Budget 2021 — The other shoe hasn't dropped ... yet

When a Federal Budget is presented I receive a large number of summaries and analysis from many sources. I felt that the Manulife Financial Tax and Estate Planning Team summarized this budget the best as follows:

“Finance Minister Chrystia Freeland tabled the 2021 Federal Budget on April 19, 2021. It has been a long time coming with the hiatus last year due to the COVID-19 pandemic. The budget deficit is pegged at $354 billion. There has been much speculation about what kinds of revenue-raising measures would be implemented to pay for the level of government spending that has taken place to soften the pandemic’s economic toll. Based on what’s in the 2021 budget, we’re going to have to wait to see how we’re going to pay for all of this stimulus.

What’s not in this budget is probably more interesting than what is. No increase in the capital gains inclusion rate, no change to the principal residence exemption, no family wealth tax, no income tax rate increases for individuals or corporations. What follows is a summary of budget measures that may be of interest to investment and insurance advisors, and implications for planning using insurance and investments.

New tax on luxury goods

Budget 2021 proposes to introduce a luxury tax, which will come into force on January 1, 2022. This luxury tax would apply to new luxury vehicles and aircraft priced over $100,000 and boats priced over $250,000. This would apply on both purchases (both outright and financed) and leases, with the seller or lessor being responsible for remitting the full amount of the federal tax owing. Further, GST/HST would be applicable to the final sale price, inclusive of the proposed luxury tax.

Luxury vehicles include most new passenger vehicles over the threshold amount, but with some carve-outs, such as motorcycles, snowmobiles, and motor homes/RVs. The luxury tax would apply to certain new aircraft over the threshold amount that are suited for personal use, such as airplanes, helicopters, and gliders. The luxury tax would also apply to certain new luxury boats over the $250,000 threshold amount that are suited for personal use, such as yachts, recreational motorboats, and sailboats.
For vehicles and aircraft above the $100,000 threshold or boats over the $250,000 threshold, the luxury tax is calculated as the lesser of 10 per cent of the full value *or* 20 per cent of the value above the respective threshold.

Personal measures

Increasing Old Age Security for Canadians 75 and over

The government proposes to increase the Old Age Security (OAS) benefits for seniors age 75 and older in two ways. First, individuals who will be 75 or over as of June 2022 will receive a one-time payment of $500 in August of this year. Secondly, as of July 2022, OAS payments for pensioners 75 and over will increase by 10 per cent on an ongoing basis. This will provide additional benefits of $766 to full pensioners in the first year and be indexed to inflation going forward.

GST New Housing Rebate

The GST New Housing Rebate proposal entitles homebuyers to recover 36 per cent of the GST (or federal component of HST) paid on the purchase of a new home priced up to $350,000, with a phase-out for new homes priced between $350,000 and $450,000, and a cut-off for new homes priced at $450,000 or more. The maximum rebate is $6,300. There are several other conditions that must be met to qualify for this rebate, including that the home must be acquired as the primary place of residence of any one of the purchasers (or a relation of a purchaser). This proposal would apply to purchase agreements entered into after Budget Day (or for owner-built homes where construction/substantial renovation is substantially completed after Budget Day).

Establishing a Canada-Wide early learning and child care system

The federal government will work towards the goal of bringing fees for regulated child care down to $10 per day on average within the next five years. Furthermore, by the end of 2022, the government is aiming to achieve a 50 per cent reduction in average fees for regulated early learning and child care to make it more affordable for families. These targets would apply everywhere outside of Quebec, where prices are already affordable through its well-established system.

Establishing a $15 federal minimum wage

While the government didn't introduce a universal basic income, it did announced its intention to introduce legislation that will establish a federal minimum wage of $15 per hour, rising with inflation, with provisions to make sure that where provincial or territorial minimum wages are higher, that higher wage will prevail.

Providing additional weeks of COVID-19 recovery benefits

To continue to support workers the government proposes the following extensions:

1. Canada Recovery Benefit (CRB) – up to 12 additional weeks to a maximum of 50 weeks. The first four of these 12 weeks will be paid at $500 per week. The remaining 8 weeks of this extension will be paid at a lower amount of $300 per week claimed. All new CRB claimants after July 17, 2021 would also receive the $300 per week benefit, available up until September 25, 2021.

2. Canada Recovery Caregiving Benefit (CRCB) – an additional 4 weeks, to a maximum of 42 weeks, at $500 per week.

Finally, the Budget proposes to provide authority for additional potential extensions of the CRB and its associated suite of sickness and caregiving benefits, as well as regular EI benefits, until no later than November 20, 2021, should they be needed.

Tax treatment of COVID-19 benefit amounts

The COVID-19 benefit amounts (i.e., suite of emergency and recovery benefits) are taxable as ordinary income at the recipient's marginal tax rate. Generally, where an individual wasn't eligible for a benefit, the subsequent repayment amount can only be deducted from income in the year the repayment takes place. Where the repayment year differs from the year the benefit is received, an individual may owe tax on the benefit income in one year while obtaining a deduction for the repayment amount in another year.

The Budget proposes to allow individuals the option to claim a deduction of the repayment of a COVID-19 benefit when computing their income for the year in which the benefit income was received rather than the year in which the repayment was made. This would be available for benefits repaid at any time before 2023.

Individuals may only deduct benefit amounts once they've been repaid but could request an adjustment if they had already filed their income tax return for the year in which the benefit was received.

Budget 2021 also proposes that COVID-19 benefit amounts, including provincial or territorial benefits, should be included in the taxable income of individuals who reside in Canada but are considered non-resident persons for income tax purposes. These benefits would be taxable like employment and business income earned in Canada.

Disability Tax Credit — expanded access

The Disability Tax Credit (DTC) is a non-refundable tax credit that's intended to recognize the impact of non-itemizable disability-related costs on the ability to pay tax. For 2021, the value of the credit is $1,299. To be eligible for the DTC, an individual must have a certificate confirming that they have a severe and prolonged impairment in physical or mental functions.

To make sure that the eligibility criteria for the DTC better articulates the range of mental functions necessary for everyday life, the Budget proposes to expand the list of mental functions necessary for everyday life. Further, Budget 2021 has expanded the timing requirement associated with life-sustaining therapy that allows individuals to qualify for the DTC. This will also make it easier to qualify to open a Registered Disability Savings Plan.

These proposed changes would apply to 2021 and subsequent taxation years, in respect of DTC certificates filed with the Minister of National Revenue on or after Royal Assent.

Enhancing the Canada Workers Benefit

The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit that supplements the earnings of low- and modest-income workers and improves their work incentives. The Budget proposes to enhance the CWB starting in 2021. The CWB also features a supplement that's available to individuals who are eligible for the DTC. Corresponding changes would also be made to the disability supplement.

To improve work incentives for the secondary earner in a couple, Budget 2021 also proposes to introduce a "secondary earner exemption" to the CWB, a special rule for individuals with an eligible spouse. This would allow the spouse or common-law partner with the lower working income to exclude up to $14,000 of their working income in the computation of their adjusted net income.

These measures would apply to 2021 and subsequent taxation years. Indexation of amounts relating to the CWB would continue to apply after the 2021 taxation year, including the secondary earner exemption.

Postdoctoral fellowship income

Although fully included in taxable income and similar in nature to employment income, postdoctoral fellowship income doesn't currently qualify as *earned income* for the purpose of determining an individual's contribution limit for a registered retirement savings plan (RRSP).

Budget 2021 proposes to include postdoctoral fellowship income in earned income for RRSP purposes. This would provide additional RRSP room to make deductible RRSP contributions.

This measure would apply to postdoctoral fellowship income received in 2021 and subsequent taxation years. This measure would also apply to postdoctoral fellowship income received in the 2011 to 2020 taxation years, where the taxpayer submits a request in writing to the Canada Revenue Agency (CRA) for an adjustment to their RRSP room for the relevant years.

Adjustment of RRSP contribution room due to error

Sometimes an error can create an under- or over-contribution in a defined contribution pension plan. The budget proposes to allow these errors to be corrected, and for an individual's RRSP contribution room to be adjusted upwards in the year the amount is refunded by the plan or downwards in the year following the year in which the amount is contributed retroactively to the plan.

Corporate tax measures

Rate reduction for zero-emission technology manufacturers

Budget 2021 proposes to temporarily reduce corporate income tax rates for qualifying income earned on eligible zero-emission technology manufacturing and processing income. The tax rates would be reduced to:

- 7.5 per cent where the income would otherwise be taxed at the 15 per cent general corporate tax rate
- 4.5 per cent where the income would otherwise be taxed at the 9 per cent small business tax rate.

These lower tax rates would be available for zero-emission technology manufacturing or processing activities, including manufacturing of solar, wind, water, or geothermal energy equipment; ground source heat pump systems; electrical energy storage equipment; zero-emission vehicles; electric vehicle charging systems; etc.

These changes in corporate tax rates won't be matched with changes to the current tax rates on dividends. Rather, the tax rates on both eligible and non-eligible dividends will remain consistent for dividends paid to shareholders by corporations earning qualifying income. As a result, the change in corporate tax rates and consistent dividend tax rates should lead to permanent tax savings from an integration perspective, when compared to earning the income personally.

These rules are scheduled to begin in 2022 and continue to 2028 and will be gradually phased out between 2029 and 2031.

These tax rate changes will provide for greater tax-deferral in qualifying businesses. This deferral can lead to opportunities for reinvesting profits into the business and purchasing corporate-owned investments and corporate-owned life insurance.

Immediate expensing of certain capital expenditures

The Budget proposes to allow for immediate expensing of up to $1.5 million in qualifying capital expenditures made by a Canadian-controlled private corporation (CCPC) or associated group. These rules will be applicable for eligible property purchased by a CCPC on or after Budget Day and becomes available for use before January 1, 2024. Furthermore, if the eligible property is clean energy equipment, there'll be a phase-out of the immediate expensing rules between 2024 and 2028. This immediate expensing wouldn't apply to certain asset classes that are considered long-lived assets (buildings, land improvements, etc.).

These changes may create opportunities for leveraging investments or insurance to make capital investments.

Other measures

Tax on vacant residential property owned by non-residents

The Budget proposes a 1 per cent tax on the value of non-resident, non-Canadian-owned residential real estate considered to be vacant or underused. This tax would be levied annually beginning in 2022 and more details are coming.

Charities and disbursement quota

Currently, public and private foundations are required to spend 3.5 per cent of their capital each year on charitable initiatives. The government has indicated that there's currently a gap of approximately $1 billion in charitable expenditures. That is, the investment assets in these foundations is significantly exceeding the qualifying disbursement made each year. As such, the government is proposing public consultations with a goal of increasing the disbursements from public and private foundations.

Mandatory disclosure rules

The *Income Tax Act* (the Act) currently requires participants in a tax scheme that meets the definition of a *reportable transaction* to report the transaction to the CRA on a prescribed form on or before June 30 of the calendar year following the year in which the transaction first became a reportable transaction. A *reportable transaction* is an avoidance transaction for purposes of the general anti-avoidance rule (GAAR) that meets at least two of the three generic hallmarks set out in the Act. Finance indicates that the current rules have resulted in limited reporting by taxpayers.

To improve the effectiveness of the disclosure rules, several amendments to the disclosure rules are proposed to provide more timely information to the CRA. As well, a promoter or advisor who offers a scheme that's a reportable transaction would also be required to report within the same time limits. Failure to report may result in penalties and CRA having the ability to extend the normal reassessment period.

The CRA has been vocal about its concern with tax promoter schemes. It previously warned taxpayers about getting involved in aggressive tax schemes incorporating life insurance and living benefits products that are primarily for purposes of extracting tax-free earnings from corporations. The proposed rules are aimed at assisting the CRA to obtain information about these tax schemes in a more timely manner.

Deferral of tax debts

Where property is transferred below fair market value and a tax debt exists, the recipient of the property will become liable for the tax debt. The Budget broadens the current treatment of tax debt by including the following elements: 1) expansion of the definition of non-arm's length status; 2) valuation of a transfer of property to include a series of transactions and events; and 3) penalties applicable to tax promoters.

The penalties are hefty against tax promoters. If discovered promoting tax-debt avoidance schemes, the penalty would be the lesser of: (a) 50 per cent of the tax that's attempted to be avoided; or (b) $100,000 plus the promoter's or planner's compensation for the scheme. This change was foreshadowed last year.

The above measures are applicable to any transactions occurring on or after April 19, 2021.

Conclusion

There aren't many revenue-raising tax measures in this budget. Funding the budget deficit will have to wait … for the other shoe to drop."

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 us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

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