

# 2021 Federal Budget

## A summary of key tax measures that may impact you and your families

- Personal tax changes
- Recovery support for individuals and businesses
- Tax fairness to close the wealth gap
- Measures to combat climate change

## “A recovery plan for jobs, growth and resilience.”

On April 19, 2021, Canada’s Deputy Prime Minister and Federal Minister of Finance, the Honourable Chrystia Freeland, unveiled the country’s first full budget in over two years. During this unprecedented global pandemic, it presents the government’s fiscal outlook for the year and beyond, announces major spending to get Canadians through the COVID-19 pandemic and jumpstart Canada’s economic recovery, features a historic call for a national child care and early learning program, provides new incentives for climate change reforms, and addresses tax fairness.

### PERSONAL TAX CHANGES

#### The Canada Workers Benefit (CWB)

The federal government proposes the following changes to the CWB:

- Increase the tax credit from 26 cents to 27 cents for every dollar over \$3,000.
- Increase the phase-out threshold from \$13,194 to \$22,944 for individuals and from \$17,522 to \$26,177 for families.
- Increase the benefit reduction rate from 12% to 15%.

#### Tax on non-qualified registered investments

The tax imposed on non-qualified investments in registered accounts will now be pro-rated based on the proportion of shares or units of the registered investment held by the investor.

#### Increasing Old Age Security (OAS) for Canadians 75 and over

Many seniors have experienced economic challenges during the pandemic and many of them are relying on monthly benefits to afford retirement. The government proposes:

1. A one-time payment of \$500 in August 2021 to OAS pensioners who will be 75 or older as of June 2022 to meet their immediate needs.

2. Legislation to increase regular OAS payments for pensioners 75 and older by 10% on an ongoing basis as of July 2022. This would provide additional benefits of \$766 in the first year and an amount indexed to inflation going forward.

### Disability Tax Credit

The budget proposes to expand the definition of mental function necessary for everyday life and to reduce the therapy requirement from three times to two times each week. In addition, it proposes that the time used to determine the amount of dietary intake and/or physical exertion when calculating required medication dosage is to be included as part of therapy time.

## RECOVERY SUPPORT

### COVID-19-related support for individuals

The government aims to extend direct income benefits to protect jobs and businesses and position Canada's economy for a robust and lasting recovery. The budget proposes to:

- Increase the **Canada Recovery Benefit (CRB)** by 12 weeks to a maximum of 50 weeks; the first four weeks paid at \$500 per week and the remaining eight paid at \$300. After July 17, 2021, all new CRB claims would receive \$300 per week until September 25, 2021.
- Extend the **Canada Recovery Caregiving Benefit (CRCB)** by an additional four weeks, to a maximum of 42 weeks, at \$500 per week, to cover caregiving options, particularly for those supporting children.
- Extend the temporary changes made to the **Employment Insurance (EI)** program to be simpler and more flexible by increasing **EI Sickness Benefits** from 15 to 26 weeks and waiving the waiting period for EI beneficiaries who established a new claim between January 31 and September 25, 2021.
- Amend the *Income Tax Act (Canada)* to allow individuals to deduct a repayment of a COVID-19 benefit (for example, CRCB and Canada Emergency Student Benefits/CSB) anytime before 2023 when calculating income for the year in which the benefit was received.

### COVID-19-related support for businesses

To support businesses that have experienced a revenue drop due to COVID-19, the budget proposes to:

- Extend various COVID-19 support programs until September 25, 2021, including the **Canada Emergency Wage Subsidy (CEWS)**, the **Canada Emergency Rent Subsidy (CERS)** and the **Lockdown Support**.
- Gradually reduce subsidy rates from July to September and extend additional qualifying periods for the CEWS, CERS and Lockdown Support until November 20, 2021.
- Require publicly listed corporations to repay **Canada Emergency Wage Subsidy (CEWS)** amounts received for a qualifying period beginning after June 5, 2021, when its aggregate compensation for a specified executive during 2021 exceeds that during 2019.
- Apply a separate **wage support subsidy for furloughed employees** who are on leave with pay. To align the wage subsidy for furloughed employees and EI benefits, the weekly wage subsidy for a furloughed employee from June 6, 2021, to August 28, 2021, must be the lesser of:

- The amount of eligible remuneration paid for the week; and
- The greater of:
  - \$500; and
  - 55% of pre-crisis remuneration for the employee, up to a maximum subsidy of \$595.

- Set the **Canada Emergency Rent Subsidy (CERS)** – the maximum base rent subsidy rate – at 65% through the qualifying period ending on June 5, 2021, and gradually phase out the subsidy rate starting on July 4, 2021.
- Provide 25% additional **Lockdown Support** for businesses who qualify for the CERS to receive more help if they must cease operations or significantly limit their activities under a public health order, and extend the qualifying period from June 6, 2021, to September 25, 2021.

- Introduce 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.

Eligible employers may claim either the hiring subsidy or the CEWS during a qualifying period, but not both.

### Tax on alcohol and tobacco products

The government has taken action to:

- Increase the tobacco excise duty rate by \$4 per carton of 200 cigarettes.
- Apply an inventory tax of \$0.02 per cigarette, subject to certain exemptions, on inventories of cigarettes held by manufacturers, importers, wholesalers and retailers as of the beginning of April 20, 2021.
- Implement a tax on vaping products in 2022 with a new excise duty framework. It would impose a single flat rate duty of \$1 on every 10 ml of vaping liquid or fraction thereof, based on the volume of the smallest immediate container holding the liquid.

## TAX FAIRNESS TO CLOSE THE WEALTH GAP

### Luxury tax

The budget proposes introducing a tax on the importation and retail sale of new luxury cars and personal aircraft priced over \$100,000 and boats priced over \$250,000, effective January 1, 2022. The tax would be the lesser of 10% of the vehicle's or aircraft's full value, or 20% of the value above \$100,000. For boats priced over \$250,000, the amount of the tax would be the lesser of 10% of the full value of the boat or 20% of the value above \$250,000. In addition, the GST/HST would apply to the final sale price (which will be inclusive of the luxury tax).

### Avoidance of tax debts

The anti-avoidance rule where the transfer of property for the purpose of tax debt avoidance will include

transfer to an arm's length person. These proposals will apply in respect of transfers of property made after April 18, 2021.

### Corporate tax changes

#### Interest deductibility limits

To limit the amount of net interest expense a corporation may deduct from its taxable income, the government proposes a rule limiting earnings that may be stripped to no more than a fixed ratio of "tax EBITDA," which is that corporation's earnings before interest, taxes, depreciation and amortization. This **new earnings-stripping rule** would also apply to trusts, partnerships and Canadian branches of non-resident taxpayers, with certain exceptions. Companies will be allowed to carry back the denied interest deductions up to three years or carry them forward up to 20 years. A fixed ratio of 40% for taxation years between January 1, 2023, and December 31, 2023, and 30% for taxation years thereafter would apply to taxation years beginning January 1, 2024.

#### Immediate expensing

The federal government proposes to allow temporary immediate expensing of up to \$1.5 million per taxation year of eligible investments by Canadian Controlled Private Corporations (CCPCs) made on or after April 19, 2021, and before 2024. The immediate expensing would only be available for the year in which the property becomes available for use and the limit is shared among the associated corporations of the CCPCs.

#### Digital services tax

The budget introduces a new 3% digital services tax (DST) effective January 1, 2022, which is a non-income tax on certain large businesses earning revenue from digital services on the engagement, data and content contributions of Canadian users. It applies to large businesses including online marketplaces, social media, online advertising, and user data that meet the following thresholds:

- Revenues of global groups from all sources of €750 million or more in the previous calendar year.
- In-scope revenue related to Canadian users of more than \$20 million in the particular calendar year (the new DST would only apply to in-scope revenue over that \$20 million threshold).

## CLIMATE CHANGE

**Reduced corporate taxes for manufacturers of zero-emission products**

The general corporate and small business income tax rates are proposed to be reduced for businesses that manufacture zero emission technologies by 50%. The proposed measure will be effective on January 1, 2022, with a gradual phase-out starting January 1, 2029, and will be eliminated by January 1, 2032.

**The first federal green bond**

The government proposes to issue \$5 billion in its inaugural **federal green bond** in 2021-22. The green bond framework aims to provide investors with opportunities to finance government initiatives to fight climate change and protect the environment. The green bond will be used to fund projects on green infrastructure, cleantech innovations, nature conservation, and other efforts.

**Climate Action Incentive payments**

Climate Action Incentive payments currently structured as a refundable credit claimed annually on personal income tax returns will be changed to quarterly payments made through the benefit system starting in 2022. The government will also return a portion of the proceeds from the price on pollution (approximately \$100 million in the first year) directly to farmers in Alberta, Saskatchewan, Manitoba, and Ontario, beginning in 2021-22. Further details will be announced later in 2021 by the Minister of Finance.

**Capital cost allowance for clean energy equipment**

Taxpayers are allowed to deduct a portion of the capital cost of a depreciable piece of clean energy equipment in calculating their taxable income each year. The budget proposes to expand eligible items listed under Classes 43.1 and 43.2. These classes have accelerated capital cost allowance rates (30% and 50%, respectively) for investments in specified clean energy generation and energy conservation equipment.

## OTHER MEASURES

**Introducing a \$15 federal minimum wage**

The government has introduced amendments to the Canada Labour Code that will establish a federal minimum wage of \$15 per hour, rising with inflation, with provisions to ensure that higher wages will prevail where provincial or territorial minimum wages are higher.

**GST New Housing Rebate conditions**

The GST New Housing Rebate entitles homebuyers to recover 36% of the GST (or the federal component of the HST) paid on the purchase of a new home priced up to \$350,000. The maximum rebate is \$6,300. The GST New Housing Rebate is phased out for new homes priced between \$350,000 and \$450,000 and no rebate for new homes priced at \$450,000 or more. The budget proposes to include a condition where the new home must be acquired for use as the primary place of residence by any one of the purchasers or a relation, and eliminate the need for each purchaser to meet the condition to qualify for this rebate. The proposed changes will also apply to owner-built homes, co-op housing shares and homes constructed on leased land, as well as to new housing rebates in respect of the provincial component of the HST. This measure will apply to a supply made under an agreement of purchase and sale entered into after April 19, 2021. In the case of a rebate for owner-built homes, the measure will apply when construction or substantial renovation of the residential complex is substantially completed after April 19, 2021.

**Canada-wide early learning and child care system**

High-quality and affordable child care is a necessity for young families to prevent some parents from being forced to leave their careers because child care is unavailable or unaffordable. The budget proposes to include in legislation a financial authority to transfer funding to provinces and territories to support a new bilateral program to create a Canada-wide Early Learning and Child Care System for the year 2021-22.

### Tax on vacant residential properties

Addressing affordable housing, the government proposes introducing a new national 1% tax on the value of non-resident, non-Canadian owned residential real estate property that is vacant or underused. Taxable owners will be required to file an annual declaration with the Canada Revenue Agency (CRA). Failure to file will result in penalties, interest and an unlimited assessment period.

### Postdoctoral fellowship income

The federal budget proposes to include postdoctoral fellowship income in the definition of "earned income" for RRSP purposes. This would provide postdoctoral fellows with additional RRSP room with which to make deductible RRSP contributions.

### Public consultations

#### Reportable transactions, notifiable transactions, and uncertain tax treatments

The government is consulting on a proposal to enhance mandatory disclosure rules on reportable transactions, new reporting on notifiable transactions and uncertain

tax treatments. Significant tax penalties may apply to the taxpayer and promoter for failure to disclose. Corporations with \$50 million in assets at the end of the year and an uncertain tax position related to their Canadian income tax reflected in their audited financial statements, must report such transactions to the CRA. Failure to report can result in penalties of \$2,000 per week, up to a maximum of \$100,000, for failure to report uncertain tax treatments.

#### Raising registered charities' disbursement quotas

A disbursement quota regulates the percentage of a registered charity's assets that must be used to fund charitable operations or granted to other charities. The government is consulting with charities to increase the disbursement quota beginning in 2022.

#### Indigenous governments to implement sales tax on fuel, tobacco and cannabis

The budget announces the Government of Canada's intention to engage with interested Indigenous governments and organizations on a framework to negotiate agreements that would enable them to implement a fuel, alcohol, tobacco, and cannabis sales tax within their reserves or settlement lands.

*This document highlights some key tax measures proposed by the 2021 Federal Budget is for information purposes only, and is not a comprehensive review. A Scotiabank advisor would be happy to discuss considerations that may be relevant to you. For more details, you can refer to the Budget 2021: A Recovery Plan for Jobs, Growth and Resilience, at <https://www.canada.ca/en/department-finance/news/2021/04/budget-2021-a-recovery-plan-for-jobs-growth-and-resilience.html>*

*Individuals should consult their tax advisors before implementing any strategies that are based on these new measures.*

This publication has been prepared by The Bank of Nova Scotia and is intended as a general source of information only and should not be considered or relied upon as personal and/or specific financial, tax, pension, legal or investment advice. We are not tax or legal advisors and individuals should consult with their own tax and legal advisors before taking any action based upon the information contained in this publication. Opinions and projections contained in this publication are our own as of the date hereof and are subject to change without notice. While care and attention has been taken to ensure the accuracy and reliability of the material in this publication, neither The Bank of Nova Scotia nor any of its affiliates make any representations or warranties, express or implied, as to the accuracy or completeness of such material and disclaim any liability resulting from any direct or consequential loss arising from any use of this publication or the information contained herein. This publication and all the information, opinions and conclusions contained herein are protected by copyright. This publication may not be reproduced in whole or in part without the prior express consent of The Bank of Nova Scotia.

®Registered trademark of The Bank of Nova Scotia. ™Trademark of The Bank of Nova Scotia. Used under license, where applicable.