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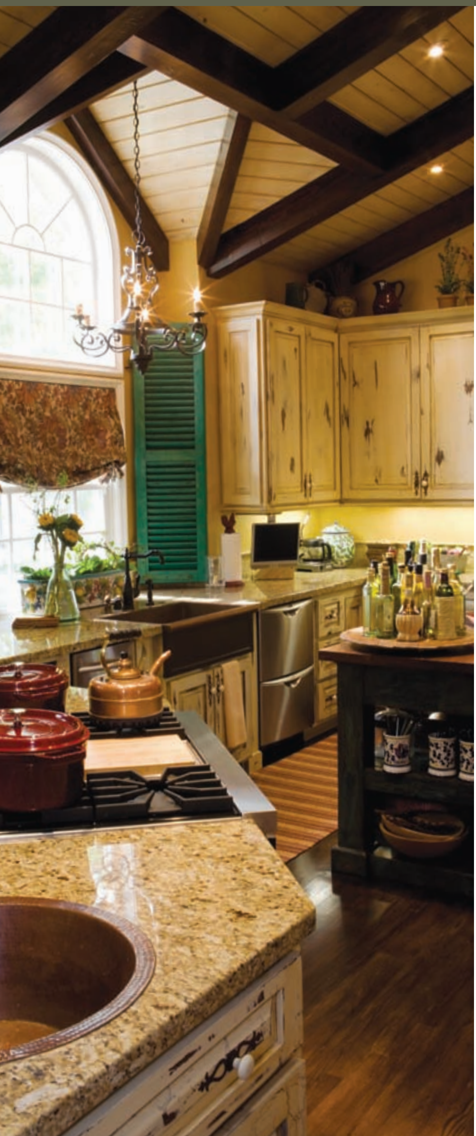

SPRING 2009

CRA provides details on *home renovation tax credit*

IN THIS YEAR'S FEDERAL BUDGET, the government announced the creation of a new *home renovation tax credit*, intended to offset, through the tax system, costs incurred by homeowners in making improvements or upgrades to their homes. Since the announcement, the new credit has been widely publicized, including through television ads in which retailers promote the credit as a means of lowering the effective cost of any planned home renovations. Along with the hype, however, has come some confusion about just what kinds of costs and activities will qualify for the credit. To help alleviate that confusion, the Canada Revenue Agency (CRA) has issued a number of publications outlining qualifying and non-qualifying expenditures in very specific terms.

As outlined in the CRA's list of FAQs (www.cra-arc.gc.ca) about the credit, any renovations must be made to a "housing unit that is eligible to be an individual's principal residence or that of one or more of their family members". In plainer language, the credit can be claimed for eligible renovations made to a home or cottage that is ordinarily (even if just seasonally) inhabited by the individual and/or his family personally. Where, however, the home is rented out to generate income, it ceases to be a principal residence and no credit is available. That restriction extends to parts of an otherwise qualifying principal residence that are rented out. Specifically, the CRA's position is that, if you rent out your basement apartment, no credit can be claimed for any renovation costs incurred in connection with that basement apartment (although the credit would be available for qualifying costs incurred with respect to the rest of the home, assuming that you or your family lived there). As well, where renovations are carried out that relate to the building as a whole (for example, a new furnace or a new roof), the expense must be divided between personal-use and income-earning use, and the credit claimed only on

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3 basic facts

1. Non-refundable. Any credit earned will reduce federal taxes otherwise payable, but can't create or increase a tax refund.
2. Available only for qualifying expenditures of up to $10,000, and only where those expenditures exceed $1,000. No credit can be claimed for the first $1,000 in expenditures or for expenditures over the $10,000 ceiling.
3. Can be claimed only on taxpayer's 2009 tax return, for expenditures made between January 27, 2009 and February 1, 2010. Although it's possible to make qualifying expenditures after end of 2009, credit must still be claimed on 2009 (not 2010) tax return, regardless of whether they were incurred in 2009 or in January 2010.

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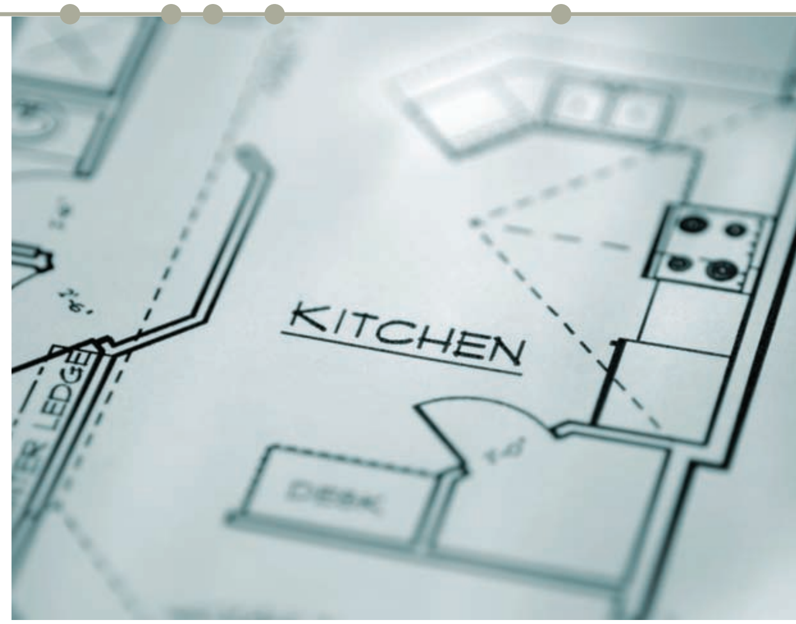
the personal-use portion. So, if you spend $3,000 on a new furnace, and your basement rental apartment takes up one-third of the square footage of your home, you will not be able to claim the credit on one-third of the furnace, or $1,000.

Most of the questions and confusion around the home renovation tax credit relate to just what kinds of expenses and activities will qualify. As any homeowner knows, the list of possible costs relating to the maintenance and improvement of one's home is virtually limitless, and the line between eligible and non-eligible expenditures isn't necessarily easy to discern. To assist taxpayers, the CRA has provided a (non-exhaustive) listing of common expenditures that a homeowner might undertake and has identified which would or would not be eligible for the credit. (See list at right.)

The list includes expenditures that a homeowner might not ordinarily consider to be renovation costs, such as painting and buying fixed window coverings. On the other hand, the cost of tools needed to carry out renovations that will themselves be eligible for the credit cannot be claimed as part of the cost of those renovations.

Finally, the CRA publication makes it clear that the home renovation credit can be claimed even where another government grant or credit is received in respect of the same costs. The CRA makes specific reference to the federal government's ecoENERGY Retrofit program, which provides grants of up to $5,000 to offset the cost of making energy-efficiency improvements to a home. As well, it was announced on March 30th that grants available under the ecoENERGY program were to be increased, for a temporary period, by 25%. In the example above, the homeowner who replaced an older furnace with a more energy-efficient model could claim any grant available under the ecoENERGY program and also claim the home renovation tax credit for the eligible costs of the new furnace on his or her 2009 tax return. More information on the ecoENERGY program can be found at:
http://ecoaction.gc.ca/ecoenergy-ecoenergie/retrofithomes-renovationmaisons-eng.cfm.

When claiming the home renovation tax credit, the taxpayer is not required to provide supporting documentation but must retain such documents in the event that the CRA requests them. The CRA has provided a form to enable homeowners to capture the necessary information and to calculate the amount for which the credit may be claimed, and that form is available on the CRA web site.



ELIGIBLE EXPENSES

- ☐ **Renovating a kitchen, bathroom or basement**
- ☐ **New carpet or hardwood floors**
- ☐ **Building an addition, garage, deck, garden/storage shed, fence**
- ☐ **Re-shingling a roof**
- ☐ **New furnace, woodstove, boiler, fireplace, water softener, or water heater**
- ☐ **Driveway – new or resurfacing**
- ☐ **Painting house – interior/exterior**
- ☐ **Window coverings directly attached to the window frame and whose removal would alter the nature of the dwelling**
- ☐ **Laying new sod**
- ☐ **Swimming pools, permanent – in/above ground**
- ☐ **Fixtures – lights, fans, etc.**
- ☐ **Associated costs, such as permits, professional services, equipment rentals, incidental expenses**

INELIGIBLE EXPENSES

- ☐ **Furniture, appliances, audio/visual electronics**
- ☐ **Purchasing of tools**
- ☐ **Cleaning carpets**
- ☐ **House cleaning**
- ☐ **Maintenance contracts** (e.g. furnace cleaning, snow removal, lawn care, pool cleaning)
- ☐ **Financing costs**

How Canadians are faring in the recession

THE SEEMINGLY CONSTANT FLOW OF BAD ECONOMIC NEWS — job losses, stock market downturns, business closures, and personal and corporate bankruptcies — since the second quarter of 2008, can't leave anyone in doubt that Canadians in all provinces, all economic sectors, and all age groups have been hit hard by the current recession. For the most part, most of that economic news has focused on industries or provinces as a whole, but a recent Statistics Canada study provides insight into how the recession is affecting Canadians at an individual and family level.

The StatsCan report, which is available on the Agency's Web site, looked at changes in the net worth of Canadian households for the fourth quarter of 2008 (October to December inclusive). Not surprisingly, that net worth declined by an average of 4.4%, lowering the average household net worth from $179,300 in the second quarter of 2008 to $165,300 in the fourth quarter. The fourth-quarter decline followed a similar result for the third quarter of 2008, and StatsCan noted that the 4.4% drop was the largest quarterly drop recorded since 1990.

The drop in household net worth was driven more by a decline in the value of household assets (down by 3.2% in the fourth quarter) than by any increase in household debt. Notwithstanding this, Canadians continue to borrow, with the credit market debt of households increasing by 1.7% during the fourth quarter. Not surprisingly, in a quarter where the Canadian stock market dropped by 24%, most of the decline in household asset value was driven by losses attributable to financial assets.

Debt-to-income ratio measures the amount of current after-tax income required to eliminate one's debt, and the debt-to-income ratio of Canadians, which has risen by more than 50% since the 1990s, continued to do so as of the end of 2008. However, while Canadians continued to take on more debt relative to their income, the actual cost of servicing that debt (relative to income) has declined over the past five years with the decline in interest rates. Specifically, the debt service ratio, which stood at a high of 10% in the early 1990s, dropped to a low of 6.5% in 2004 and stood, as of the end of 2008, at 7.9%. The StatsCan report suggests that one of the reasons that Canadians were willing to let their

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The average Canadian household at end 2008, when our stock market dropped 24%:

Net worth ($165,300)	↓ 4.4%
Value of debt	↓ 3.2%
Credit market debt	↑ 1.7%
Debt – income ratio	7.9%
Debt – net worth ratio	25%

*Fast*FACTS

SMALL SURPLUS POSTED FOR FEBRUARY 2009

The Department of Finance has released the latest issue of *The Fiscal Monitor*, which indicates that the federal government was able to run a small budgetary surplus for the month of February and a larger overall surplus for the 2008–09 fiscal year to date. The budgetary surplus for February 2009 stood at $0.8 billion, as compared to the $3 billion surplus posted for February 2008. For the fiscal year-to-date, the federal government also remains in surplus territory, with a surplus of $1.3 billion. That also represents a significant year-over-year drop from the $12.6 billion surplus reported for the same period in the 2007-08 fiscal year. The primary reason for the decrease was, in the Department of Finance's view, lower corporate income tax and GST revenues.

UNEMPLOYMENT RATE CLIMBS AGAIN IN MARCH

As expected, the overall unemployment rate rose in March, with full-time employment declining by 61,000 jobs. The job loss pushed the unemployment rate to 8%, the highest rate in seven years.

INFLATION RATE DECREASES IN MARCH

Statistics Canada has announced that the overall inflation rate decreased in March. The rate posted for the month was 1.2% on a year-over-year basis, down from the 1.4% increase experienced in February. Increases in food prices were the largest single contributor to inflation for the month, followed by costs for shelter, while a decrease in transportation costs, including the price of gasoline, was the primary downward contributor.

CANADIANS FARING IN THE RECESSION , CONT'D FROM PAGE 3

debt grow so dramatically was that there was an equally dramatic decline in the cost of servicing that debt over most of the past two decades. In other words, while the debt held by Canadian households continued to grow each year, their overall cost of borrowing did not, perhaps obscuring to some degree the extent to which households were leveraged.

The final measure considered by StatsCan in its analysis was the ratio of debt to net worth for Canadian households. While that ratio has remained relatively stable over the past two decades (ranging from 22% in 1990 to 19% in 2000), it hit a high of 25% as of the end of 2008. While the relative stability of this measure suggests that asset growth has largely kept pace with the growth in liabilities taken on by households, the recent increase to 25% reflects the decline experienced during 2008 in average household net worth.

As the financial pundits continue to remind everyone, stock markets have always bounced back, the value of real estate invariably increases over the long term, and recessions always come to an end, eventually. What remains to be seen is whether the lessons learned from the current economic crisis, particularly in relation to the consumption and debt-acquisition patterns that contributed to it, will be remembered after the crisis is over.

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