

2010 Federal Budget Summary

MARCH 2010

Fidelity Investments Canada ULC

The 2010 Federal Budget was delivered as Canada and other nations are slowly working their way out of the recent global recession. While Canada experienced less of a decline than other countries, the Canadian economy still has some work to do before it will fully get back on its feet.

As expected, this is very much a “stay the course” budget. The government will continue its stimulus spending for another year, while preparing to exercise restraint and reduce spending across many fronts. On the stimulus spending front, the budget confirms \$19 billion in new federal stimulus spending, in addition to the \$6 billion from the provinces and territories. This spending is a continuation of the government’s 2009 Economic Action Plan initiatives, with additional spending on training, education and other measures to help Canadians affected by the downturn.

The second major theme of this budget is restraint in spending now and into the future. The government is planning to reduce \$17.6 billion in spending over the next five years. The government projects the debt-to-GDP (gross domestic product) ratio is expected to peak at 35.4 per cent in 2010–11 and then fall to 35.2 per cent in 2011–12 and 31.9 per cent by 2014–15. The government is also planning a full review of government initiatives and programs to find additional savings.

This budget contains a number of initiatives that will be of particular interest to Canadian investors.

Continuing the move towards a national securities regulator.

The federal government continues to push for a national securities regulator within the next three years. It must be noted that there is much work to do, including overcoming resistance from some provinces, before this new national body can come to be.

Tackling Canada’s growing retirement savings problem.

The government is reiterating its focus on tackling Fidelity Canada’s growing retirement savings issues. Building on the conversations the federal government has had with

the provinces, the government is committing to a new round of meetings in 2010 at which it will review policy options. This will be a hotly debated issue in coming years.

Allowing credit unions to expand across the country.

In a move that will be played out over the years to come, the government will now allow credit unions to incorporate and expand federally. These potential new entrants into the national financial planning arena will offer investors new options when it comes to where they place their savings and investments.

Allowing foreign ownership of Canadian telco assets.

The Canadian telecommunication services sector will now be opened up to foreign investors. Consumers will likely benefit from increased options in the marketplace, while investors might see increased market action among incumbents.

Income trust conversion deadline looms – and the government closes loopholes.

The use of losses may be restricted in certain situations when units of income trusts are exchanged for shares of a corporation. These rules will prohibit aggressive schemes designed to achieve inappropriate tax-loss trading.

Improved options for contributing to an RDSP.

A parent’s or grandparent’s RRSP, RRIF and/or RPP can be now rolled over tax-free upon death into a Registered Disability Savings Plan (RDSP). Starting in 2011, unused entitlements of Canadian Disability Savings Grants and Canada Disability Savings Bonds can be carried forward up to ten years.

More options to save in RESPs and RDSPs.

Parents and grandparents can now maximize both provincial and federal granting systems with this rule clarification. The budget is putting rules into place to ensure that both levels of these savings and granting programs are synchronized. Note: Fidelity Investments recently became eligible to offer the Quebec Education Savings Incentive (QESI) to Quebec investors.

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More foreign investment opportunities. The proposals for non-resident trusts (NRTs) and foreign investment entities (FIEs) will be reworked and simplified. This may allow investors and funds to invest in a broader spectrum of international investments.

Closing loopholes on stock options' attractiveness.

The rules that allow stock option deductions by employees and corporate deductions for employers will be tightened. Companies will have to revisit their option plans to ensure they remain inside.

Slight loosening of tax reporting for non-residents.

Non-residents will no longer be required to report certain dispositions of taxable Canadian properties.

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