

TAX LETTER

2007 FEDERAL AND ONTARIO BUDGET HIGHLIGHTS AND TAX UPDATE

Federal Budget

On March 19th, Finance Minister Jim Flaherty delivered the Conservative government's 2007 budget speech in the House of Commons. The major provisions are summarized in the sections indexed below.

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Ontario Budget

Ontario's Minister of Finance, Greg Sorbara, presented the Liberal government's 2007 Ontario budget on March 22nd. A summary of the highlights contained in this budget are indexed below.

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Your Soberman LLP advisor can help you determine the impact of the tax changes discussed in this Tax Letter on your personal finances or business affairs.

2007 FEDERAL AND ONTARIO BUDGET HIGHLIGHTS AND TAX UPDATE

FEDERAL BUDGET

PERSONAL TAX MEASURES

Lifetime Capital Gains Exemption

The lifetime capital gains exemption will be increased from \$500,000 to \$625,000 for dispositions occurring until December 31, 2007 and then rising to \$750,000 for subsequent dispositions. This applies to gains realized after March 18, 2007 of qualified farm and fishing property and qualified small business corporation shares, subject to transitional rules for 2007. This proposal can benefit individuals who own qualifying property, whether or not they have previously utilized any of the \$500,000 exemption.

Age Limit for Maturing RPPs and RRSPs

The Budget proposes to increase the age at which Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) mature from the end of the year in which the RRSP annuitant or RPP member turns 69 to 71. This proposal will benefit individuals who turn 69, 70 or 71 in 2007 or subsequent years in that they will be able to make contributions in 2007 and 2008 where contribution room is available.

The minimum annual withdrawal from a Registered Retirement Income Fund (RRIF) will be waived for 2007 and 2008 for annuitants who turn 70 in 2007 and for 2007 for annuitants who turn 71 in 2007. A RRIF annuitant who is 71 or younger at the end of 2007 will be able to reconvert the RRIF to an RRSP, as long as this RRSP is converted back into a RRIF before the end of the year in which the annuitant turns 71.

Existing registered plan annuities will be permitted to be amended to reflect the later conversion age. Employers will also be allowed to amend their RPPs to allow benefits to accrue and contributions to be made in respect of employees who are 71 or younger at the end of 2007.

Phased Retirement

The Income Tax Regulations will be amended to allow an employee to receive pension benefits from a defined benefit RPP, of up to 60% of their accrued defined benefit pension, while accruing additional pension benefits on a current service basis in respect of their employment after their pension has commenced. Qualifying employees must be at least 55 years old and eligible to receive a pension without incurring an early retirement reduction.

Employment after the commencement of the pension can be either full- or part-time. This approach will give employers a great deal of flexibility in designing older-worker retention programs. The prohibition on accruing additional benefits while receiving a pension will still apply to designated plans as well as to persons who are “connected” with their employer, as would generally be the case with an Individual Pension Plan (IPP). It is proposed that this measure be effective for 2008 and subsequent taxation years.

RRSP Qualified Investments

The list of qualified investments for RRSPs and other registered plans will be broadened after March 18, 2007 to include any debt obligation that has an investment grade rating and that is part of a minimum \$25 million issuance as well as any security, other than a futures contract, which is listed on a designated stock exchange. These changes will provide greater investment choices and diversification opportunities by removing impediments to investing in foreign-listed trust and partnership units and Canadian dollar bonds issued by foreign entities.

Registered Education Savings Plans (RESPs)

The Budget proposes to eliminate the maximum annual contribution and increase the lifetime limit from \$42,000 to \$50,000. In addition, the maximum annual RESP contribution qualifying for the 20% Canada Education Savings Grant (CESG) will be increased from \$2,000 to \$2,500 for 2007 and subsequent years. Consequently, the annual CESG will be increased from \$400 to \$500 for each qualifying child. However, the lifetime CESG limit of \$7,200 will not be increased.

The RESP rules will be expanded for 2007 and subsequent years to allow qualifying part-time programs which do not meet the current 10 hour per week requirement, to allow Educational Assistance Payments (EAPs) from the RESP where the program requires at least 12 hours per month of courses. Under this proposal, students 16 or over will be able to receive up to \$2,500 of EAPs for each 13-week semester of part-time study.

Registered Disability Savings Plan (RDSP)

The Budget proposes a new RDSP, generally based on the existing Registered Education Savings Plan (RESP), combined with a Canada Disability Savings Grant (CDSG) program and a Canada Disability Savings Bond (CDSB) program. The Government will work with financial institutions to put the necessary administrative mechanisms in place to allow RDSPs to be offered commencing in 2008.

Any person resident in Canada eligible for the disability tax credit (DTC), or their parent or other legal representative, will be eligible to establish an RDSP. Contributions to an RDSP will not be deductible and the investment income earned in the RDSP will not be taxed while the funds are retained within the RDSP. Funds paid out of the RDSP will be taxable except to the extent that they exceed the contributions to the plan.

Contributions are limited to a lifetime maximum of \$200,000 for the disabled beneficiary, with no annual limit. There will be no restriction on who can contribute. Contributions can be made until the end of the year in which the beneficiary reaches 59.

RDSP contributions will qualify for CDSGs, to a lifetime limit of \$70,000, until the end of the year in which the beneficiary reaches age 49, at matching rates of 100%, 200% or 300%, depending upon family net income and the amount contributed. Families with a net income of up to \$74,357 will qualify for a 300% grant on the first \$500 of contribution and a 200% grant on the next \$1,000 of contribution. Families with a net income over \$74,357 will qualify for a 100% grant. These family income thresholds are in 2007 dollars and will be indexed to inflation for 2008 and subsequent years. Family net income will consist of the beneficiary and their spouse or common-law partner's income for years after the beneficiary reaches 18.

Additional technical and administrative rules will be re-introduced.

Scholarships

In 2006, scholarships and bursaries received by students qualifying for the education credit were fully exempted from tax. Generally, these were students in post-secondary programs. This Budget extends the exemption to students in elementary and secondary schools.

Non-Refundable Credits

Commencing in 2007, a new credit may be claimed for children under the age of 18. The credit is based on \$2,000 and will result in a reduction in income tax payable of \$310 per child in 2007.

The base for the credit which may be claimed for a spouse or wholly-dependent person will be increased by \$1,348 to the same amount as the basic personal credit. However, the amount the spouse may earn without reducing the credit will be eliminated. This amount is currently \$759. The previously announced increases to the basic personal credit will also apply to this credit.

Mineral Exploration Tax Credit

The 15% mineral exploration tax credit has been extended for another year. This will apply to flow-through share agreements entered into before March 31, 2008 if the expenditures are incurred before the end of 2009.

Trust T3 Income Tax Returns

Many taxpayers and tax professionals have concerns about the existing due-date for T3 slips. The government is proposing to develop a process that will have commercial trusts, including income trusts, prepare their T3 returns in sufficient time for taxpayers to prepare their tax returns.

Working Income Tax Benefit

Commencing in 2007, a new refundable credit will be available to low-income persons with either employment or business income. The credit will be 20% of earned income in excess of \$3,000 to a maximum of \$500 (\$1,000 for couples and single parents). The credit will be reduced by 15% of net family income in excess of \$9,500 (\$14,500 for couples and single parents).

An additional credit will be allowed, for a person with a disability, of 20% of earned income in excess of \$1,750 to a maximum of \$250.

To qualify for the credit the individual must be resident in Canada throughout the year and have attained age 19 by the end of the year. However, persons who are full-time students for more than three months will not qualify unless they have a dependent child.

To qualify as a single parent, the person must be the primary caregiver to a dependent child.

Beginning in 2008, an application can be made for a prepayment of 50% of the anticipated benefit for the year. The benefit will be paid quarterly with a final reconciliation on assessment of the income tax return for the year.

Public Transit Tax Credit

Effective January 1, 2007, the public transit tax credit will be extended to cost-per-trip electronic payment cards if the cards are used for at least 32 one-way trips in a 31-day period. To be eligible, the transit authority must record the usage, the cost of the trips and provide receipts to the individual with this information.

To alleviate the cash-flow impediment of purchasing monthly passes, four consecutive weekly passes will qualify for the credit. The weekly passes must provide for unlimited transit use for a period of 5 to 7 days.

BUSINESS TAX MEASURES**Capital Cost Allowance**

	From	To
Manufacturing and processing (M&P) machinery and equipment (1)	30%	50%
Buildings used for M&P (2)	4%	10%
Other non-residential buildings (3)	4%	6%
Computer equipment (4)	45%	55%

Notes

1. The proposed 50% rate is straight-line and subject to the half-year rule. The former 30% rate for Class 43 was based on the declining balance. The increase is temporary and applies to M&P machinery and equipment acquired after March 18, 2007 and before 2009.
2. The building (or the new portion) must be acquired after March 18, 2007. The asset must be placed in a separate class to get the new rate. Also, at least 90% of the square footage must be used for M&P by the end of the taxation year. If the 90% M&P test is not met but 90% of the building is used for other non-residential purposes, the new 6% rate applicable to other non-residential buildings will apply.
3. The building (or the new portion) must be acquired after March 18, 2007. The building must be placed in a separate class to get the new rate. Also, at least 90% of the square footage must be used for the non-residential purpose by the end of the taxation year.
4. The rules which limit CCA on "tax shelters" will be extended to computer equipment that is eligible for the new 55% rate. These rules limit CCA to the income from the property.

The Budget will make additional assets eligible for accelerated CCA under Classes 43.1 (30%) and 43.2 (50%) if they are acquired after March 18, 2007 and are used to produce clean energy through certain emerging technologies

Investment Tax Credit for Child Care Spaces

To encourage businesses to invest in child care, businesses will be entitled to a 25% investment tax credit on eligible expenditures to a maximum credit of \$10,000 per "bricks and mortar" child care space created specifically for this purpose. The primary business of the taxpayer must be other than the provision of child care. The new spaces can be in a new or existing licensed facility and can be for the benefit of either children of employees or other children.

INSTALMENTS

The threshold requiring an individual to make quarterly instalments will be increased from \$2,000 to \$3,000 for the 2008 taxation year. For residents of Quebec, the threshold will be increased to \$1,800.

The instalment threshold for corporations will be increased from \$1,000 to \$3,000 for taxation years commencing after 2007.

Certain Canadian-controlled private corporations will be allowed to make quarterly instalments instead of monthly instalments. To qualify for this measure the company must be entitled to the small business deduction, the taxable income of the associated group must not exceed \$400,000 and the taxable capital of the associated group must not exceed \$10 million, all in either the current or previous year. In addition, within the past 12 months, the company must have had no compliance irregularities under the Income Tax Act or GST portions of the Excise Tax Act. This measure will apply to taxation years commencing after 2007.

The quarterly instalments can be either 1/4 of the estimated tax payable for the current year, 1/4 of the tax payable for the preceding year or one payment of 1/4 of the tax for the second preceding year together with three quarterly payments of 1/3 of the tax for the preceding year less the first payment.

Employers with annual source deduction remittances of less than \$1,000 and a perfect compliance history can remit source deductions on a quarterly basis. Commencing in 2008, the threshold will increase to \$3,000. The CRA will advise an employer if they are eligible for quarterly remittances.

DONATIONS

Private Foundations

The zero capital gain for donations of qualifying publicly-listed marketable securities will be extended to donations after March 18, 2007 to private foundations. In addition, the employment benefit associated with the exercise of stock options of a publicly-listed company by an arm's length employee may now also not be taxable where the related securities are donated, within 30 days of exercise, to a private foundation. Private foundations will be subject to special excess business holdings rules which can limit the foundation's holdings of shares, including unlisted shares. Such rules will take into account the holdings of persons not dealing at arm's length with the foundation.

Donations of Medicines for the Developing World

An additional deduction will be available to a corporation which donates medicines from its inventory after March 18, 2007. The deduction will be equal to the lesser of (1) 50% of the excess of the value over the cost of the medicine, and (2) its cost. The donee must be a registered charity which has received a disbursement under a program of the Canadian International Development Agency, and the gift is made for the charity's activities outside Canada.

INTERNATIONAL

Foreign Affiliates

In an effort to preclude a perceived undue tax advantage, there will be restrictions on the interest deduction on funds borrowed to make investments in foreign affiliates. The deduction will be limited to the taxable income from that affiliate.

The restricted interest will be tracked and carried forward. It will be deductible only if and when the foreign affiliate's shares produce taxable income in Canada. An anti-avoidance rule will ensure that indirect financing cannot be used to avoid the new restrictions.

The Budget has actually introduced a new advantage. As indicated above, prior to the Budget, exempt surplus included only after-tax active business income earned in a treaty country. Henceforth, exempt surplus will also include after-tax active business income earned in a country with which Canada has entered into a tax information exchange agreement.

The other side of the coin is that, if the country in which the income is earned has not entered into such an agreement with Canada, the income will now be taxed on the accrual basis as it is earned by the foreign affiliate. In the past, such income has been taxed in Canada only when distributed to the Canadian holding company as a dividend.

Withholding Tax on Interest

Canada and the US have both agreed to eliminate withholding tax, currently 10%, on interest payments to residents of the other jurisdiction.

Where the interest is paid or credited to an arm's length party, the withholding tax will be eliminated in the first calendar year following the entry into force of the amendment to the Canada-US tax treaty. Where the interest is paid or credited to a non-arm's length party, the elimination of withholding tax will be phased in. It will be reduced to 7% in the first calendar year after the treaty amendment comes into force, to 4% in the second year and will be eliminated in the third year.

Canada will unilaterally eliminate Canadian withholding tax on all interest paid or credited to arm's length residents of all other countries on or after the date the changes to the Canada-US tax treaty come into effect.

Prescribed Stock Exchanges

Currently, a stock exchange is prescribed if it is either a prescribed domestic exchange or a prescribed foreign exchange. The Budget proposes to replace these two types of prescribed exchanges with a three-tier system consisting of "Recognized stock exchanges", "Stock exchanges" and "Designated stock exchanges." This proposal provides greater flexibility in dealing with international investment while preserving the underlying tax policy goals.

"Designated stock exchanges" will include all current prescribed stock exchanges and will apply for all tax purposes other than section 116 withholding procedures and the securities lending rules. "Recognized stock exchanges" will apply for purposes of section 116 withholding and will include stock exchanges in Canada and in OECD member countries which have a tax treaty with Canada. "Stock exchanges" will include all stock exchanges and will be used for purposes of the securities lending rules.

These changes are proposed to be effective upon Royal Assent to the necessary amending legislation

Other International Measures

Certain passive income earned by foreign affiliates (e.g. inter-affiliate rents, royalties and interest) is deemed to be active in particular circumstances. Such income may, therefore, form part of exempt surplus rather than “foreign accrual property income” (which latter category of income is taxed in Canada as it is earned). The circumstances in which this will be the case will be tightened up.

Canada will strike an advisory panel of tax experts to identify additional measures to further improve the fairness of Canada’s international tax regime. The intention is for this panel to provide recommendations for inclusion in the 2008 Budget.

SALES, EXCISE TAX AND OTHER MEASURES

Exports of Intangible Personal Property (IPP)

Technological advancements have greatly increased the use of products, such as computer software, that can be supplied in intangible form.

Effective March 20, 2007 supplies of IPP made to non-residents who are not GST/HST registrants will be zero rated for GST/HST purposes, except for the following:

- a supply of IPP made to an individual who is physically present in Canada when the supply is made;
- a supply of IPP that relates to real property situated in Canada or tangible personal property ordinarily situated in Canada;
- a supply of IPP that relates to a service the supply of which is made in Canada and is not a zero-rated export;
- a supply of IPP that may only be used in Canada; and
- a supply of IPP that is prescribed by regulations.

GST/HST Annual Filing and Annual Remittance Thresholds

For fiscal years that begin after 2007, the taxable supplies threshold at or below which registrants can file a GST/HST return annually is increased from \$500,000 to \$1,500,000, and the net tax threshold before being required to make quarterly instalments of GST/HST is increased from \$1,500 to \$3,000.

Other Measures

- Travelers returning to Canada after March 19, 2007 will be allowed to bring back goods valued at up to \$400 (previously \$200) without having to pay duties or taxes, including customs duty, GST/HST and federal excise tax, provided they have been out of Canada for 48 hours or more. The dollar limits that apply to 24-hour and 7-day travel remain unchanged, as do the limits on alcohol and tobacco.
- A tax on fuel inefficient vehicles is being introduced for new vehicles delivered to dealers or imported after March 19, 2007. The Green Levy will apply to new automobiles designed primarily to carry passengers including station wagons, vans and SUVs, but not pick-up trucks.

- The government is introducing a program to provide rebates on the purchase of fuel efficient vehicles. The basic rebate amount of \$1,000 to a maximum of \$2,000 is applicable for vehicle purchases or leases (minimum 12 months) after March 19, 2007.
- The budget proposes to remove excise tax on certain renewable fuels.
- The government is introducing a foreign convention and tour incentive program.

ONTARIO BUDGET

CORPORATE TAXES

Elimination of the Ontario Capital Tax

Ontario's capital tax was to end by 2012. This Budget confirms the elimination of the capital tax effective July 1, 2010. As implemented in the 2006 Budget, the capital deduction was increased to \$12.5 million from \$10 million January 1, 2007 and will increase to \$15 million January 1, 2008.

Ontario-Federal Corporate Tax Harmonization

In October 2006, the Ontario and federal governments agreed to transfer the administration of Ontario corporate income tax to the federal government for taxation years ending after 2008. A condition of this agreement is for Ontario to eliminate its deduction of the portion of the federal investment tax credit related to scientific research and experimental development (SR&ED) in Ontario. This deduction was replaced by the Ontario Research and Development Tax Credit.

This Budget provides further details of this tax credit.

This non-refundable credit will be 4.5% of eligible expenditures and will be applicable for taxation years ending after 2008.

Corporations will be able to waive all or part of their credit entitlement. Partnerships will be able to flow the credit through to corporate partners active in the partnership. Unused credits will be able to be carried forward 20 years and back 3 years with no carry back to years ending before 2009.

The current 10% Ontario Innovation Tax Credit remains.

There are further proposals related to the transition from separate Ontario and federal tax pools to harmonize tax pools with respect to various items, including unclaimed deductions for losses and SR&ED expenditures. Under the proposal, each Ontario tax pool will be adjusted to the federal balance. Any increase or decrease to Ontario tax as a result of these adjustments will be spread out evenly over five years, commencing with the corporation's first taxation year ending after 2008.

There will be special rules with respect to this five-year adjustment as it relates to the new 4.5% tax credit.

Corporate Minimum Tax (CMT)

Corporate minimum tax credits and losses currently carry forward for 10 years. The Budget proposes to extend the carry-forward period to 20 years to parallel the carry-forward period for non-capital losses. This measure is applicable for credits and losses arising in taxation years ending after March 22, 2007. Corporate minimum tax credits from earlier years still unused at the beginning of a corporation's first taxation year ending after 2008 will have their carry-forward period extended by 10 years.

Recent changes to Canadian accounting standards require corporations to report certain assets at fair market value rather than historical cost. These changes will require any gain or loss accruing on such assets to be recognized in net income for that period. The Budget proposes to amend the CMT rules so that income for CMT purposes would be calculated without reference to unrealized gains and losses.

Similar adjustments would be made when calculating a corporation's total assets for the purpose of determining whether the corporation qualifies for the CMT exemption for small business corporations.

These measures would be effective for taxation years ending after March 22, 2007.

To ensure that the CMT does not hinder the ability of corporations to reorganize their business affairs, corporations are allowed to exclude from their CMT income accounting gains that are deferred on a corporation reorganization for income tax purposes. A gain is deferred until the asset is disposed of in a transaction not involving a corporate reorganization. This deferral also applies to gains arising from the replacement of assets where a deferral is provided for income tax purposes. The rules that apply to these situations can be complex and often require taxpayers to track the gains over many years.

The Budget proposes to exempt from CMT the accounting gains arising from corporate reorganizations or the replacement of assets. In addition, when a transferee disposes of a property that was acquired from a transferor that deferred the CMT gain, the transferee would no longer be liable for CMT on that deferred gain. These measures would apply to a disposition, amalgamation or winding-up completed after March 21, 2007.

Further CMT amendments will be implemented to repeal the provisions that allow a flow-through of a subsidiary's losses to a parent corporation when a subsidiary is wound up or amalgamated with the parent.

Expanding the Apprenticeship Training Tax Credit

This 25% to 30% refundable tax credit, available to employers of eligible apprentices on their salaries and wages in the first three years of the apprenticeship program, was introduced in 2004. Under current legislation, the apprentice must commence employment before January 1, 2008 in order for the credit to be available. The Budget proposes to extend the credit to salaries and wages paid before January 1, 2015 in respect of apprentices who commence employment before January 1, 2012. In addition, six new trades will qualify for this credit.

Extending the Ontario Production Services Tax Credit

The Ontario Production Services Tax Credit is available to Ontario-based corporations in respect of foreign and domestic productions not claimed under the Ontario Film and Tax Credit program. The rate of credit was temporarily increased to 18% from 11% in 2005. The increased rate was to have expired March 31, 2007. The Budget proposes to extend the rate increase to March 31, 2008.

RETAIL SALES TAX (RST)

Tax Credit for Fuel Conservation

A Budget amendment proposes that vendors leasing vehicles eligible for the fuel conservation tax credit will be allowed to deduct the credit from their RST remittances.

Simplified Tax Calculation for Small Software Businesses

Effective April 1, 2006, the Ministry of Finance initiated a pilot project to simplify RST calculations for small software businesses. Pilot project participants use an optional simplified RST calculation, which applied a 6% rate to the total contract price. The Ministry of Finance feels more time is needed to evaluate the effectiveness of this simplified calculation; and therefore, it is proposed to extend the pilot project until March 31, 2009.

BUSINESS PROPERTY TAXES

Starting in 2008, the ceiling for the education portion of property taxes imposed on business will be reduced. Ontario will reduce the ceiling rate for Business Education Taxes (BET) over the next 7 years. By 2014, the ceiling BET rate will be 1.6% for both commercial and industrial properties.

PERSONAL TAXES

Pension Income Splitting

The Budget proposes that Ontario parallel the federal rules to allow a recipient of qualifying pension income to arrange that up to half of the amount received be taxed in the hands of his or her spouse or common-law partner, beginning in the 2007 taxation year.

Enhanced Dividend Tax Credit

In November, 2006, legislation was passed to provide enhanced dividend tax credits to parallel federal legislation. Consequently, the maximum tax rate on eligible dividends in Ontario is expected to be reduced from approximately 25% in 2006 to 22% in 2010.

The maximum tax on ineligible dividends in Ontario is approximately 31% and remains so.

Property and Sales Tax Credits for Seniors

The Budget proposes to increase the threshold for 2007 for senior couples over the current \$23,090. The increased income threshold will be set so that those receiving the guaranteed minimum level of income from governments will not have their credit reduced. The threshold will be determined once the federal government finalizes Old Age Security and Guaranteed Income Supplement amounts for 2007.

Locked-In Retirement Accounts

The Budget proposes changes to locked-in retirement accounts, effective January 2008, at the earliest. The intention is to give seniors, with locked-in retirement savings transferred from employer pension plans, increased flexibility in planning their retirement income.

Ontario Child Benefit (Low Income Families)

Currently, such support is generally through the social assistance system. As an alternative, the Budget proposes the creation of the Ontario Child Benefit worth \$250 per child under 18. The Ontario Child Care Supplement will be phased in starting July, 2007.

TAX UPDATE

IMPORTANT INFORMATION REGARDING ELIGIBLE DIVIDEND DESIGNATIONS BY PRIVATE CORPORATIONS

Parliament has enacted the new rules that cut the personal tax rate payable by shareholders who receive “eligible” dividends in 2006 or later years. The media has focused on the fact that generally the dividends subject to this reduced rate of personal tax will be paid by publicly-traded companies. These rules may also apply to dividends paid by privately-owned companies. Generally, a privately owned company may be able to pay these “eligible dividends” if it operates an active business that generates profits which do not benefit from the reduced small business tax rate.

Companies wishing to pay dividends eligible for the reduced personal tax rate, after February 20, 2007, will have to designate these dividends in writing as “eligible dividends” at the time the payment is made.

Under a special transitional rule for 2007, for dividends paid before the February 21, 2007 enactment date, the required date to designate the dividend as an “eligible dividend” is extended from the payment date to May 22, 2007 (90 days after the enactment date).

Method of Designation (Notifying Recipients)

Examples of notification include identifying eligible dividends through letters to shareholders and notifications on dividend cheque stubs. Where all shareholders are Directors of a particular corporation, a notation of Minutes could be used as notification.

If a dividend is paid to shareholders, some of whom are Canadian residents and others who are non-Canadian residents, notification must be given to all shareholders if the dividend is to be designated as “eligible”. However, only the portion paid to Canadian residents will be considered eligible.

After December 31, 2006, where a corporation wishes to provide both “eligible” and “ineligible” dividends, separate dividend declarations and payments are required.

SOBERMAN LLP

March 23, 2007

The information contained in this Tax Letter is of a general nature and should not be acted upon without appropriate professional advice following a thorough examination of the particular situation.

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