

2000 Federal Budget Update



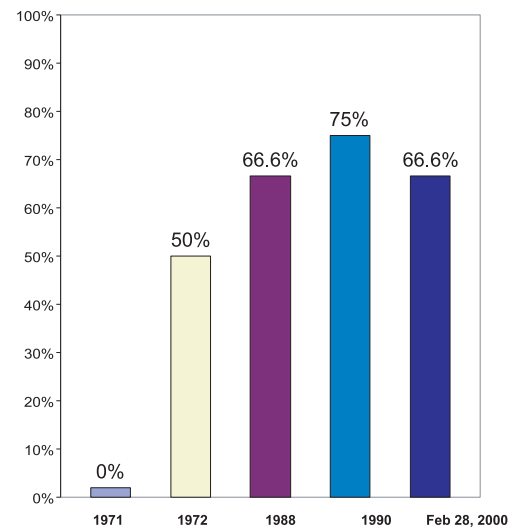
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The changes to Canada's tax system proposed in Finance Minister Paul Martin's federal 2000 budget continue the trend of lowering taxes for both individuals and corporations. Several of the budget measures reduce taxes and create planning opportunities for many of our clients.

Capital Gains

The budget proposes to reduce the taxation of capital gains. This reduction will be implemented by lowering the amount of the gain that must be included in taxable income. Currently, the capital gains inclusion rate rests at three-quarters of the capital gain but will be reduced to two-thirds for dispositions of capital property that occur after February 27, 2000. This proposal will reduce British Columbia's top marginal tax rate on capital gains to approximately 34%. This measure represents an approximate 5% tax saving on capital gains.

While the reduction of the inclusion rate does provide considerable relief from the taxation of capital gains, opportunities exist to further reduce capital gains taxation on the sale of private company shares. This reduction, or in certain cases elimination may be achieved through the use of corporate life insurance combined with a corporate share redemption strategy.



***Historical Capital Gains
Inclusion Rates***

continued on next page...

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RRSP Foreign Property Limits

A widely publicized change contained in this year’s budget is the increase to the foreign property content limits for registered pension plans including registered retirement pension plans, registered pension plans, and individual pension plans. The budget proposes an increase of foreign property content to 25% (from 20%) for the year 2000 with a further increase to 30% for the year 2001.

While this proposed change provides foreign content relief to both brokerage and individual segregated portfolio accounts, two investments currently offer the ability to hold up to 100% foreign content within registered retirement savings plans. Segregated funds and 100% foreign eligible RRSP mutual funds currently allow for up to 100% foreign content to be maintained within an RRSP. Segregated funds, as discussed in previous Zlotnik, Lamb & Company updates, are similar to mutual funds but

carry additional features. These features include capital guarantees, potential creditor proofing and possible probate free transfers on death. It should also be noted that segregated fund contracts will be required to comply with the RRSP foreign property content limitations after the year 2001. However, many index linked segregated funds will continue to be 100% RRSP eligible beyond that date.

Employee Stock Options

The budget proposes to revise the method of taxation for stock options granted to employees of public companies. The existing rule requires tax be paid on any gains realized at the time of stock option exercise. The measures contained in the 2000 budget propose to delay any stock option taxation until the employee ultimately sells the company shares in the market. This tax deferral, however, is limited to \$100,000 per year based on

the value of the option at time of granting. This change mirrors the stock option tax treatment for employees of Canadian controlled private corporations.

The creation of this tax deferral gives rise to the potential for holders of stock options to create significant unrealized taxable gains within stock portfolios. In circumstances where an individual is holding a stock portfolio for the long term, it may be useful and cost effective to consider purchasing insurance to pay for the future capital gains tax.

Donation Tax Credits

The budget proposes to allow charitable donations made by way of direct designation from RRSP's, RRIF's, or life insurance policies to be eligible for donation tax credit status. Currently, the Income Tax Act does not allow for donation tax credits under these circumstances. A donation credit is currently only available if these funds are flowed to the charity

through the individual's estate. As noted, the budget proposes to reverse this rule effective for years after 1998.

This change in policy will allow donors to remain confident that their donations will be received by the charities which they intend to support and not be subject to potential variation on execution of their will. This proposal also creates the additional benefit of potential probate free donation. Direct designation donations, as mentioned above, allow for the donation to bypass the individual's estate and, therefore, avoid probate and probate fees.

Small Business Tax Rates

The budget has also created tax savings for qualifying small businesses. The current \$200,000 small business tax rate for qualifying Canadian Controlled Private Corporations has been left in place. However, the budget proposes to include tax relief on the \$100,000 of income between the \$200,000 and \$300,000 threshold. It is

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proposed that this relief will commence January 1, 2001. The \$100,000 of income in this threshold will be taxed at a federal rate of 21%, down from the current 28%. The additional cash flow generated by this tax relief may allow for additional reinvestment in business assets, investments, or tax sheltered investments.

Zlotnik, Lamb & Company advisors will be more than pleased to work with you to take advantage of the opportunities created by the 2000 federal budget.

Zlotnik, Lamb & Company, Coast Hotels & Resorts
2000 Golf Tournament

Richmond Country Club

Monday, August 14, 2000

1:15 p.m. Shotgun Start

If you would like to participate, donate a prize or sponsor a hole, please contact Katherine Naylor or Kurt Cassidy at (604) 688-7208.

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