

Scientific Research and Experimental Development Tax Credit

The total tax benefit business can receive from the **Scientific Research and Experimental Development Tax Credit (SR&ED)** will be reduced. The bill carries through with the first stage of Budget 2012's commitment to streamline the tax credit with savings to be reinvested into new direct support programs for business innovation. It is expected the new direct support programs will be announced in Budget 2013.

The specific changes to SR&ED found in the bill are:

- + The general SR&ED investment tax credit rate will be reduced from 20 percent to 15 percent, effective January 1, 2014;
- + The amount that can be claimed from the salaries and wages of employees who are engaged in SR&ED activities is reduced from 65 percent to 60 percent in 2013 and 55 percent for 2014 and beyond;
- + The removal of a profit element from arm's length third-party contracts for the calculation of SR&ED tax credits;
- + Capital is no longer eligible in the base of expenditures for calculating of SR&ED tax incentives.

Natural Resources

Bill C-45 implements certain income tax and related measures proposed in the March 29, 2012 budget. Most notably, it:

- + Expands the eligibility for the accelerated capital cost allowance for clean energy generation equipment to include a broader range of bioenergy equipment;
- + Phases out the **Corporate Mineral Exploration and Development Tax Credit**;
- + Phases out the **Atlantic Investment Tax Credit** for activities related to the oil and gas and mining sectors;
- + Provides that qualified property for the purposes of the Atlantic Investment Tax Credit will include certain electricity generation equipment and clean energy generation equipment used primarily in an eligible activity; and,
- + Phases out the **Overseas Employment Tax Credit**.

In addition, Bill C-45 makes numerous technical amendments to the *Canadian Environmental Assessment Act* and amends one of its transitional provisions to make it the sole act that is applicable to designated projects (as defined in that Act) for which an environmental assessment would have been required under previous legislation.

Transportation

The *Customs Act* is amended to clarify the role of the owners of international transport installations, such as a port or an airport. It states that, in addition to performing general maintenance, the owners are responsible for paying all the costs related to business operations including, but not limited to, electricity, lighting, ventilation, heating, cooling, water supply, sewage treatment, fire protection, snow removal and cleaning. The decision is retroactive and applies to any transaction pending on the day it comes into force.

Bill C-45 also requires further security measures for any conveyance, such as a ship or an airplane, entering Canada. Prior arrival to Canada, the person in charge of the conveyance must provide **the Canada Border Services Agency** with information about the persons and the goods on-board (or that are expected to be on-board). The person in charge must also hold a Carrier Code – a four-character unique identifier - issued by the **Minister of Public Safety and Emergency Preparedness**. The requirements and rules necessary for the obtainment of a carrier code are to be determined by the Cabinet and non-compliance to those rules may lead in the immediate revocation of the Code.

The *Canada Shipping Act* will be amended to permit the incorporation by regulations of all Canadian modifications to an international convention or industry standard that are referenced in the regulations, by means of a mechanism similar to that used by many other maritime nations. It also provides for third parties acting on the Minister of Transport's behalf to set fees for certain services that they provide in accordance with an agreement with that Minister. These amendments are retroactive to certain specified dates.

Navigable waters and fisheries

Bill C-45 includes amendments to the *Navigable Waters Protection Act* which will now be known as the *Navigation Protection Act*. These changes will impact various infrastructure projects that cross navigable waters. Proposed changes include:

- + A clear listing of major waterways for which regulatory approval would be required and the application of common law to protect navigation in unlisted waterways;
- + The allowance of proponents of works in unlisted waters, such as municipalities and provinces, to opt-in and seek approval of their proposed work to give them additional legal certainty; and
- + The expansion of the list for the pre-approval of low risk projects (such as minor repairs on bridges).

The *Fisheries Act* will be amended to prohibit against obstructing the passage of fish and to provide that certain amounts are to be paid into the *Environmental Damages Fund*. It also amends the *Jobs, Growth and Long-term Prosperity Act* to amend the definition of Aboriginal fishery and another prohibition relating to the passage of fish.

More powers to the Canadian Grain Commission

Changes to the *Canada Grain Act* give more power to the Canadian Grain Commission to regulate Canada's grain industry. This change has been made in light of the government's move to eliminate the monopoly of the Canadian Wheat Board in Western Canada. Other amendments to the *Act* include simplification of the way that the *Act* classifies grain terminals and repeal of grain appeal tribunals and other requirements under the *Act*.

Clarity on Employer obligations

The *Canadian Labour Code* is amended to provide clarity to employers on the amount they are required to pay an employee upon the cessation of employment. Employers are required to pay the employee 4 percent of total wages earned during employment, increasing to 6 percent if the employee has been with the same employers for 6 years or more. The labour code was also amended to simplify the rules regarding holiday pay with amounts varying by the type of employment contract.

Moreover, Bill C-45 also provides significant changes to the dispute settlement mechanism for conflicts between employers and employees. It sets out timelines of six months for making complaints for non-payment of wages (or any other subject covered by the labour code) and lists the circumstances in which an inspector may reject such complaints. It also simplifies the process for fines by setting up a deadline and providing a review mechanism for cases where the decision is disputed.

Pooled Registered Pension Plans

Pooled Registered Pension Plans (PRPPs) became an option for employers thanks to legislation passed this June. As a result, the federal government needed to integrate PRPPs into full federal tax legislation. Therefore Bill C-45 adds a new section to the *Income Tax Act* to accommodate PRPPs and amendments appear in a number of other areas. Of particular note there is an exception to the *Income Tax Act* is added for a life insurance policy that is, or is issued as a PRPP. The exception matches one given for RRSPs and RRIFs. The section defines framework of new rules.

Notes accompanying the legislation state:

PRPPs are intended to operate in a manner similar to multi-employer money-purchase registered pension plans, but with certain features drawn from the registered retirement savings plan and registered retirement income fund systems. The overall policy intent of the tax rules is to provide a new option for retirement savings – one that will be especially attractive to smaller employers and to self-employed individuals. Consequently, and in the interests of reducing costs for taxpayers, the rules are intended to be, in some respects, simpler than the existing tax rules for pensions.

Public Sector Investment Pools

Bill C-45 includes changes to the *Trust and Loan Companies Act*, the *Bank Act*, the *Insurance Companies Act* and the *Jobs and Economic Growth Act* that implements a Budget 2012 commitment to allow certain public sector investment pools to directly invest in federally regulated financial institutions such as trusts and loans, banks and insurance companies.

HST/PST

The Bill amends the *Excise Tax Act* and the *Jobs and Economic Growth Act* to implement rules applicable to the financial services sector in respect of the rebates of the provincial portion of HST.

Extending the Hiring Credit for Small Business

The government attributes the **Hiring Credit for Small Business** with creating jobs and helping nearly 534,000 employers last year. The credit has been extended for another year.

MP and Public Service Pensions

The contribution of Members of Parliament to the cost of their pension plan is being increased to 50 percent. In addition, the retirement age for this pension plan is being increased from 55 to 65, with reduced benefits available after the age of 55. On a similar note, the contribution federal civil servants must make to the cost of their pension plan is also being increased to 50 percent. Additionally, the retirement age for all new federal employees hired after January 1, 2013 will be 65, up from the current 60.