TAX FLASH BULLETIN

2022 Federal Budget Highlights

On April 7, 2022, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented the federal budget for the 2022-2023 fiscal year. The budget projects a deficit of $52.8 billion for 2022-2023 and a deficit of $39.9 billion for 2023-2024. The minister expects to end the 2021-2022 fiscal year with a deficit of $113.8 billion compared to the $154.7 billion projected at this time last year. New tax measures in the form of draft legislation accompanied the budget documents. We have summarized selected highlights of the personal and small business tax measures.

INDIVIDUALS

Personal Tax Rates

There were no proposed changes to individual income tax rates for 2022 or 2023. The budget did not include any changes to capital gains inclusion rates.

2021 Taxable Income	2022 Taxable Income	Tax Rates
$0 to $49,020	$0 to $50,197	15%
$49,020 to $98,040	$50,197 to $100,392	20.5%
$98,040 to $151,978	$100,392 to $155,625	26%
$151,978 to $216,511	$155,625 to $ 221,708	29%
Over $216,511	Over $221,708	33%

Based on known rates at April 7, 2022

Basic Personal Amount	2021	2022
Net income greater than amount at which the 33% bracket begins	$12,421	$12,719
Net income less than amount at which the 29% bracket begins	$13,808	$14,398

Introduction of the Tax-Free First Home Savings Account

As promised during the election, the budget introduces the Tax-Free First Home Savings Account (FHSA) to help individuals save for their first home purchase. Contributions to an FHSA would be deductible like an RRSP, but the withdrawals are not taxable when used to purchase a first home. The income and growth of the FHSA are not taxable when used for a qualifying home purchase.

The contribution limit is $8,000 per year, up to a lifetime limit of $40,000. The full limit will first be available starting in 2023. If a taxpayer contributes less than the maximum $8,000 for the year, they cannot carry forward unused room, unlike an RRSP or TFSA. An individual may hold more than one FHSA, but the total contributions cannot exceed their annual and lifetime FHSA contribution limits.

The eligibility criteria to open an FHSA:

- Canadian resident
- At least 18 years of age, and
- Individual must not have lived in a home that they owned either:
  - at any time in the year they open the account, or
  - during the preceding four calendar years.

Individuals are limited to making non-taxable withdrawals for a single property in their lifetime. Once an individual has withdrawn a non-taxable amount to purchase a home, they would be required to close their FHSA within a year from the first withdrawal and are not eligible to open another FHSA.

Amounts withdrawn for purposes other than purchasing a qualifying first home are taxable. However, an individual may transfer funds from their FHSA to their RRSP or RRIF to grow tax-deferred and eventually become taxable retirement income. Such a transfer does not reduce or is limited by the individual taxpayer's available RRSP room. Withdrawals and transfers from an FHSA do not replenish FHSA contribution limits.

An individual must close the FHSA within 15 years of opening if they have not used the funds for a qualifying first home purchase. They can transfer the assets to an RRSP or RRIF, or collapse the FHSA and pay taxes on the withdrawn value.

Individuals may also transfer funds from an RRSP to an FHSA on a tax-free basis, subject to the $8,000 annual limit and the $40,000 lifetime limit. These transfers do not restore an individual's RRSP contribution room.

The Home Buyers' Plan (HBP) will continue to allow individuals to withdraw up to $35,000 from an RRSP to purchase or build a home without having to pay tax on the withdrawal. However, an individual cannot withdraw from both the RRSP HBP and their FHSA in respect of the same qualifying home purchase. Given this limitation, it is more advantageous to fund the FHSA for a home purchase rather than using the HBP.

Tax Tip: Ideally, eligible taxpayers should maximize both their FHSA contributions and RRSP contributions every year to maximize tax savings and benefit from compounding investment growth.

The government will work with Canadian financial institutions to build the infrastructure for FHSAs so that individuals can start contributing during 2023.

Illustration of Tax-Free First Home Savings Account Contributions and Growth

Year	Age	FHSA Contribution[1]	Growth at 4%[2]	Ending Balance
2023	21	$8,000	$320	$8,320
2024	22	$8,000	$653	$16,973
2025	23	$8,000	$999	$25,972
2026	24	$8,000	$1,359	$35,331
2027	25	$8,000	$1,733	$45,064
2028 to 2037	26 to 35	$0	$21,642	$66,706

[1] - beginning of year contributions

[2] - annual rate of return for illustration purposes, actual rate of return will vary

Increase to the Home Buyers' Tax Credit

The budget proposes to double the existing first-time home buyers' tax credit from $750 to $1,500. Spouses and common-law partners would continue to be able to split the credit value as long as the combined total does not exceed $1,500 in tax relief. This measure applies to purchases of qualifying homes on or after January 1, 2022.

Introduction of the Multigenerational Home Renovation Tax Credit

The budget proposes a new multigenerational home renovation tax credit for eligible renovation expenses to create a secondary dwelling unit for a senior or disabled adult to live with a qualifying relation. The value of the credit is 15% of the lesser of the eligible expenses and $50,000 for a maximum tax savings of $7,500.

For the purposes of this credit, seniors are individuals who are age 65 years or older at the end of the tax year that is the renovation year. Adults with disabilities are individuals who are age 18 or older and who are eligible for the disability tax credit at any time in the year. A qualifying relation is an individual who is age 18 years or older at the end of the taxation year of the renovation period and is a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece, or nephew of the eligible person, including the spouse or common-law partner of one of those individuals.

This measure would apply for the 2023 and subsequent taxation years in respect of work performed and paid for and/or goods purchased on or after January 1, 2023.

Increase to the Home Accessibility Tax Credit

To better support independent living for seniors and disabled individuals, the budget proposes to double the existing home accessibility tax credit from $1,500 to $3,000. This measure applies to qualifying home renovation expenses incurred in 2022 and subsequent taxation years.

New Residential Property Flipping Rule

Property flipping involves purchasing real estate with the intention of reselling the property in a short period of time to realize a profit. Profits from flipping properties are fully taxable as business income, not as capital gains, and are not eligible for the principal residence exemption. The government suspects that certain individuals engaged in flipping residential real estate are not correctly reporting their profits as 100% taxable business income.

The budget proposes a new deeming rule to ensure profits from flipping residential real estate are always subject to full taxation. Specifically, profits arising from dispositions of residential property owned for less than 12 months are deemed to be business income. When the new deeming rule applies to a disposition, the taxpayer cannot claim the principal residence exemption on that property.

The new deeming rule would not apply if the disposition of property is in relation to at least one of the life events listed below:

- Death: a disposition due to, or in anticipation of, the death of the taxpayer or a related person.
- Household addition: a disposition due to, or in anticipation of, a related person joining the taxpayer's household or the taxpayer joining a related person's household (e.g., birth of a child, adoption, care of an elderly parent).

- Separation: a disposition due to the breakdown of a marriage or common-law partnership, where the taxpayer has been living separate and apart from their spouse or common-law partner because of a breakdown in the relationship for a period of at least 90 days.

- Personal safety: a disposition due to a threat to the personal safety of the taxpayer or a related person, such as the threat of domestic violence.

- Disability or illness: a disposition due to a taxpayer or a related person suffering from a serious disability or illness.

- Employment change: a disposition for the taxpayer or their spouse or common-law partner to work at a new location or due to an involuntary termination of employment. In the case of work at a new location, the taxpayer's new home must be at least 40 kilometres closer to the new work location.

- Insolvency: a disposition due to insolvency or to avoid insolvency (i.e., due to an accumulation of debts).

- Involuntary disposition: a disposition against someone's will, for example, due to, expropriation or the destruction or condemnation of the taxpayer's residence due to a natural or man-made disaster.

When the new deeming rule does not apply because of a life event listed above or because the property was owned for 12 months or more, it would remain a question of fact whether profits from the disposition are taxable as business income.

This measure applies in respect of residential properties sold on or after January 1, 2023.

Introduction of the Labour Mobility Deduction for Tradespeople

The budget proposes a new tax deduction for temporary relocation and travel expenses of workers in the construction industry that would not otherwise qualify for the existing moving or travel expense deduction because the individual retains their existing home. This measure allows eligible workers to deduct up to $4,000 in eligible expenses per year. This measure applies to the 2022 and subsequent taxation years.

Expansion of Fertility Medical Expense Definitions

The budget broadens the definition of patient in cases where an individual relies on a surrogate or a donor in order to become a parent to include the taxpayer, the taxpayer's spouse/partner, a surrogate mother, or a donor of sperm, ova, or embryos. This broader definition allows medical expenses paid by the taxpayer, or the taxpayer's spouse/partner, with respect to a surrogate mother or donor to be eligible for the medical expense tax credit. For example, expenses paid by the intended parent to a fertility clinic for an in vitro fertilization procedure with respect to a surrogate mother or for hormone medication for an ova donor would be eligible for the medical expense tax credit.

The budget also proposes to allow reimbursements of out-of-pocket expenses paid by the taxpayer to a patient under the expanded definition to be eligible for the medical expense tax credit, provided the expense would generally qualify under the credit.

Further, the budget proposes fees paid to fertility clinics and donor banks to become a parent will be eligible under the medical expense tax credit.

Only expense incurred in Canada would be eligible. These measures apply to expenses incurred in the 2022 and subsequent taxation years.

New Reporting Requirements for RRSPs and RRIFs

Financial institutions currently report the fair market value of tax-free savings accounts (TFSAs) to the Canada Revenue Agency on an annual basis. The budget proposes to require financial institutions to annually report the total fair market value of each RRSP and RRIF they administer at the end of the calendar year. This information will assist the Canada Revenue Agency in its risk-assessment activities regarding qualified investments. This measure would apply to the 2023 and subsequent taxation years.

Introduction of the Critical Mineral Exploration Tax Credit

The existing 15% mineral exploration tax credit (METC) provides additional income tax benefits to individuals who invest in mining flow-through shares, which augments the flow-through tax deductions. The budget proposes a new 30% tax credit for specified critical minerals (CMETC): copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals, and uranium. These minerals are used in the production of batteries and permanent magnets, both of which are used in zero-emission vehicles, or are necessary in the production and processing of advanced materials, clean technology, or semi-conductors. Eligible expenditures would not benefit from both the CMETC and the METC. The CMETC will apply to expenditures renounced under eligible flow-through share agreements entered into after April 7, 2022 and on or before March 31, 2027.

Elimination of Flow-Through Shares for Oil, Gas, and Coal Activities

The budget proposes to eliminate the flow-through share benefits for oil, gas, and coal activities by no longer allowing exploration or development expenditures in those sectors to be renounced to a flow-through share investor. This change will apply to expenditures renounced under flow-through share agreements entered into after March 31, 2023.

BUSINESSES

The budget did not propose any changes to federal corporate income tax rates or to the $500,000 small business limit. However, in relation to the small business limit reduction, the budget extends the top taxable capital threshold from $15 million to $50 million in order to facilitate small business growth. This change will allow more medium-sized Canadian-controlled private corporations (CCPCs) to benefit from the small business deduction. This measure will apply to taxation years that begin on or after April 7, 2022.

Federal Corporate Tax Rates

Corporate Income Type	2021	2022
General corporate income	15.00%	15.00%
Small business income	9.00%	9.00%
CCPC* investment income	38.67%	38.67%
Non-CCPC investment income	15.00%	15.00%
Manufacturing & processing income	15.00%	15.00%

**Canadian-controlled private corporation*

Based on known rates at April 7, 2022

Rates represent calendar year rates

Consultation on Genuine Intergenerational Share Transfers

The Income Tax Act contains a rule to prevent shareholders of private companies from converting dividends into lower-taxed capital gains, a practice referred to as "surplus stripping." Private Member's Bill C-208, which received Royal Assent on June 29, 2021, introduced an exception to this rule in order to facilitate intergenerational business transfers. However, the government perceives the Bill may unintentionally permit surplus stripping without requiring that a genuine intergenerational business transfer takes place.

The budget announces a consultation process for Canadians to share views as to how the existing rules could be modified to protect the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers. Comments should be received by June 17, 2022. The government intends to introduce new legislation in a bill to be tabled in the fall.

Elimination of Investment Income Tax Deferrals Using Foreign Entities

The government recognizes that some taxpayers are manipulating the status of their corporations to avoid qualifying as a CCPC to achieve a tax-deferral advantage on investment income earned in their corporations. This may involve continuing a corporation under foreign corporate law or inserting a non-resident corporation in the corporate structure.

The budget proposes to apply the same CCPC investment income tax rules to foreign corporations that meet the definition of a "substantive CCPC" where the aggregate shares owned directly or indirectly by Canadian resident individuals would deem a corporation to be controlled by Canadian resident individuals. This measure applies to taxation years that end on or after April 7, 2022.

In addition, the budget proposes to eliminate the tax-deferral advantage available to CCPCs and their shareholders earning investment income through controlled foreign affiliates. This measure applies to taxation years that begin on or after April 7, 2022.

Exchange of Tax Information on Digital Economy Platform Sellers

The government plans to adopt the OECD model rules for digital platform operators to report relevant tax information to tax authorities in order to ensure that revenues earned by taxpayers through those platforms can be properly taxed. The measure would 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. An online platform would generally need to report the information to only one country jurisdiction, and that jurisdiction would then share the information with partner jurisdictions based on the residence of each platform seller earning revenue through the platform (and, in the case of a rental property, the jurisdiction where the rental property is located).

The measure will apply to calendar years beginning after 2023 so that the first reporting and exchange of information will take place in early 2025 with respect to the 2024 calendar year.

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