Federal Budget Commentary
April 17, 2024







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INTRODUCTION

On April 16, 2024, the Honourable Chrystia Freeland tabled her fourth budget as federal Minister of Finance and Deputy Prime Minister. The budget projects a deficit of $40 billion for the government's 2023-2024 year.

The most significant proposed changes, which take effect on various dates, are summarized below.

PERSONAL INCOME TAX

Capital gains inclusion rate

The budget will increase the capital gains inclusion rate to two thirds (from one half) for corporations and trusts, and to two thirds (from one half) on the portion of capital gains realized in the year that exceed $250,000 for individuals, for capital gains realized on or after June 25, 2024.

Lifetime Capital Gains Exemption

The budget will increase the Lifetime Capital Gains Exemption (LCGE) to $1.25 million of eligible capital gains (from $1,016,836 in 2024) realized on the disposition of qualified small business corporation shares and qualified farm or fishing property, effective for dispositions that occur on or after June 25, 2024. Indexation of the LCGE will resume in 2026.

Canadian entrepreneurs' incentive

A new Canadian entrepreneurs' incentive will reduce the tax rate on capital gains on the disposition of qualifying shares by an eligible individual to one half the prevailing inclusion rate (i.e., one third under the two-thirds capital gains inclusion rate proposed in the budget), on up to $2 million in capital gains per individual over their lifetime. This measure will apply to dispositions on or after January 1, 2025.

Alternative Minimum Tax

Changes to the alternative minimum tax (AMT) will:

- allow individuals to claim 80 per cent (instead of the previously proposed
- 50 per cent) of the Charitable Donation Tax Credit when calculating AMT
- fully allow deductions for the Guaranteed Income Supplement, social assistance, and workers' compensation payments
- allow individuals to fully claim the federal logging tax credit
- fully exempt Employee Ownership Trusts
- allow certain disallowed credits to be eligible for the AMT carry-forward (i.e., the federal political contribution tax credit, investment tax credits, and labour-sponsored funds tax credit)
- exempt from AMT certain trusts for the benefit of Indigenous groups.

These changes will apply to taxation years that begin on or after January 1, 2024.

Mineral Exploration Tax Credit

As announced on March 28, the government proposes to extend eligibility for the Mineral Exploration Tax Credit for one year, to flow-through share agreements entered into on or before March 31, 2025.

Canada Child Benefit

The budget will extend eligibility for the CCB to six months after a child's death (from one month) effective for deaths that occur after 2024.

Disability Supports Deduction

The budget will expand the list of expenses recognized under the Disability Supports Deduction, effective for 2024 and subsequent years.

Employee ownership trust tax exemption

The budget provides further details on this proposed exemption, effective for qualifying dispositions of shares between January 1, 2024 and December 31, 2026.

Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit

The budget proposes to double this credit amount to $6,000, effective for 2024 and subsequent taxation years.

Home Buyers' Plan

The budget proposes to:

- increase the RRSP withdrawal limit to $60,000 (from $35,000), effective for 2024 and subsequent years for withdrawals made after April 16, 2024
- temporarily defer the start of the 15-year repayment period by an additional three years for participants making a first withdrawal between January 1, 2022 and December 31, 2025.

Qualified investments for registered plans

The budget invites stakeholders to suggest ways to modernize and clarify the qualified investment rules for registered plans.

Deduction for tradespeople's travel expenses

The government will consider enacting a single, harmonized deduction for tradespeople's travel.

Indigenous child and family services settlement

The budget will exclude the income of the trusts established under the First Nations Child and Family Services, Jordan's Principle, and Trout Class Settlement Agreement from taxation. Payments received by beneficiaries of the trusts would also be excluded from federal income tax, effective for 2024 and subsequent taxation years.

REGISTERED CHARITIES TAX CHANGES

The budget proposes changes affecting:

- foreign charities registered as qualified donees
- the CRA's service to registered charities and qualified donees
- requirements for the issuance of donation receipts.

CORPORATE AND BUSINESS TAX CHANGES

Clean Electricity Investment Tax Credit

The 2024 budget provides the design and implementation details of this tax credit equal to 15 per cent of the capital cost of eligible property, which was announced in last year's budget. The credit will generally apply to eligible property that is acquired and becomes available for use on or after April 16, 2024 and before 2035, and is not part of a project that began construction before March 28, 2023.

Clean Technology Manufacturing Investment Tax Credit

The budget proposes adjustments to this tax credit to provide greater clarity to businesses engaged in polymetallic projects (i.e., projects engaged in the production of multiple metals). These changes would apply for property that is acquired and becomes available for use on or after January 1, 2024 (i.e., the same application date as the other aspects of this credit).

Accelerated capital cost allowance

Proposed changes affect:

Purpose built rental housing

The budget proposes an accelerated CCA of 10 per cent (from four per cent) for new eligible purpose-built rental projects that begin construction on or after April 16, 2024 and before January 1, 2031, and are available for use before January 1, 2036.

Productivity-enhancing assets

The budget proposes immediate expensing for new additions of property in three classes: Class 44 (patents or the rights to use patented information for a limited or unlimited period), Class 46 (data network infrastructure equipment and related systems software), and Class 50 (general-purpose electronic data- processing equipment and systems software), if the property is acquired on or after April 16, 2024 and becomes available for use before January 1, 2027. The enhanced allowance would provide a 100-per-cent first-year deduction and would be available only for the year in which the property becomes available for use. Property that becomes available for use after 2026 and before 2028 would continue to benefit from the Accelerated Investment Incentive.

Canada Carbon Rebate for small businesses

The budget proposes to return a portion of pollution pricing fuel charge proceeds via a new Canada Carbon Rebate for eligible small and medium sized-businesses. The refundable tax credit would be available to a Canadian-controlled private corporation that files a tax return for its 2023 taxation year by July 15, 2024.

Interest deductibility limits – Purpose-built rental housing

The budget proposes to expand an exemption from the excessive interest and financing expenses limitation (EIFEL) rules to include an elective exemption for certain interest and financing expenses incurred before January 1, 2036, in respect of arm's length financing used to build or acquire eligible purpose-built rental housing in Canada.

Non-compliance with information requests

The budget proposes several amendments to the information gathering provisions in the Income Tax Act. These amendments will affect:

- a proposed new notice of non-compliance issued by the CRA
- questioning under oath
- compliance orders
- stopping the reassessment limitation clock
- certain tax statutes administered by the CRA.

These amendments will come into effect on royal assent.

Avoidance of tax debts

The budget proposes a supplementary rule to strengthen the tax debt anti- avoidance rule. This measure will apply to transactions or series of transactions that occur on or after April 16, 2024.

Reportable and notifiable transactions penalty

The government intends to remove from the scope of this general penalty provision the failure to file an information return for a reportable or notifiable transaction under the mandatory disclosure rules. This amendment will be deemed to have come into force on June 22, 2023.

Mutual fund corporations

Proposals in the budget will preclude a corporation from qualifying as a mutual fund corporation where it is controlled by or for the benefit of a corporate group (including a corporate group that consists of any combination of corporations, individuals, trusts, and partnerships that do not deal with each other at arm's length). Exceptions will ensure that the measure does not adversely affect mutual fund corporations that are widely held pooled investment vehicles. This measure would apply to taxation years that begin after 2024.

Synthetic equity arrangements

The budget proposes to remove the tax-indifferent investor exception (including the exchange traded exception) to the anti-avoidance rule that denies the dividend-received deduction in respect of synthetic equity arrangements. This measure will apply to dividends received on or after January 1, 2025.

Manipulation of bankrupt status

The budget proposes to repeal the exception to the debt forgiveness rules for bankrupt corporations and the loss restriction rule applicable to bankrupt corporations. This change will subject bankrupt corporations to the general rules that apply to other corporations whose commercial debts are forgiven. The bankruptcy exception to the debt forgiveness rules will remain in place for individuals. These measures will apply to bankruptcy proceedings that begin on or after April 16, 2024.

INTERNATONAL TAX MEASURES

Crypto-asset reporting framework and the common reporting standard

The budget proposes to implement the Crypto-Asset Reporting Framework (CARF) in Canada. The measure will impose a new annual reporting requirement on entities and individuals (referred to as crypto-asset service providers) that are resident in Canada, or that carry on business in Canada, and that provide business services effectuating exchange transactions in crypto-assets. These measures will apply to 2026 and subsequent calendar years.

Withholding for non-resident service providers

The budget will provide the CRA with the legislative authority to waive the tax withholding requirement, over a specified period, for payments to a non-resident service provider if certain conditions are met. This measure will come into force on royal assent.