Federal Budget 2022 Highlights

A summary of what you need to know

GP WEALTH MANAGEMENT

On Thursday, April 7, 2022, Deputy Prime Minister and Minister of Finance Chrystia Freeland tabled "Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable."

Budget 2022 outlines the Liberal government's economic roadmap to lead Canada out of the pandemic.

In previous federal budgets, the Liberals have focused on the "middle class" and "innovation." However, this year against a backdrop of concerns over the pace of Canada's pandemic recovery, the focus is squarely on consumer wallets.

Homebuyers, in particular, will benefit from $10 billion in new spending aimed at housing affordability.

As well, those in need of dental care will be smiling. The budget proposes $5.3-billion in funding over five years and $1.7-billion in continuing funding to expand access to dental care.

The budget contains many other initiatives targeting ordinary Canadians and small businesses.

KEY TAKEAWAYS

- Over the next five years, the federal debt-to-GDP ratio is projected to fall five percentage points, to 41.5 per cent.
- Headline measures include billions in new spending aimed at housing affordability.
- The budget proposes $5.3-billion in funding over five years and $1.7-billion in continuing funding to expand access to dental care.
- The budget proposes the creation of the Tax-Free First Home Savings Account (FHSA), a new registered account that will assist individuals in saving for their first home.
- If you own a home, you could benefit from the proposed new refundable Multigenerational Home Renovation Tax Credit (MHRTC).
- There is a measure aimed at improving support for Canadians waiting to become parents.
- Budget 2022 proposes to increase the taxable capital limit from $15 million to $50 million for Canadian-controlled private corporations (CCPCs).
- The budget proposes a new investment tax credit for carbon capture, utilization and storage.

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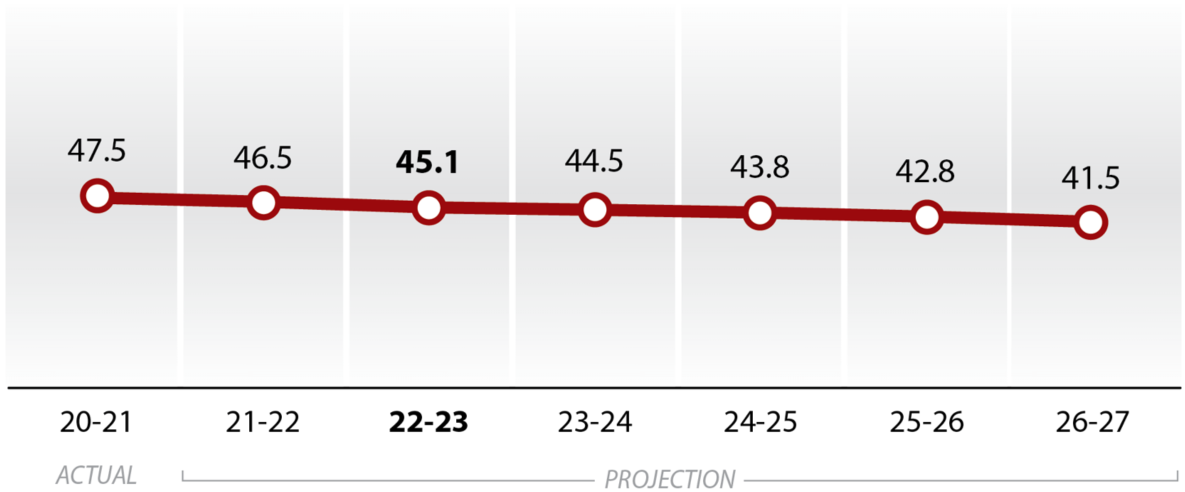
Deficit and debt

In Budget 2022, the government recommits to its promise of reducing federal debt relative to gross domestic product. Over the next five years, the federal debt-to-GDP ratio is projected to fall five percentage points, to 41.5 per cent.



(Source: Federal Budget 2022, The Canadian Press

Since the Liberals are a minority federal government and budget votes are confidence matters, support from at least one other party is necessary for the budget's passage. However, under the recently minted Liberal-NDP pact, the NDP has agreed to support Liberal budgets through to 2025, so Budget 2022 is expected to pass without issue.

The following is a summary of the most relevant budget proposals that may impact you.

Measures for individuals

There are no changes to personal federal income tax rates or income brackets.

Tax-Free First Home Savings Account (FHSA)

The budget proposes the creation of the Tax-Free First Home Savings Account (FHSA), a new registered account that will assist individuals in saving for their first home.

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The FHSA will be rolled out in 2023. Highlights include:

- Contributions made to the FHSA are deductible to the individual (like an RRSP contribution).
- The lifetime limit on contributions is $40,000, subject to an annual contribution limit of $8,000.
- The investment income earned in the FHSA is tax-free (like an RRSP).
- Qualifying withdrawals from the FHSA to purchase a first-time home are not taxable.
- Individuals are limited to making non-taxable withdrawals in respect of a single property in their lifetime.
- Once an individual has made a non-taxable withdrawal to purchase a home, they must close their FHSA within a year from the first withdrawal and would not be eligible to open another FHSA.
- Individuals can transfer funds from their FHSA to an RRSP or RRIF in a tax-free manner.
- If the FHSA is not used within 15 years of its opening, it will have to be closed.
- The Home Buyers' Plan ("HBP") will remain in existence. However, an individual cannot use both the HBP and the FHSA in respect of the same home purchase.

Eligible Individuals

- Must be resident in Canada and at least 18 years old.
- Must not have lived in a home they owned at any time in the year the FHSA is opened, or during the preceding four years.

Home Buyers' Tax Credit ("HBTC")

Budget 2022 proposes a non-refundable Home Buyers' Tax Credit of up to $1,500 to be available to first-time home buyers who purchase a qualifying home. Under the budget, the HBTC amount will be doubled to $10,000. Spouses and common law partners can split the value of the credit if the total credit does not exceed $1,500.

a) First-time home buyer

A first-time home buyer is an individual (or their spouse or common law partner) who has not lived in another home owned in the calendar year of the home purchase, or any of the four preceding calendar years. An individual who may not be a first-time home buyer, but qualifies for the Disability Tax Credit, may be eligible for this HBTC.

a) Qualifying home

This is a home that the individual or their spouse or common law partner intends to occupy no later than one year after purchase.

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Multigenerational Home Renovation Tax Credit ("MHRTC")

Budget 2022 proposes to introduce the MHRTC, which is a refundable tax credit that applies to individuals who incur eligible expenses in renovating their home to create a second dwelling unit for an eligible senior who is a "qualifying relation". The credit is computed as 15 per cent of the eligible expenses, to a maximum of $50,000, for a maximum refundable credit of $7,500. The MHRTC will apply to eligible expenses incurred on or after January 1, 2023 to create a secondary dwelling.

Eligible Persons

Eligible persons for the purposes of the MHRTC are:

- Seniors who are 65 years of age or older at the end of the taxation year that includes the end of the renovation period.
- Adults with disabilities who are 18 years of age or older at the end of the taxation year that includes the end of the renovation period, and who are eligible for the Disability Tax Credit at any time in that year.

Qualifying Relations

A qualifying relation in respect of an eligible person who claims the MHRTC would be an individual who is 18 years of age or older at the end of the taxation year that includes the end of the renovation period and is a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece, or nephew of the eligible person.

Who can claim the MHRTC?

- An individual who ordinarily resides, or intends to ordinarily reside, in the eligible dwelling within twelve months after the end of the renovation period and who is:
    - o An eligible person;
    - o The spouse or common-law partner of the eligible person;
    - o A qualifying relation, in respect of an eligible person; or
- A qualifying relation, in respect of an eligible person, who owns the eligible dwelling.
- More than one individual can claim the MHRTC as long as no more than 15 per cent of the maximum $50,000 expenditure limit is claimed between them.

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Eligible Dwelling

An eligible dwelling would be defined as a housing unit that is:

- Owned (either jointly or otherwise) by the eligible person, the spouse or common-law partner of the eligible person or a qualifying relation in respect of the eligible person; and
- Where the eligible person and a qualifying relation in respect of the eligible person ordinarily reside, or intend to ordinarily reside, within 12 months after the end of the renovation period.

An eligible dwelling would include the land subjacent to the housing unit and the immediately contiguous land but would not the portion of that land that exceeds the greater of ½ hectare and the portion of that land that the individual establishes is necessary for the use and enjoyment of the housing unit as a residence.

Qualifying Renovation

A qualifying renovation would be defined as a renovation or alteration of, or addition to, an eligible dwelling that is:

- Of an enduring nature and integral to the eligible dwelling; and
- Undertaken to enable an eligible person to reside in the dwelling with a quali fying relation, by establishing a secondary unit within the dwelling for occupancy by the eligible person or the qualifying relation.

A secondary unit would be defined as a self-contained dwelling unit with a private entrance, kitchen, bathroom facilities, and sleeping area. The secondary unit could be newly constructed or created from an existing living space that did not already meet the requirements to be a secondary unit. To be eligible, relevant building permits for establishing a secondary unit must be obtained and renovations must be completed in accordance with the laws of the jurisdiction in which an eligible dwelling is located.

One qualifying renovation would be permitted to be claimed in respect of an eligible person over their lifetime.

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Renovation Period

The renovation period means a period that:

- Begins at the time that an application for a building permit for a qualifying renovation is submitted; and
- Ends at the time when the qualifying renovation passes a final inspection, or proof of completion of the project according to all legal requirements of the jurisdiction in which the renovation was undertaken is otherwise obtained.

The MHRTC would be available for the taxation year that includes the end of the renovation period.

Eligible Expenses

Eligible expenses would include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits. Items such as furniture, appliances and regular repairs and maintenance are not integral to the creation of the dwelling and, therefore, not eligible. Receipts for the eligible expenses must be retained.

Eligible expenses must be reduced by any reimbursement or any other form of assistance that an individual is or was entitled to receive, including any related rebates. Furthermore, expenses would not be eligible for the MHRTC if they are claimed under the Medical Expense Tax Credit and/or Home Accessibility Tax Credit.

Home Accessibility Tax Credit Doubled

The Home Accessibility Tax Credit provides support to offset a limit of up to $10,000 in qualifying expenses associated with renovating a home to make it safer and more accessible.

Budget 2022 proposes to double the limit to $20,000 for the 2022 and subsequent tax years. This will mean a tax credit of up to $3,000, instead of $1,500 and includes renovations and alterations such as the purchase and installation of wheelchair ramps, walk-in bathtubs and wheel-in showers, and much more.

New Residential Property Flipping Taxation

Buying a house and selling it for much more than what was paid for it over a very short time period is known as property flipping.

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Budget 2022 expresses concern that some taxpayers may not be properly reporting these profits on their tax returns.

Budget 2022 proposes to introduce a new deeming rule to ensure profits from flipping properties held for less than 12 months would be fully taxable as business income, and not eligible for capital gains taxation, or the Principal Residence Exemption (PRE).

There will be exceptions to the rule, including Canadians who sell their home due to certain life circumstances, such as a death, disability, the birth of a child, a new job or a divorce.

The rules are forthcoming, and Canadians will be consulted on the draft legislative proposals.

The measure will apply to residential properties sold on or after January 1, 2023.

Ban on Foreign Home Purchases

To make sure that housing is owned by Canadians instead of foreign investors, the budget announced the government's intention to propose restrictions that would prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years. There will be exceptions for refugees fleeing international crises, international students on the path to permanent residency and others.

Non-resident, non-Canadians who own homes that are being underused or left vacant would be subject to the Underused Housing Tax once it comes into effect.

Changes Coming to Alternative Minimum Tax (AMT)

The Alternative Minimum Tax (AMT) system is designed to ensure that taxpayers who claim significant tax preferential deductions or credits, such as the capital gains deduction, dividend tax credits or flow-through shares, pay at the very minimum the Alternative Minimum Tax. It's designed to ensure the wealthiest Canadians do not take advantage of the tax system to lower their federal tax bill.

The government feels there are still too many wealthy Canadians paying little to no personal income tax each year.

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As a result, the budget announced the government's commitment to examine a new minimum tax regime. The government will release details on a proposed approach in the 2022 fall economic and fiscal update.

Tax on Real Estate Assignment Sales

Assignment sales involve the resale of a home before it is constructed or lived in; GST/HST may or may not be applicable when there is an assignment sale. For example, GST/HST does not apply if the intention is for the buyer to live in the home. This creates an opportunity for speculators to be dishonest about their original intentions, and uncertainty for everyone involved in an assignment sale as to whether GST/HST applies.

To address these issues, the budget proposes to make all assignment sales of newly constructed or substantially renovated residential housing taxable for GST/HST purposes, effective May 7, 2022.

Medical Support for Canadians Wanting to Become Parents

In Canada, it is illegal to pay consideration to surrogate mothers or donors, although surrogate mothers and donors may receive reimbursement from intended parents, which previously were not claimable as eligible medical expenses.

The budget proposes to allow these reimbursements paid by a taxpayer to a surrogate mother or donor that are incurred in Canada for 2022 and subsequent taxation years to be claimed. This would also include costs that have been reimbursed to a surrogate for in vitro fertilization expenses. In addition, the budget proposes to allow fees paid to fertility clinics and donor banks in Canada in order to obtain donor sperm and ova to be eligible as a Medical Expense Tax Credit for 2022 and subsequent taxation years.

Changes for Registered Charities

Registered charities are generally required to spend a minimum amount each year in charitable activities, a rule known as the disbursement quota (DQ).

Currently, the DQ is 3.5 per cent of the charity's property not used in charitable activities or administration. The budget proposes to increase the DQ to 5 per cent for the portion of property not used in charitable activities or administration that exceeds $1 million.

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Budget 2022 also proposes to amend some provisions of the Income Tax Act to give the Canada Revenue Agency discretion to grant a DQ reduction to certain charities for any particular tax year, as well as allow certain charities to accumulate property that is not to be included in determining the DQ.

These changes will apply in respect of charity fiscal periods beginning on or after January 1, 2023.

Measures for Corporations

There are no changes to corporate federal income tax rates or income brackets.

Small Business Deduction

Canadian-controlled private corporations (CCPCs) have access to a reduced corporate income tax rate of 9% federally on the first $500,000 of active business income, compared to the general corporate income tax rate of 15%. This $500,000 limit is referred to as the "business limit" and is shared among all associated CCPCs.

Under the current rules, the business limit is gradually reduced if the taxable capital employed in Canada of the associated CCPCs combined exceeds $10 million, or the adjusted aggregate investment income ("AAII") of the associated corporations combined exceeds $50,000. The business limit is fully clawed back if the taxable capital is $15 million or more, or AAII is $150,000 or more.

Budget 2022 proposes to increase the taxable capital limit from $15 million to $50 million which would allow more CCPCs to benefit from the reduced corporate income tax rate. This would apply to taxation years that begin on or after April 7, 2022.

Investment Tax Credit for Carbon Capture, Utilization and Storage

Budget 2022 proposes to introduce a refundable tax credit for businesses that incur eligible expenses starting January 1, 2022. Eligible expenses include the cost of purchasing and installing equipment for use in projects that capture, transport, store or use carbon dioxide emissions for eligible uses.

The project would be subject to a validation and verification process and financial disclosures before the tax credit can be claimed.

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The expenses incurred from 2022 through 2030 may be eligible for a tax credit rate of 37.5%, 50% or 60%, depending on the nature of the equipment. The tax credit rates would be cut in half for expenses incurred after 2030 through 2040.

Clean Technology Tax Incentives: Air-Source Heat Pumps

Corporations earning income from eligible zero-emission technology manufacturing temporarily benefit from a 50% reduction in federal corporate tax rates (income that would otherwise be taxed at 9% would be taxed at 4.5%). The reduced tax rates apply to taxation years beginning after 2021, and the reduction would be gradually phased out between 2029 to 2031.

Budget 2022 proposes to include manufacturing of air-source heat pumps used for space or water heating, including manufacturing of components of an air-source heat pump, as eligible zero-emission technology manufacturing activity.

Capital Cost Allowance for Clean Energy Equipment

The Income Tax Act allows taxpayers to deduct a portion of the capital cost of a depreciable property as a capital cost allowance (CCA) when they compute their income for each taxation year.

Classes 43.1 and 43.2 of Schedule II to the Income Tax Regulations provide accelerated CCA rates (30% and 50% respectively) for investments in specified clean energy generation and energy conservation equipment.

Budget 2022 proposes to expand eligibility under Classes 43.1 and 43.2 to include air-source heat pumps primarily used for space or water heating. The expansion of these classes applies to property that is acquired and becomes available for use on or after budget day.

Critical Mineral Exploration Tax Credit

Currently there is a Mineral Exploration Tax Credit (METC) that provides additional income tax benefits for individuals who invest in mining flow-through shares which augments the tax benefits associated with the deductions that are flowed through.

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The METC is equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Budget 2022 proposes to introduce a new 30% Critical Mineral Exploration Tax Credit (CMETC) for specified minerals including copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group of metals and uranium.

The CMETC would apply to expenditures renounced under eligible flow-through share agreements entered into after budget day and on or before March 31, 2027.

Intergenerational Share Transfers

Bill C-208 received royal assent on June 29, 2021, which allowed certain qualifying small business owners to benefit from a capital gains treatment when transferring their shares to the next generation and access their unused lifetime capital gains exemption (LCGE) to minimize taxation. Prior to this legislation, certain anti-avoidance rules under the Income Tax Act applied to tax the income as dividends resulting in a higher tax liability (compared to generally lower-taxed capital gains) and not allowing the small business owners to access their LCGE.

The Department of Finance expressed concerns about this bill and indicated that a revised legislation would be introduced to clarify the rules to support "genuine intergenerational business transfers" only and safeguard against unintended tax loopholes caused by this bill. The department originally stated that the revised legislation would apply as of the later of either November 1, 2021 or the date of publication of the revised legislation.

Budget 2022 announced an extension of the consultation process to review the rules, allowing all stakeholders to provide their comments to the Department of Finance by June 17, 2022. The government expects to introduce the revised bill in the fall after the consultation process has concluded.

Deferring Tax Using Foreign Entities

Passive income earned through a CCPC is subject to a high tax rate due to the refundable tax mechanism that aims to tax income earned through a corporation at at roughly

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the same rate that would apply to a Canadian resident individual and eliminate any tax-deferral advantage of earning investment income through a private corporation. The refundable taxes may be partially or fully refunded to the CCPC when it issues taxable dividends to its shareholders.

Budget 2022 proposes to target taxpayers that manipulate the status of their corporation to avoid qualifying as a CCPC by taxing "substantive CCPCs" under the same refundable tax mechanism that apply to CCPCs. Substantive CCPCs would include private corporations resident in Canada that are ultimately controlled by Canadian-resident individuals directly or indirectly. Corporations that are not considered CCPCs under the current rules because a non-resident or public corporation has a right to acquire its shares would also be considered a substantive CCPC under the new rules.

This measure would apply to taxation years that end on or after April 7, 2022.

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