

## Federal Budget 2022:

A Plan to Grow Our Economy  
and Make Life More Affordable

April 2022



## Introduction

The federal government has delivered the *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable*, with a wide range of measures directed at housing affordability, economic growth, fighting climate change, jobs growth, health care, First Nations reconciliation initiatives, inclusion, and tax fairness. The measures are geared to help Canadians during this period of higher inflation as economic activity returns to a pre-pandemic level.

## Personal Income Tax Measures

### Tax-Free First Home Savings Account

The Budget proposes to introduce the Tax-Free First Home Savings Account, which would give prospective first-time home buyers the potential to save up to \$40,000 towards the purchase of their first home. The contributions would be tax-deductible, similar to a Registered Retirement Savings Plan (RRSP); while home purchase withdrawals and investment income would be non-taxable, similar to a Tax-Free Savings Account (TFSA). The government intends to work with Canadian financial Institutions to ensure the Tax-Free First Home Savings Account could be opened and contributed to in 2023.

### Doubling First-Time Home Buyer's Tax Credit

To make home ownership more affordable, the Budget proposes to double the First-Time Home Buyer's Tax Credit amount to \$10,000. The credit is estimated to provide up to \$1,500 in direct support to home buyers. The measure would only apply to homes purchased on or after January 1, 2022.

### Multigenerational Home Renovation Tax Credit

The Budget proposes to introduce a Multigenerational Home Renovation Tax Credit of up to \$7,500 to support the renovation or construction of a secondary suite for a senior or an adult with a disability in multigeneration homes. Starting in 2023, the refundable credit would allow families to claim 15% of up to \$50,000 in eligible renovation or construction costs incurred.

### Home Accessibility Tax Credit

The Budget proposes to double the qualifying expense limit of the existing Home Accessibility Tax Credit to \$20,000 for 2022 and subsequent tax years. This would represent a tax credit of up to \$3,000, aimed at making the cost of renovations and accessibility upgrades (such as wheelchair accessibility, walk-in bathtubs installation, non-slip flooring installation) for seniors and persons with disabilities more affordable.

### Making Property Flippers Pay Their Fair Share

In an effort to curtail property flipping (buying a house and selling it for a large profit in a short period of time), the Budget proposes to introduce new rules aimed at fully and fairly taxing individuals who engage in property flipping. Under the proposed rule, an individual who sells a property they have held for less than 12 months would be deemed to be flipping a property and would be subject to full taxation of their profits

as business income. The proposal allows for some exemptions due to certain life circumstances such as death, disability, a new job, the birth of a child, or a divorce. This measure would apply to residential properties sold on or after January 1, 2023.

### A Ban on Foreign Investment in Canadian Housing

The Budget announces the government's intention to propose new measures to ban foreign commercial enterprises and individuals who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years. The proposal would allow an exemption for refugees and people coming to Canada fleeing international crises. Other exemptions may include those on work permits and international students who are soon to become permanent residents. Moreover, non-resident and non-Canadians who own homes that are being underused or left vacant would be subject to the Underused Housing Tax once in effect.

### Dental Care for Canadians

Currently, a third of Canadians do not have their own dental coverage, the Budget proposes to provide dental coverage for target groups. This measure aims to provide \$5.3 billion in funding over the next five years. It will be restricted to families with an income of less than \$90,000 annually and with no co-pays for families with income under \$70,000 annually. The coverage would become available to children under 12 years old starting 2022, expanding to those under 18 years old, seniors and persons living with a disability in 2023, with full implementation by 2025.

### Labour Mobility Deduction for Tradespeople

The Budget proposes a new Labour Mobility Deduction to assist workers in certain trades who may often travel and work in rural or remote communities. This measure would provide a tax deduction on eligible travel and temporary relocation expenses of up to \$4,000 per year for eligible tradespersons and apprentices. This measure would apply to the 2022 and subsequent taxation years.

### Connecting Workers to Good Jobs

To support businesses finding it difficult to hire in the record low unemployment environment, the Budget proposes to address barriers faced by underrepresented groups in Canada. These groups include, but are not limited to, women, Indigenous peoples, Black and racialized Canadians, newcomers, persons with disabilities and young Canadians. The budget intends on improving labour mobility and foreign credential recognition, and creating

opportunities for those with disabilities. In addition, to boost labour force participation, the government intends to engage with experts to review a Career Extension Tax Credit to support seniors who wish to remain in the workforce.

### **Making the Switch to Zero-Emission Vehicles More Affordable**

Since 2019, the government has provided purchase incentives to help Canadians purchase or lease eligible zero-emission vehicles (ZEVs). This Budget now proposes to further enhance the incentive with \$1.7 billion in additional funding over five years. Starting in 2022-2023, Transport Canada will extend the incentives for a Zero-Emission Vehicles (iZEV) program through March 2025 with \$0.8 million in remaining amortization.

In addition to the purchase incentive extension, the Budget proposes to expand the eligible vehicle models to include more trucks, vans and SUVs which will make ZEV's more affordable. Transport Canada is expected to announce further details in the coming weeks.

### **Other Personal Income Tax Measures**

The Budget has outlined a focus on the following areas but specific measures were not made available at this time.

- To support seniors, the Budget 2022 proposes to review any further increases to the Guaranteed Income Supplement (GIS) as well as to explore the possibility of an Aging at Home Benefit for those who may wish to stay in their home longer and continue to support the quality of life for our seniors as they age.
- In order to facilitate intergenerational business transfers, a Private Member's Bill C-208 introduced exceptions to the rule around a practice commonly referred to as "surplus stripping" and the bill received Royal Assent on June 29, 2021. However, the newly introduced exceptions may unintentionally permit surplus stripping without requiring a genuine intergenerational transfer. The Budget proposes a consultation process to support the balance between the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers. Following a consultation process, the government is aiming to introduce legislation which could be included in a future bill to be tabled in the fall.
- Citing a statistic that 28% of Canadian tax filers with a gross income above \$400,000 pay an average federal personal income tax rate of 15% or less as

a result of significant use of deductions and tax credits, the government has indicated its intention to examine a new minimum tax regime to support the fairness of the tax system.

- To maintain the integrity of the financial system, promote fair competition, and protect Canadians and national security as it relates to the digitalization of money, the Budget 2022 indicates the government's intention to launch a review of the financial sector legislation, starting with digital currencies, cryptocurrencies and stablecoins.

## **Business Income Tax Measures**

### **Cutting Taxes for Canada's Growing Small Businesses**

Small Businesses in Canada benefit from a lower small business federal corporate tax rate on their first \$500,000 of taxable income at 9%, compared to the general federal corporate tax rate of 15%. Currently, the application of the reduced small business tax rate is completely phased out when the businesses' level of capital employed in Canada reaches \$15 million.

The Budget 2022 proposes a more gradual phasing out of access to the small business tax rate, with the full phase out occurring when the taxable capital reaches \$50 million instead of \$15 million. This measure would apply to the business' taxation years that begin on or after April 7, 2022.

### **Preventing the Use of Foreign Corporations to Avoid Canadian Tax**

The government has indicated some taxpayers may be manipulating the status of their corporations to avoid being considered a Canadian-controlled private corporation (CCPC). If the corporation does not qualify as a CCPC, it would not be subject to the additional refundable corporate income tax it would otherwise pay on investment income earned. Budget 2022 proposes targeted amendments to the Income Tax Act to ensure that, for taxation years ending on or after April 7, 2022, investment income earned and distributed by private corporations that are in substance CCPCs is subject to the same taxation as investment income earned and distributed by CCPCs. Substantive CCPCs would be private corporations that are resident in Canada (other than CCPCs) that are ultimately controlled (in law or in fact) by Canadian-resident individuals. This would ensure private corporations cannot effectively opt out of CCPC status and inappropriately circumvent the existing anti-deferral rules applicable to CCPCs.

## Implementing a Publicly Accessible Beneficial Ownership Registry

Anonymous Canadian shell companies can be used to conceal the true ownership of assets, including business and expensive property. To address this, authorities and the public need access to timely and accurate information about the true ownership of such entities. As such, the government is accelerating its commitment to amend the *Canada Business Corporations Act* to implement a public and searchable beneficial ownership registry, which will be accessible before the end of 2023. The registry will cover corporations governed under the *Canada Business Corporations Act* and will allow access to the beneficial ownership information held by provinces and territories that agree to participate in the national registry. The federal government will work with provincial and territorial governments to advance a national approach to a beneficial ownership registry for real property, similar to other countries such as the United Kingdom.

## Helping Businesses Switch to Medium and Heavy Duty Zero-Emission Vehicles

Budget 2022 proposes to provide \$547.5 million over four years, starting in 2022-2023, to Transport Canada to launch a new purchase incentive program for businesses across Canada to upgrade their fleet to medium and heavy duty ZEVs.

## Reinforcing the Canada Revenue Agency (CRA)

In addition to the \$2.2 billion funding provided to the CRA since Budget 2016, Budget 2022 proposes to provide an additional \$1.2 billion in funding over five years. Starting in 2022-2023, the CRA is expected to expand audits of larger entities and non-residents engaged in aggressive tax planning, investigate and prosecute those engaged in criminal tax evasion and expand its educational outreach.

## Reducing Credit Card Transaction Fees

The federal government previously announced in Budget 2021 that it was committed to lowering the cost of credit card fees to benefit small businesses and protect existing reward points for consumers. As a follow-up to this announcement, Budget 2022 confirms that the government will continue current consultations with stakeholders to lower the cost of credit card fees for merchants.

## Employee Ownership Trusts

Employee ownership trusts encourage employee ownership in businesses and help facilitate the transition

of privately owned businesses to employees. Previous consultations uncovered the main barrier to the creation of these trusts in Canada was the lack of a dedicated trust structure under current tax legislation for such purposes. Budget 2022 proposes to create a new, dedicated type of trust under the *Income Tax Act* called the Employee Ownership Trust and the government will continue to work with stakeholders to that end.

## Highlights of Other Tax Measures

### Strengthening the General Anti-Avoidance Rule (GAAR)

The General Anti-Avoidance Rule (GAAR) is intended to prevent abusive tax avoidance transactions, while not interfering with legitimate commercial and family tax-planning transactions. If abusive tax avoidance is established, the GAAR applies to deny the tax benefit which was unfairly created. Budget 2022 proposes to amend the *Income Tax Act* so the GAAR can apply to transactions affecting tax attributes that have not yet been used to reduce taxes. Further consultation on modernizing the GAAR is anticipated to run through the summer of 2022 with legislative proposals to follow by end of 2022.

### Reporting Requirements for RRSPs and RRIFs

Budget 2022 proposes to require financial institutions to annually report to the CRA the total fair market value of property held in RRSP and Registered Retirement Income Fund (RRIF) accounts they administer beginning in the 2023 taxation year. This information will assist the CRA in its risk-assessment activities regarding qualified investments held within RRSPs and RRIFs.

### Disbursement Quota for Registered Charities

Registered charities are generally required to spend a minimum amount each year which is referred to as a disbursement quota (DQ). The DQ is currently equal to 3.5% of the registered charity's property not used directly in charitable activities or administration. Budget 2022 proposes to increase the DQ rate to 5% for the portion of property not used in charitable activities or administration exceeding \$1 million. In addition, Budget 2022 proposes to amend the *Income Tax Act* to clarify expenditures for administration and management are not considered qualifying expenditures to satisfy a charity's DQ. These changes will be effective in respect of a charity's fiscal period beginning on or after January 1, 2023.

## Climate Change Initiatives

- Budget 2022 proposes to provide an additional \$2 billion over nine years, starting in 2022-2023, to renew and expand the existing Oceans Protection Plan to proactively manage marine emergencies and clarify the liability and compensation regime for ship-source incidents.
- Budget 2022 proposes to provide \$43.5 million over five years, starting in 2022-2023, and \$8.7 million ongoing to Environment and Climate Change Canada to create a new federal Canada Water Agency.
- Budget 2022 proposes to provide \$19.6 million in 2022-2023 to Environment and Climate Change Canada to sustain the Freshwater Action Plan.
- Budget 2022 proposes to provide \$25.0 million over five years, starting in 2022-2023, to Environment and Climate Change Canada to support the Experimental Lakes Area.
- Budget 2022 proposes to provide \$44.9 million over five years, starting in 2022-2023, and \$9 million ongoing to Fisheries and Oceans Canada to support the Great Lakes Fishery Commission.

