Federal Budget Commentary
April 7, 2022

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INTRODUCTION

On April 7, 2022, Deputy Prime Minister and Finance Minister Chrystia Freeland delivered the 2022 federal budget.

Although there are no changes to personal or corporate tax rates, there will be a one-time 15% tax on bank and life insurer groups, an additional 1.5% tax on the taxable income for members of bank and life insurer groups and changes to allow more medium-sized Canadian-controlled private corporations (CCPCs) to benefit from the small business deduction.

Canada Recovery Dividend

The budget introduces the one-time Canada Recovery Dividend (CRD) and a 15% tax on bank and life insurer groups.

The CRD is determined based on a corporation's taxable income for taxation years ending in 2021. A proration rule will be provided for short taxation years. Bank and life insurer groups subject to the CRD would be permitted to allocate a $1 billion taxable income exemption by agreement amongst group members.

The dividend would be imposed for the 2022 taxation year and would be payable in equal amounts over five years.

Additional Tax on Banks and Life Insurers

The budget introduces an additional 1.5% tax on the taxable income for members of bank and life insurer groups (similar to the CRD).

Small Business Deduction

The budget introduces changes to allow more medium-sized CCPCs to benefit from the small business deduction. Specifically, the budget expands the range over which the small business deduction limit is reduced, based on a CCPC's combined taxable capital employed in Canada to $10 million - $50 million. This measure increases the amount of qualifying active business income that can be eligible for the small business deduction. This measure applies to taxation years that begin on or after April 7, 2022.

PERSONAL INCOME TAX

- The Tax-Free First Home Savings Account (FHSA) was introduced for 2023 which will provide tax-free withdrawals to purchase a first home.

- The First-Time Home Buyers' Tax Credit (HBTC) amount was increased to $10,000 (from $5,000), effective for acquisitions of a qualifying home made on or after January 1, 2022.

- A Multigenerational Home Renovation Tax Credit was introduced for a qualifying renovation to create a secondary dwelling unit to permit a senior or a person with a disability to live with a qualifying relation, equal to 15% of the lesser of eligible expenses and $50,000. It is generally effective for the 2023 and subsequent taxation years.

- The annual expense limit of the Home Accessibility Tax Credit was increased to $20,000, for expenses incurred in the 2022 and subsequent taxation years.

- A new deeming rule was introduced to ensure that profits arising from the sale of certain residential property (including a rental property) owned for less than 12 months will be treated as business income, effective for residential properties sold on or after January 1, 2023 (commonly known as a "flipping tax").

- A Labour Mobility Deduction for Tradespeople was introduced to allow eligible individuals in the construction industry to deduct up to $4,000 in certain travel and relocation expenses, effective for the 2022 and subsequent taxation years.

- Allow certain medical expenses for surrogate mothers and related to the donation of sperm, ova or embryos to qualify for the Medical Expense Tax Credit (METC), effective for expenses incurred in the 2022 and subsequent taxation years.

- Ensure that the special allowance, the Canada Child Benefit and the Canada Workers Benefit amount for families continue to support certain children in need of protection, and to ensure consistent tax treatment of certain care providers who receive financial assistance from Indigenous communities, effective for the 2020 and subsequent taxation years.

CORPORATE INCOME TAX

- A refundable Carbon Capture, Utilization, and Storage (CCUS) investment tax credit was introduced for certain eligible expenses incurred after 2021 and before 2041.

- Allow certain air-source heat pumps to qualify under Classes 43.1 and 43.2 of the capital cost allowance (CCA) regime, and allow manufacturers of air-source heat pumps to qualify for the temporarily reduced corporate income tax rates for eligible zero-emission technologies.

- A new 30% Critical Mineral Exploration Tax Credit (CMETC) was introduced for specified minerals used in the production of batteries and permanent magnets, applicable for expenditures renounced under eligible flow-through share agreements entered into after April 7, 2022 and on or before March 31, 2027.

- Eliminate the flow-through share regime for oil, gas, and coal activities by no longer allowing oil, gas and coal exploration or development expenditures to be renounced to a flow-through share investor, effective for expenditures renounced under flow-through share agreements entered into after March 31, 2023.

- Certain relieving modifications related to the new accounting standards for insurance contracts was introduced, including certain transitional rules, effective January 1, 2023.

- Legislation to prevent certain taxpayers in financial institution groups from realizing certain tax deductions through the use of certain hedging and short selling arrangements was introduced, generally effective on or after April 7, 2022.

- Provide that the GAAR can apply to transactions that affect tax attributes that have not yet become relevant to the computation of tax, effective for notices of determination issued on or after April 7, 2022.

- Announce a consultation on further modifications to the rules on intergenerational share transfers.

- Align the taxation of investment income earned and distributed by private corporations resident in Canada (other than CCPCs) that are ultimately controlled by Canadian-resident individuals (i.e., “substantive CCPCs”) with the rules that currently apply to CCPCs, effective for taxation years that end on or after April 7, 2022.

- Eliminate the tax-deferral advantage available to CCPCs and their shareholders earning investment income through controlled foreign affiliates, effective for taxation years that begin on or after April 7, 2022.

- Maintain the borrowing rule for real property acquisitions of defined benefit registered pension plans and replaces the 90-day term limit with a new limit on the total amount of additional borrowed money, effective for amounts borrowed by defined benefit registered pension plans (other than individual pension plans) on or after April 7, 2022 .

- Require financial institutions to annually report the total fair market value of property held in each RRSP and RRIF that they administer, effective for 2023 and subsequent taxation years.

OTHER TAX CHANGES

The budget also introduces measures affecting the following areas:

Charity Tax Changes

- The amount of non-charitable activity expenditures was introduced to allow for larger registered charities (under the disbursement quota rules).

- Improve the enforcement and operation of the disbursement quota rules for registered charities, effective for fiscal periods beginning on or after January 1, 2023.

- Allow charities to make qualified disbursements to organizations that are not qualified donees provided that they meet certain accountability requirements (to ensure their disbursements are used for charitable purposes), effective as of Royal Assent of the enacting legislation.

International Tax Changes

- Implement Pillar Two, along with a domestic minimum top-up tax that would apply to Canadian entities of multinational enterprises that are within the scope of Pillar Two, effective 2023 (as of a date to be fixed), and an Undertaxed Profits Rule to come into effect no earlier than 2024, subject to consultation.

- Implement the model rules for the exchange of tax information on digital economy platform sellers in Canada, which require reporting platform operators that provide support to reportable sellers for relevant activities to determine the jurisdiction of residence of their reportable sellers and report certain information on them, generally effective for calendar years beginning after 2023.

- Amend the interest withholding tax rules to ensure that the total interest withholding tax paid under an interest coupon stripping arrangement is the same as if the arrangement had not been undertaken and instead the interest had been paid to the non-resident lender, generally effective on or after April 7, 2022.

Indirect Tax Changes

- Allow additional nurse practitioners to qualify for the expanded GST/HST hospital rebate rules, effective for rebate claim periods ending after April 7, 2022 for tax paid or payable after that date.

- Make all "assignment sales" for newly constructed or substantially renovated residential housing taxable for GST/HST purposes, effective for any assignment agreement entered into on or after the day that is one month after April 7, 2022.

- Provide refinements on the federal excise duty framework for vaping products, to come into force on October 1, 2022.

- Allow licensed cannabis producers to remit excise duties on a quarterly (rather than monthly basis) starting from the quarter that began on April 1, 2022 and make other technical amendments to the cannabis excise duty framework, among others.

- Repeal the 100% Canadian wine excise duty exemption, effective June 30, 2022.

- Eliminate excise duty for beer containing no more than 0.5% ABV, effective July 1, 2022.

For further information, questions or assistance, please contact your Lipton advisor.