



Department of Finance Ministère des Finances
Canada Canada

Explanatory Notes

Relating to the Income Tax Act

Published by
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Minister of Finance

November 2005

Preface

These explanatory notes describe proposed amendments to the *Income Tax Act*. These explanatory notes describe these amendments, clause by clause, for the assistance of Members of Parliament, taxpayers and their professional advisors.

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Minister of Finance

These explanatory notes are provided to assist in an understanding of the proposed amendments to which they relate. These notes are intended for information purposes and should not be construed as an official interpretation of the provisions they describe.

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Explanatory Notes

Clause 1

Tax Rates Applicable to Individuals

ITA
117(2)

Subsection 117(2) of the *Income Tax Act* (the Act) provides the marginal tax rates of federal tax.

Subsection 117(2) is amended to reduce the lowest rate of personal income tax for the 2005 and subsequent taxation years from 16% to 15%. As a result, the “appropriate percentage” used in computing the individual’s non-refundable personal tax credits and alternative minimum tax will also reflect the lowered rate.

Clause 2

Personal Credits

ITA
118 (3.1) to (3.3)

Section 118 of the Act provides for the calculation of various personal tax credits. These include the basic personal credit, the credit in respect of a spouse or common-law partner and the credit that a single individual can claim for a wholly dependent relative. These credits are calculated by reference to 15% of the amount used in section 118 to compute the particular credit.

Subsection 118(3.1) provides, in addition to the annual increases provided under the indexing provisions, for annual increases to the amount used to compute an individual’s basic personal credit, for 2006 to 2009, inclusive. Subsection 118(3.1) is amended to bring forward \$300 of the increases otherwise scheduled to take in effect for each of 2008 and 2009 and to instead apply those amounts to provide for a \$500 increase for 2005 and an additional \$100 increase, beyond that currently provided by subsection 118(3.1), for 2006.

Subsection 118(3.2) provides, in addition to the annual increases provided under the indexing provisions, for annual increases to the amount used to compute the credit in respect of a spouse or common-law partner and the credit that a single individual can claim for a wholly dependent relative, for 2006 to 2009, inclusive. Subsection 118(3.2) is amended to bring forward \$255 of the increases otherwise scheduled to take in effect for each of 2008 and 2009 and to instead apply those amounts to provide for a \$425 increase for 2005 and an additional \$85 increase, beyond that currently provided by subsection 118(3.2), for 2006.

Subsection 118(3.3) provides, in addition to the annual increases provided under the indexing provisions, for annual increases to the amount used to compute the net income threshold for the credit in respect of a spouse or common-law partner and the credit that a single individual can claim for a wholly dependent relative, for 2006 to 2009, inclusive. Subsection 118(3.3) is amended to bring forward \$25.50 of the increases otherwise scheduled to take in effect for each of 2008 and 2009 and to instead apply those amounts to provide for a \$42.50 increase for 2005 and an additional \$8.50 increase, beyond that currently provided by subsection 118(3.3), for 2006.

ITA
118(9)

New subsection 118(9) of the Act provides for the rounding of amounts to be used in computing the increases described in subsections 118(3.1) to (3.3) of that Act.

These amendments apply to the 2005 and subsequent taxation years.

Clause 3

Bill C-67 Co-ordinating Amendment

ITA
118

This clause concerns provisions of the *Income Tax Act* that are being amended by both this Act and the *Unanticipated Surpluses Act*. This clause ensures that on the coming into force of subsections 6(1) and (2) of the *Unanticipated Surpluses Act*, subsections 118(3.1), (3.2) and (3.3) and 118(9) of the *Income Tax Act* are amended to reflect the amendments described above and the amendments to subsections 118(9) and (10) under subsection 6(2) of the *Unanticipated Surpluses Act*.