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2011 Federal Budget Mostly Unchanged

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COUNTRY DIGEST

2011 Federal Budget Mostly Unchanged

Canada's Conservative Party, which was reelected with a majority government in the May 2 federal election, returned to the House of Commons on June 6 to reintroduce the federal budget that had previously been submitted to the House on March 22 (the budget date).

The June 6 version of the budget, presented to the House of Commons by Finance Minister Jim Flaherty, is virtually certain to be enacted because the Conservatives now constitute a majority in the House. (For Flaherty's June 6 budget speech, see *Doc 2011-12264* or *2011 WTD 109-14*.)

The tax measures in the budget are essentially identical to those contained in the March 22 version. (For prior coverage, see *Tax Notes Int'l*, Apr. 11, 2011, p. 80, *Doc 2011-6076*, or *2011 WTD 57-2*.) Perhaps the most important proposed change is the introduction of rules to eliminate a corporation's ability to defer the taxation of income earned through one or more partnerships with fiscal year-ends that are different from the corporation's year-end.

For Canadian tax purposes, a partnership computes its own income and has its own fiscal period, but that income is attributed to the partners rather than being taxed in the partnership itself. A corporation that is a member of a partnership includes in its income its share of any partnership income for partnership fiscal periods that end during the corporation's tax year. However, under the pre-budget rules, if a partnership's fiscal period ends after the corporate partner's tax year-end (even by one day), the inclusion of the corporation's share of the partnership income for that partnership's fiscal period is deferred until the corporation's subsequent tax year, no matter how much of that partnership income was earned during the corporation's current tax year.

Other important budget measures relating to business taxation include the following:

- the tax treatment of some costs in Canada's oil sands would be significantly less generous to correspond with the tax treatment of similar costs relating to conventional oil and gas properties;
- some property would be depreciated for tax purposes on an accelerated basis; and
- rules relating to flow-through shares in the mining and oil and gas sector would be amended or extended.

The government has revised its 2010-2011 deficit projection to C $36.2 billion (down from C $40.5 billion projected in the March 22 budget), while the deficit in 2011-2012 will be C $32.3 billion (compared with C $29.6 billion projected in the March 22 budget).

Flaherty projects deficits of C $19.4 billion in 2012-2013 and C $9.4 billion in 2013-2014 and anticipates the return to a balanced budget (largely through reduced expenditures) in 2014-2015, one year earlier than previously forecast. The budget also includes a provision in 2011-2012 to pay the province of Quebec C $2.2 billion, contingent on the conclusion of a satisfactory agreement between Canada and Quebec on sales tax harmonization. ◆

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