April 2023 Financial Planning Email Update

The 2023 federal budget, tabled by Finance Minister Chrystia Freeland on March 28, 2023, contained several proposals that will impact the financial, tax and estate plans of Canadians. The following is a summary of the most relevant budget proposals that may impact you.

There are no changes to personal federal income tax rates or income brackets for 2023.The top 10% of income earners pay more then 50% of the tax. In the top ½% 28% paid no more then 15% in tax.

The alternative minimum tax (AMT) which was introduced in 1986 is a parallel tax calculation that allows fewer deductions, exemptions and tax credits than under the regular method of calculating income tax. AMT currently applies a flat 15% tax rate with a standard $40,000 exemption amount instead of the usual progressive rate structure. The taxpayer pays the greater of the AMT and regular tax. However, any additional tax paid as a result of AMT can be carried forward for seven years and credited against regular tax to the extent regular tax exceeds AMT in those years.

To better target the AMT to high-income individuals, the 2023 budget proposes several changes to the tax preferences (exemptions, deductions and credits) resulting in more high-income taxpayers being exposed to AMT. Some of the key design features of the new AMT regime are summarized below, with more details becoming available later this year.

- AMT capital gains inclusion rate will increase to 100% (from 80%), while capital loss carry-forwards and allowable business investment losses would apply at 50%.
- 100% inclusion of any stock option benefit will be included in the AMT base.
- Donation of publicly listed securities will include 30% of capital gains from those donations.
- Several deductions applied to AMT will be reduced from 100% to 50%.
- Only 50% of most non-refundable tax credits would be allowed to reduce the AMT (from 100%).
- The AMT exemption will increase from $40,000 to the start of the fourth federal tax bracket (approximately $173,000 for 2024) and indexed to inflation.
- The AMT rate will increase from 15% to 20.5%.
- AMT carry-forward will remain at seven years.
- No announcement yet as to whether certain trusts will be subject to AMT.

These changes would come into effect for taxation years beginning after 2023.

The impact of these changes will be that more high-income earners will be subject to the new AMT regime.

Registered Disability Savings Plans

Registered Disability Savings Plans (RDSPs) are designed to support the long-term financial security of a beneficiary who is eligible for the disability tax credit. Where the contractual competence of an individual who is 18 years of age or older is in doubt, the RDSP plan holder must be that individual's guardian or legal representative as recognized under provincial or territorial law.

As a result of the challenges in appointing a legal representative, the Finance Department introduced a temporary measure, which is set to expire on December 31, 2023, allowing a qualifying family member (QFM), who is a parent, spouse or common-law partner, to open an RDSP and be the plan holder for an adult whose capacity is in doubt, and who does not have a legal representative.

Budget 2023 proposes to extend the qualifying family member measure by three years, to December 31, 2026. A qualifying family member who becomes a plan holder before the end of 2026 could remain the plan holder after 2026.

In addition, the budget also proposes to broaden the definition of "qualifying family member" to include a brother or sister of the beneficiary who is 18 years of age or older. This proposed expansion would apply as of royal assent of the enabling legislation and be in effect until December 31, 2026. Like other QFMs, a sibling who becomes a QFM and plan holder before the end of 2026 could remain the plan holder after 2026.

Stakeholders have been advocating for these changes and it is great to see Finance include these proposals in the budget.

Registered Education Savings Plans

a) Educational Assistance Payments (EAPs)

Registered Education Savings Plans (RESPs) are tax-assisted savings vehicles designed to help families accumulate savings for the post-secondary education of their children. Contributions to RESPs may be eligible for government matching grants, such as the Canada Education Savings Grant (CESG).

When a RESP beneficiary is enrolled in an eligible post-secondary program, government grants and investment income can be withdrawn from the plan as Educational Assistance Payments (EAPs) in order to assist with post-secondary education-related expenses. EAPs are taxable income for the RESP beneficiary.

Currently, the tax rules place limits on the amount of EAPs that can be withdrawn from the RESP. For beneficiaries enrolled full-time (in a program of at least three consecutive weeks' duration requiring at least 10 hours per week of courses or work in the program), the limit is $5,000 in respect of the first 13 consecutive weeks of enrollment in a 12-month period. For beneficiaries enrolled part-time (in a program of at least three consecutive weeks' duration requiring at least 12 hours per month of courses in the program), the limit is $2,500 per 13-week period.

The 2023 budget proposes to allow EAP withdrawals of up to $8,000 in respect of the first 13 consecutive weeks of enrollment for full time students, and up to $4,000 per 13-week period for beneficiaries enrolled part-time.

Given the rising tuition costs, this provides families with greater flexibility in accessing RESPs to fund post-secondary education.

b) Divorced and separated couples

Currently, only spouses or common-law partners (CLPs) can jointly enter into an agreement to open an RESP. Parents who opened a joint RESP prior to their divorce or separation can maintain this plan afterwards but are unable to open a new joint RESP with a different promoter.

Budget 2023 proposes to enable divorced or separated parents to open joint RESPs for one or more of their children, or to move an existing joint RESP to another promoter.

Both RESP changes come into force on the day the budget was tabled, March 28, 2023.

The new grocery rebate

The Goods and Services Tax Credit (GSTC) helps to offset the impact of the GST on low- and modest-income individuals and families. The GSTC is non-taxable, income-tested and indexed to inflation.

Budget 2023 proposes to introduce an increase to the maximum GSTC amount for January 2023 that would be known as the grocery rebate. Eligible individuals would receive an additional GSTC amount equivalent to twice the amount received for January 2023. The grocery rebate would be paid as soon as possible following the passage of legislation, through the GSTC system. The maximum amount under the grocery rebate would be $153 per adult, $81 per child and $81 for the single supplement. The phase-in and phase-out rates would be tripled to ensure that the grocery rebate is fully phased in and phased out at the same income levels as under the current GSTC rules for 2022-2023 benefit year.

A little bit of relief for rising costs of food is positive for Canadians.

Employee ownership trusts (EOT)

An employee ownership trust (EOT) is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation’s employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to pay directly to acquire shares. For business owners, an EOT provides an additional option for succession planning.

Budget 2023 proposes new rules to facilitate the use of EOTs to acquire and hold shares of a business. The new rules would define qualifying conditions to be an EOT and propose changes to tax rules to facilitate the establishment of EOTs. These changes would extend the capital gains reserve to 10 years for qualifying sales to an EOT, create an exception to the current shareholder loan rule and allow repayment over 15 years (instead of 1 year), and exempt EOTs from the 21-year deemed disposition rule applicable to many trusts.

Some of the requirements and features of an EOT include:

1. The trust must be Canadian resident holding shares of qualifying business and the employees are beneficiaries.
2. The trust must hold a controlling interest in the qualifying business.
3. Distributions to beneficiaries are based on length of service, remuneration and hours worked.
4. Trustees are Canadian residents.
5. Trust is taxed at top marginal tax rates, similar to other personal trusts.
6. Dividends paid through the trust retain their character when taxed at the beneficiary level.

This provides business owners with additional incentives and features in preparing for succession and a purposeful retirement. These proposals would apply as of January 1, 2024.

Deduction for tradespeople's tool expenses

Under the deduction for tradespeople's tool expenses, a tradesperson can claim a deduction of up to $500 of the amount by which the total cost of eligible new tools acquired in a taxation year as a condition of employment exceeds the amount of the Canada Employment Credit ($1,368 in 2023).

Budget 2023 proposes to double the maximum employment deduction for tradespeople's tools from $500 to $1,000, effective for 2023 and subsequent taxation years.

Clean energy initiatives for businesses

Budget 2023 has introduced a number of tax incentives for businesses that produce and manufacture clean energy. The following is a summarized list of new incentives available for businesses.

- Introduction of clean hydrogen investment refundable tax credit available for eligible projects that produce all, or substantially all (90% or more), hydrogen through the production process.
- The 2022 Fall Economic Statement proposed the Clean Technology Investment Tax Credit. A 30% refundable credit would be available to businesses investing

in eligible property that is acquired and that becomes available for use on or after budget day. Budget 2023 proposes to expand eligibility to include geothermal energy systems.
- Budget 2023 proposes to introduce a refundable investment tax credit for clean technology manufacturing and processing, and critical mineral extraction and processing, equal to 30% of the capital cost of eligible property associated with certain activities.
- Budget 2023 proposes to reduce tax rates on business income from certain nuclear manufacturing and processing activities for taxation years beginning after 2023.
- Budget 2023 proposes to amend the *Income Tax Act* to include lithium from brines as a mineral resource and allow businesses to issue flow through shares and renounce expenses to their investors, and claim the Mineral Exploration Tax Credit.

General anti-avoidance rule (GAAR)

The general anti-avoidance rule (GAAR) in the *Income Tax Act* is intended to prevent abusive tax avoidance transactions while not interfering with legitimate commercial and family transactions. If abusive tax avoidance is established, GAAR applies to deny the tax benefit created by the abusive transaction.

Budget 2023 proposes to amend the GAAR by:

1. Introducing a preamble, designed to clarify whether GAAR is intended to apply regardless of whether or not the tax planning strategy used to obtain the tax benefit was foreseen.
2. Changing the avoidance transaction standard by reducing the threshold for applying GAAR from a “primary purpose” to a “one of the main purposes” test.
3. Introducing an economic substance rule so that it better meets its initial objective of requiring economic substance in addition to literal compliance with the words of the *Income Tax Act*.
4. Introducing a penalty equal to 25% of the amount of the tax benefit.
5. Extending the reassessment period in certain circumstances to three years beyond the normal reassessment period.

Other measures

Other measures proposed in the budget include the following:

1. Budget 2023 confirms that financial institutions will be able to start offering First Home Savings Accounts (FHSA) beginning April 1, 2023.
2. Budget 2023 proposes to temporarily cap the inflation adjustment for excise duties on beer, spirits and wine at 2%, for one year only, as of April 1, 2023.
3. The number of eligible Canadians that may auto-file their tax returns will triple to approximately 2 million by 2025.

4. Canada Student Grants will increase by 40%, up to $4,200 for full-time students.
5. Raising the interest-free Canada Student Loan limit from $210 to $300 per week of study.
6. Increase the number of students eligible for federal aid by 1,000 by waiving the requirement for students aged 22 or older to undergo credit screening to qualify for federal student grants and loans.
7. Budget 2023 commits funding to modernize the OAS IT infrastructure.
8. Introduction of the new Dental Care Plan, providing dental coverage for uninsured Canadians with annual income of less than $90,000 by the end of 2023.
9. Budget 2023 announced that the government has secured commitments from Visa and Mastercard to lower fees for small businesses.
10. Budget 2023 announced the government's intention to reduce junk fees for Canadians, including higher telecom roaming charges, event and concert fees, excessive baggage fees and unjustified shipping and freight fees.
11. Introduction of the Federal Underused Housing Tax (UHT). A 1% tax per year on the value of a property owned by a non-resident and left vacant and unused for the majority of the year.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

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