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BANK OF CANADA raises overnight rate target by 1/4 percentage point to 4 1/2 per cent

The Bank of Canada announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 4 1/2 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 4 3/4 per cent.

Economic growth and inflation in Canada in the first half of this year have been stronger than expected in the April Monetary Policy Report (MPR). Final domestic demand has remained the key driver of economic growth in Canada, bolstered by firm commodity prices. The Bank judges that the economy is now operating further above its production potential than was projected at the time of the April MPR. Both total CPI and

core inflation have been higher than projected in April and are above the 2 per cent inflation target. Longer-term interest rates have increased and the Canadian dollar has appreciated sharply, moving well above the trading range assumed in the last MPR.

The Canadian economy is now projected to grow by 2.5 per cent in 2007, somewhat stronger than was expected in April, and to grow somewhat more slowly in 2008 and 2009 than previously projected. In this new projection, higher interest rates across the yield curve and a higher assumed range for the Canadian dollar of 93 to 95.5 cents U.S. act to moderate growth in 2008 and 2009 to an average of about 2 1/2 per cent. This brings aggregate demand and supply in Canada back into balance in 2009.

Inflation is projected to be slightly higher and more persistent than in the April MPR. However, as excess demand diminishes, total CPI and core inflation should decline to 2 per cent by early 2009.

There are both upside and downside risks to the Bank's inflation projection. The main upside risk is that household demand in Canada could be stronger than expected. The main downside risks are related to the higher Canadian dollar and the ongoing adjustment in the U.S. housing sector. In the context of the Bank's new projection, these risks appear to be roughly balanced.

In line with this outlook, the Bank is raising the target for the overnight rate to 4 1/2 per cent. Some modest further increase in the overnight rate may be required to bring inflation back to the target over the medium term.

CANADA REVENUE AGENCY provides update on Eligible Dividends

Subsection 89(11) of the Income Tax Act ("the Act") permits a Canadian Controlled Private Corporation (CCPC) to elect not to be a CCPC by using the Form T2002 - Election or Revocation of an election not to be a Canadian controlled private corporation (2006 and later tax year). The election is effective for that year and subsequent years, beginning in the 2006 fiscal year. As the measure was not passed into law until February 2007, some private corporations whose fiscal year ended early in 2006 and who may have wished to make this election were required to file their T2 returns before that date and before the prescribed form was made available. For that reason, the election under Subsection 89(11) for the 2006 taxation year will be considered to have been filed on time if filed on, or before, December 31, 2007.

The CRA has recently determined that a former version of T2 Schedule 53 - General Rate Income Pool (GRIP) Calculation (2006 and Later Tax Years), a form used to calculate the GRIP pursuant to subsection 89(7) of the Act, did in some situations, for the 2006 taxation

year, produce an excessive balance. Unfortunately, this fault in the form was also built into software packages sold by commercial vendors. The CRA posted a revised T2 Schedule 53 on its website on June 13, 2007, and is working with software companies to correct this problem. If any corporation has paid out a dividend in excess of its eligible GRIP amount due to reliance on the CRA's T2 Schedule 53, its representative should send details to Mr. Wayne Adams, Director General of Income Tax Rulings (see contact information below) as soon as possible after the revised form is available. Corporations that paid an excessive dividend as a result of the error in the form will not be subject to the penalty tax set out in Part III.1 of the Act, provided they contact Mr. Adams before December 31, 2007, to identify steps to restore the proper balance.

For further information contact:
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