

2022 Federal Budget

A plan to grow Canada's economy while making life more affordable and equitable

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On April 7, 2022, Canada's Deputy Prime Minister and Federal Minister of Finance, Chrystia Freeland, tabled the 2022 Federal Budget. This year's budget focuses on making housing more affordable; supporting a strong, growing and resilient economy; improving clean air; and focusing on tax fairness.

We provide a summary of the most significant tax measures announced in the budget and the potential impact on you, your family and your business. This is not a comprehensive review of the 2022 Federal Budget.

HOUSING AFFORDABILITY

The budget proposes two measures to help make homes more affordable for first-time home buyers:

Tax-Free First Home Savings Account

The new Tax-Free First Home Savings Account is a registered account that will allow Canadians to contribute up to a lifetime limit of \$40,000 to purchase their first home. Contributions are deductible; however, qualifying withdrawals would be tax-free and there would be no tax on investment growth. An annual contribution limit of \$8,000 will be available starting in 2023.

First-Time Home Buyers' Tax Credit

The existing First-Time Home Buyers' Tax Credit will double to \$10,000 for the purchase of a qualifying home in Canada. This provides up to \$1,500 in tax relief to individuals who will acquire (or have acquired) a qualifying home on or after January 1, 2022.

Other housing-related measures introduced in the budget include the following:

Multigenerational Home Renovation Tax Credit

The new refundable Multigenerational Home Renovation Tax Credit will provide a credit of 15% on up to \$50,000 of eligible renovation costs for an eligible person (a senior or a person with a disability) to add a secondary dwelling unit to their home. This measure would apply for work performed and paid for on or after January 1, 2023.

Home Accessibility Tax Credit

The expense limit of the non-refundable Home Accessibility Tax Credit for qualifying renovations will double to \$20,000 per year for eligible individuals who qualify for the Disability Tax Credit, or who are 65 years of age or older at the end of a given tax year.

Housing “anti-flipping” tax

This new measure ensures that profits made from flipping properties (i.e., selling a property in Canada that was held for less than 12 months) are taxed fully and fairly. Exemptions will apply, such as for Canadians who sell their home because of a new job, new child, divorce, disability or other similarly legitimate reason. The new tax will help distinguish between investors who aim to profit from a quick property sale, and those who use their residences as homes and qualify for the principal residence exemption (where gains from a sale of a designated principal home are tax exempt).

PERSONAL TAX MEASURES

No changes were made to personal income tax rates.

Medical Expense Tax Credit for surrogacy (METC)

METC is a 15% non-refundable tax credit on qualifying medical expenses. To help Canadians with growing their families, the budget proposes to broaden the definition of a patient who may claim eligible medical expenses and expands eligible expenses to include the use of assisted reproductive technology such as in-vitro fertilization procedures. A patient will now include parents, the surrogate mother or a donor of sperm, ova or embryos.

Labour Mobility Deduction

The budget proposes to introduce a Labour Mobility Deduction for tradespeople in the construction industry, which would allow qualified tradespeople to deduct up to \$4,000 in eligible travel and temporary relocation expenses, which equates to \$600 of tax credits per year.

BUSINESS TAX MEASURES

There were no changes made to business income tax rates.

Canada Recovery Dividend (CRD)

Budget 2022 proposes to introduce the CRD in the form of a one-time 15% tax on banks and life insurance companies. The CRD would be imposed based on a corporation's 2021 taxable income, and will be payable in equal amounts over five years.

Additional tax on banks and life insurance companies

The budget also proposes to introduce an additional tax on banks and life insurance companies of 1.5% of the taxable income above \$100 million. The proposed tax would be applied to taxation years ending after Budget Day.

Cutting taxes for Canada's medium-sized businesses

Access to the reduced federal tax rate disappears when the corporation's taxable capital exceeds \$15 million or has passive income above \$150,000. To facilitate small business growth, the budget proposes to gradually reduce access to the small business tax rate when corporations have taxable capital between \$15 and \$50 million (previously \$10 to \$15 million).

Substantive Canadian Controlled Private Corporation (CCPC)

Some taxpayers are manipulating the status of corporations to avoid qualifying as a CCPC, which may have a tax advantage on investment income earned in their corporations. Budget 2022 proposes changes to the Income Tax Act (ITA) to align the taxation of investment income earned and distributed by “substantive CCPCs.” Substantive CCPCs would be private corporations in Canada that are ultimately controlled by Canadian resident individuals.

GREEN ECONOMY

Investment tax credit for Carbon Capture, Utilization, and Storage (CCUS)

A refundable investment tax credit is being proposed for certain eligible expenses related to carbon capture incurred between 2022 and 2040.

Capital cost allowance for clean energy equipment

A proposal was made in the budget to expand definitions in Class 43.1 and 43.2 to include air-source heat pumps primarily used for space or water heating.

Rate reduction for zero-emission technology manufacturers

Another budget proposal pertains to including the manufacturing of air-source heat pumps used for space or water heating as an eligible activity to reduce corporate tax rate.

Critical Mineral Exploration Tax Credit

Budget 2022 proposes to introduce a 30% credit for exploration of specified minerals (copper, nickel, lithium, cobalt, graphite and rare earth elements). These minerals are used in advancing technologies in clean technology and semi-conductors.

Flow-through shares for oil, gas, and coal activities

The intent of this proposal is to eliminate the flow-through share regime for companies who are in exploration and development of oil, gas and coal. This change would be effective for flow-through share agreements entered into after March 31, 2023.

OTHER MEASURES

Application of General Anti-Avoidance Rule (GAAR)

GAAR exists in order to prevent abusive tax avoidance transactions. The government proposes to amend the GAAR section of the Income Tax Act to apply to transactions that affect tax attributes that have not yet become relevant to the computation of tax. This would be effective on or after Budget Day.

Annual disbursement quota for registered charities

The budget proposes to increase the disbursement quota (DQ) from 3.5% to 5% for the portion of property

not used in charitable activities or administration that exceeds \$1 million. Moreover, the budget also proposes to clarify that administration and management fees are not qualifying expenditures for the purpose of satisfying a charity's DQ. This measure would apply to charities with fiscal periods beginning on or after January 1, 2023.

GST/HST on assignment sales by individuals

Budget 2022 proposes to amend the Excise Tax Act to make all housing assignment sales taxable for GST/HST purposes. This measure applies to any assignment agreement entered on or after the day that is one month following Budget Day.

Exchange of tax information on digital economy platform sellers

The Organisation for Economic Co-operation and Development (OECD) has developed model rules that require digital platform operators to collect and report relevant information to tax administrations. The new budget proposes to implement the model rules in Canada. Reporting platform operators would be required to report specified information to the Canada Revenue Agency by January 31 of the year following the calendar year-end.

For more details on other proposed spending programs, please refer to the *"2022 Federal Budget: A Plan to Grow Our Economy and Make Life More Affordable"*

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

Please note: Federal Budget 2022 has not yet been approved in parliament nor received royal assent. The Canada Revenue Agency has a longstanding practice of allowing taxpayers to file their tax returns based on proposed legislation. However, you will remain potentially liable for taxes under the current law if this proposed budget is not passed. Please consult with your own tax advisors before proceeding with specific budget proposals as they relate to you.

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