

# TAX FLASH BULLETIN

## 2021-2022 Federal Budget Highlights

On April 19, 2021, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented the Federal Budget for the fiscal 2021-2022 year. This is the first federal budget tabled since the pandemic began. The government did not table a federal budget for 2020 due to the inability to project revenue and spending estimates in the midst of the health crisis. The 2021 budget projects a deficit of \$354.2 billion for the fiscal year ending on March 31, 2021 compared to the \$381.6 billion deficit the government projected in the Fall Economic Statement. The 2021-2022 budget outlines a planned deficit of \$154.7 billion with declining deficits projected to 2025-2026. We have summarized selected highlights of the personal and business tax measures proposed in the budget.

### INDIVIDUALS

#### *Personal Tax Rates*

The budget did not propose any changes to individual income tax rates for 2021 or future years. The government did not mention any intent to change the capital gains inclusion rate.

2020 Taxable Income	2020 Tax Rates	2021 Taxable Income	2021 Tax Rates
\$0 to \$48,535	15%	\$0 to \$49,020	15%
\$48,535 to \$97,069	20.5%	\$49,020 to \$98,040	20.5%
\$97,069 to \$150,473	26%	\$98,040 to \$151,978	26%
\$150,473 to \$214,368	29%	\$151,978 to \$216,511	29%
Over \$214,368	33%	Over \$216,511	33%

*Based on known rates at April 19, 2021*

Basic Personal Amount	2020	2021
Net income greater than amount at which the 33% bracket begins	\$12,298	\$12,421
Net income less than amount at which the 29% bracket begins	\$13,229	\$13,808

#### *Increase to Old Age Security (OAS) Benefits*

In recognition of the extra costs seniors had to incur to keep themselves safe during the pandemic, the government is providing a one-time payment of \$500 in August 2021 to OAS pensioners who will be age 75 or over as of June 2022. The budget did not indicate if this amount is tax-free, similar to the one-time OAS payment provided in 2020.

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The budget further proposes to increase regular OAS payments for pensioners age 75 and over by 10% on an ongoing basis as of July 2022. Eligible seniors would receive an additional benefit of \$766 in the first year, indexed to inflation for future years.

### *Extension of Emergency Wage Supports*

The budget extends the number of weeks of available benefits from 38 weeks to a total of 50 weeks for the Canada Recovery Benefit to the end of September 25, 2021. The Canada Recovery Caregiving Benefit will be extended from 38 to 42 weeks. The budget proposes to provide the government with the authority to extend the emergency benefits and regular Employment Insurance (EI) until no later than November 20, 2021, if needed. As a reminder, these benefits are taxable in the year the taxpayer receives them.

<b>Emergency Benefit</b>	<b>Total Weeks</b>	<b>Weekly Payment</b>
Canada Recovery Benefit (CRB)	50	\$500 for first 4 weeks \$300 for remaining 8 weeks
Canada Recovery Caregiving Benefit	42	\$500

The budget proposes to enhance general EI sickness benefits from 15 to 26 weeks, effective summer 2022 to allow Canadians extra time and flexibility to recover from illnesses and cancer treatments.

### *Deductions for Repaid COVID-19 Benefits*

Under the current rules, taxpayers may only deduct amounts for repaid COVID-19 benefit amounts for the year in which they make the repayment. This tax treatment can lead to a taxpayer owing tax for a benefit in the year of receipt, while obtaining a deduction for the repayment in a future tax year. The budget proposes to amend the Income Tax Act to allow individuals the option to claim a deduction for repayment of COVID-19 benefits to compute their income for the year in which they received the benefit. This option is available for benefit amounts repaid at any time before 2023. For clarity, these COVID-19 benefits include:

- Canada Emergency Response Benefits/Employment Insurance Emergency Response Benefits;
- Canada Emergency Student Benefits;
- Canada Recovery Benefits;
- Canada Recovery Sickness Benefits; and
- Canada Recovery Caregiving Benefits.

Individuals may only claim the deduction after they have repaid the amounts. If they have already filed their 2020 tax return before repaying the benefit, they may file an adjustment to their 2020 tax return.

Budget 2021 also proposes to ensure that the COVID-19 benefit amounts noted above, and similar provincial or territorial benefit amounts, are taxable income for those individuals who reside in Canada but are considered non-resident persons for income tax purposes. As a result, COVID-19 benefits received by such non-resident persons would be taxable in Canada similar to employment and business income earned in Canada.

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### *Establish a Federal Minimum Wage*

The government intends to introduce legislation to establish a federal minimum wage of \$15 per hour, indexed to inflation, for the federally regulated private sector. Where the provincial or territorial minimum wages are higher than the federal minimum, the higher wage will apply. The budget did not contain a timeline for implementation.

### *Enhancement to Canada Workers Benefit (CWB)*

The Canada Workers Benefit (CWB) is a non-refundable credit for taxpayers with modest employment and business income. The budget proposes to increase the income phase out thresholds for the CWB credit.

<b>Taxpayer type</b>	<b>Maximum Credit</b>	<b>Current Net Income Threshold / Full Phase-Out</b>	<b>2021 Net Income Threshold / Full Phase-Out</b>
Single, no dependants	\$1,395	\$13,194 / \$24,815	\$22,944 / \$32,244
Families	\$2,403	\$17,522 / \$37,548	\$26,177 / \$42,197
Phase-in rate for income over \$3,000		26%	27%
Phase-out rate for income over threshold		12%	15%

The budget also proposes to introduce a “secondary earner exemption” to the CWB for couples. The exemption will allow the spouse or common-law partner with the lower income to exclude up to \$14,000 of their working income in the computation of their net income for the purpose of the CWB phase-out.

The CWB also supplements individuals eligible for the disability tax credit. Under the proposed rules, the supplement would phase out at a rate of 7.5% for each individual in a couple where both individuals receive the supplement, and at a rate of 15% otherwise.

These measures will apply to 2021 and subsequent taxation years, and indexation of the amounts relating to the CWB will continue to apply.

### *Expansion of Disability Tax Credit Eligibility*

Individuals eligible for the disability tax credit have impairments in their ability to perform basic daily living activities. To ensure the eligibility criteria articulates the range of mental functions necessary for everyday life, the budget expands those functions to include:

- Attention
- Concentration
- Memory
- Judgement
- Perception of reality
- Problem-solving
- Goal-setting
- Regulation of behaviour and emotions
- Verbal and non-verbal comprehension
- Adaptive functioning

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The budget proposes to count the time spent on therapy-related activities by both the individual and their assistant to qualify for the minimum 14 hour/week test, provided the individual is incapable of performing therapy on their own. The government will reduce the minimum per week therapy requirement from three times per week to two times per week. In addition, to enhance the total time committed to therapy, the budget proposes to:

- Allow reasonable time spent determining dietary intake and/or physical exertion to be considered part of therapy where the information is essential to determining the dosage of daily medication adjustments
- Include medical appointment time where the appointment is to receive therapy or to determine the daily dosage of medication
- Include medically required recuperation time
- Include the time related to determining the amount of a compound that can be safely consumed as part of a daily consumption of a medical food or medical formula

These changes will apply to 2021 and subsequent taxation years for disability tax credit certificates filed with the Minister of National Revenue on or after Royal Assent.

#### *Expansion of Northern Residents Deductions*

The budget proposes to expand access to the travel component of the Northern Residents Deductions for residents in the Northern Zone and the Intermediate Zone. A taxpayer has the option to claim, for the taxpayer and each eligible family member, up to:

- the amount of employer-provided travel benefits the taxpayer received for travel by that individual; or
- a \$1,200 standard amount that may be allocated across eligible trips taken by that individual.

This measure applies to 2021 and subsequent taxation years.

#### *Postdoctoral Fellowship Income is Earned Income*

The budget proposes to treat postdoctoral fellowship income as earned income for the purposes of computing the RRSP contribution limit. This measure applies to postdoctoral fellowship income received in 2021 and subsequent taxation years. Concerning applicable income received in the 2011 to 2020 taxation years, the taxpayer may submit a request in writing to the Canada Revenue Agency for a retroactive adjustment to their RRSP room.

#### *Increasing Usage of Electronic Filing and Certification*

The budget makes a number of proposals to limit administration through physical paper. The measures include ending requirements for taxpayers to authorize CRA and information return issuers to deliver Notices of Assessment and tax statements (T4A and T5) electronically. The budget eliminates the requirement to have handwritten signatures on certain prescribed forms:

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- T183, Information Return for Electronic Filing of an Individual's Income Tax and Benefit Return;
  - T183CORP, Information Return for Corporations Filing Electronically; and
  - T2200, Declaration of Conditions of Employment.

### *Increase Flexibility to Fix Errors in Defined Contribution Pension Plans*

The budget proposes to allow plan administrators to correct both under-contributions and over-contributions to defined contribution pension plans. The proposals permit plan administrators to correct certain types of errors via additional contributions to an employee's account to compensate for an under-contribution error made in any of the preceding five years, subject to a dollar limit. The proposals also permit plan administrators to correct pension over-contribution errors for an employee for any of the five years prior to the year in which the excess amount is refunded to the employee or employer.

To simplify reporting requirements, the proposed rules would require the plan administrator to file a prescribed form in respect of each affected employee, rather than to amend T4 slips for prior years. Additional contributions to correct for under-contributions would reduce the employee's registered retirement savings plan (RRSP) contribution room for the taxation year following the year in which the retroactive contribution is made. To the extent this results in negative RRSP room, it would only impact the employee's contributions in future years. Refunds of over-contributions would generally restore the employee's RRSP contribution room for the taxation year in which the refund is made.

This measure applies to additional contributions made, and amounts of over-contributions refunded, in 2021 and subsequent taxation years.

### *Introduction of Tax on Unproductive Use of Canadian Housing by Foreign Non-Resident Owners*

As originally hinted in the Fall Economic Statement, the budget officially proposes to introduce a new national 1% tax on the value of non-resident, non-Canadian owned residential real estate that the government considers vacant or underused. This tax will apply annually beginning in 2022.

Beginning in 2023, all owners of residential property in Canada, other than Canadian citizens or permanent residents of Canada, will be required to file an annual declaration with the CRA for the prior calendar year for each Canadian residential property they own. The owner may be able to claim an exemption from the tax if they lease the property to one or more qualified tenants for a minimum period in the calendar year.

In the coming months, the government will release a backgrounder to provide stakeholders with an opportunity to comment on further parameters of the proposed tax. These parameters would include, for example, the definition of residential property, the value on which the tax would apply, how the tax would apply where multiple individuals and/or non-individuals own the property, potential exemptions and compliance and enforcement mechanisms. Additionally, the consultation will consider whether, how and when the proposed tax would apply in smaller, resort and tourism communities.

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## CONSUMER TAXES

### *Introduction of Tax on Luxury Goods*

Effective January 1, 2022, the budget introduces a tax on the retail sale of new luxury cars and personal aircraft priced over \$100,000 and boats priced over \$250,000 (before GST/HST and provincial sales tax). The tax will apply at the point of purchase in Canada or at the time of importation of the vehicle, aircraft, or boat into Canada. GST/HST applies to the final sale price, inclusive of the proposed tax.

Luxury Good	Value to Trigger Tax	Tax
Vehicles	> \$100,000	Lesser of 10% of the full value or 20% of the value over \$100,000
Aircraft	>\$100,000	Lesser of 10% of the full value or 20% of the value over \$100,000
Boats	>\$250,000	Lesser of 10% of the full value or 20% of the value over \$250,000

## BUSINESSES

The federal budget did not propose any changes to federal corporate income tax rates or the \$500,000 small business limit. However, the budget proposed a temporary measure to reduce the existing corporate income tax rates for **qualifying zero-emission technology manufacturers** to reduce the general rate to 7.5% and the small business rate to 4.5%. The reduced rates would apply to tax years that begin after 2021 and the rates would phase out gradually from 2029 to 2031, returning to the 15% and 9% rates by 2032.

### Federal Corporate Tax Rates

Corporate Income Type	2020	2021
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 19, 2021

Rates represent calendar year rates

### *Introduction of the Canada Recovery Hiring Program*

The budget introduces a new Canada Recovery Hiring Program to provide eligible employers with a subsidy of up to 50% on the incremental remuneration paid to eligible employees between June 6, 2021 and November 20, 2021. The employer may claim either the hiring subsidy or the Canada Emergency Wage Subsidy (CEWS) for a particular period, but not both.

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Employers eligible for the CEWS would generally be eligible for the hiring subsidy, but only if it is a Canadian-controlled private corporation, individual, non-profit organization, registered charity or partnership. Public institutions are not eligible for the hiring subsidy. Eligible employers would be required to have had a payroll account open with CRA on March 15, 2020.

Eligible employees must work primarily in Canada throughout a qualifying period. The subsidy is not available for furloughed employees or employees on a paid absence, vacation leave, sick leave, or a sabbatical.

### *Extension of Emergency Business Supports*

Over the past year, the government introduced a number of support measures to businesses affected by the pandemic. The budget extends the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS), and Lockdown Support programs to September 25, 2021. The subsidy rates will gradually decline over the July to September 2021 period. The budget also provides the government with the legislative authority to add an additional qualifying period for those programs until November 20, 2021 if the public health situation warrants the extension. As a reminder, these benefits are taxable to the corporation or business. For further details on the support programs, visit <https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update.html>.

### *Introduction of Requirement to Repay Wage Subsidy (CEWS)*

The budget proposes to require a publicly listed corporation to repay wage subsidies received for a qualifying period that begins after June 5, 2021 in the event that its aggregate compensation for specified executives during the 2021 calendar year exceeds that during the 2019 calendar year. Specified executives are its Named Executive Officers whose compensation must be disclosed under Canadian securities laws in its annual information circular provided to shareholders.

The amount of the wage subsidy that must be repaid is equal to the lesser of:

- the total of all wage subsidy amounts received for active employees for qualifying periods that begin after June 5, 2021; and
- the amount by which the corporation's aggregate specified executives' compensation for 2021 exceeds its aggregate specified executives' compensation for 2019.

This requirement to repay will apply at the group level and would apply to wage subsidy amounts paid to any entity in the group.

### *Immediate Expensing of Capital Acquisitions*

The budget proposes to provide temporary immediate expensing for certain property acquired by a Canadian-Controlled Private Corporation (CCPC). This immediate expensing applies to purchases of capital property that is subject to the capital cost allowance (CCA) rules, except property in classes 1 to 6, 14.1, 17, 47, 49, and 51, which are generally long-lived assets. Property acquisitions on or after April 19, 2021 that become available for use before January 1, 2024 are eligible up to a maximum of amount of \$1.5 million per taxation year. The limit is shared among associated members of a group of CCPCs.

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## *Introduction of a Digital Services Tax*

The budget proposes to introduce a 3% Digital Services Tax (DST) on revenues from digital services that rely on data content contributions from Canadian users. The tax would apply to large businesses with gross revenue of 750 million euros or more. It would apply as of January 1, 2022 until a multilateral agreement is reached for cross-border digital taxation. The government plans to engage with the provinces and territories to discuss the implications of the DST and open up draft legislation for public comment during summer 2021.

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