](#) payments under a [registered pension plan](#) and certain other payments received as a result of the death of the individual's spouse or common-law partner.

For income tax purposes, the amount allocated will be deducted in computing the income of the transferor (the person who actually received the pension income) and included in computing the income of the transferee (the person to whom some or all of the pension income is allocated). Since it will in many cases increase the transferee's tax payable, both persons must agree to the allocation in their tax returns for the year in question.

The pension income splitting allocation will be available for the 2007 and subsequent taxation years, and must be made one year at a time.

This Plan will provide over \$1 billion of new tax relief annually for Canadians.

Table 4 summarizes the impact of the proposed measures.

Table 4: Impact of Proposed Measures

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
---------	---------	---------	---------	---------	---------	-------

(millions of dollars)

Tax Relief							
- Increase of the Age Credit	405	345	355	360	380	400	2,245
- Pension Income Splitting	165	675	710	745	780	820	3,895
- 0.5% General Corporate Tax Rate Reduction	0	0	0	0	180	725	905
	<hr/>						
Total	570	1,020	1,065	1,105	1,340	1,945	7,045
Revenue from Publicly-traded Flow-through Entities	0	0	0	0	-100	-400	-500
	<hr/>						
Total	570	1,020	1,065	1,105	1,240	1,545	6,545
	<hr/>						