May 2022 Financial Planning Email Update

On April 7, 2022 Canada’s Finance Minister the Honourable Chrystia Freeland tabled the 2022 federal budget which represents a much brighter economic outlook for Canada and contains a sprinkling of tax provisions that most importantly did not raise any tax rates or impose new capital gains taxes. However, there is a warning that this could be on the horizon as early as this fall.

Canada has also seen the fastest jobs recovery in the G7. In fact, 112% of the jobs lost at the outset of the pandemic have been recovered, compared with 90% in the United States. Plus, more good news: it is expected our CPI inflation rates in Canada will settle in at the 2% mark again by 2025.

On the negative side, economic growth will settle into a mere 1.9% by 2025 and an average of 2.9% over the five-year forecast period after hitting a 3.9% forecasted high in the current year. That could challenge tax revenue growth as the post-pandemic rebound settles. Significantly, within the next three years, the federal debt is also projected to rise to $1.3 trillion (2025-26), with continued growth after that. Our annual budget is expected to be a $113.8 billion deficit in 2021/2022 improving to an expected deficit (not a surplus) of $8.4 billion in 2026/2027. Not surprisingly, Canada’s public debt charges will more than double from $20.4 billion in 2021 to $42.9 Billion by 2026-27. The budget notes that a 1% increase in interest rates increases the budget deficit by a further $5.1 billion in the first year, $5.9 billion in the second year and $6.9 billion in the fifth.
Key expense increases are projected for 1. the elderly – a growth rate of 7.4% on average – due to a large aging demographic in Canada, but also because of the 10% increase to OAS (Old Age Security) for those over 75 starting July 2022. 2. Canada-wide early learning and childcare to $35 billion and 3. the intention to proceed with a dental program for children under 12 starting in 2022 if family income is below $90,000 which expand to those under 18, seniors and the disabled in 2023 and for all Canadians in 2025. Key tax credits with their respective effective date are listed below:

Multigenerational Home Renovation Tax Credit

Effective Date: January 2, 2023

Non-refundable credit for up to $50,000 spent to construct a secondary suite in the taxpayer’s home to house a senior or disabled adult. In the case of adults with disabilities, these individuals must be at least 18 years of age and must be eligible for the Disability Tax Credit.
The tenant must be a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of the eligible person and their spouses/common law spouse. The credit may be split between claimants so long as the total claim does not exceed $50,000.
Eligible expenses include the cost of labor and professional services as well as building materials, fixtures, equipment rentals and permits.

Home Accessibility Tax Credit

Effective Date: January 1, 2022
ITA: 118

The maximum claim for the Home Accessibility Tax Credit increases from $10,000 to $20,000. This credit can be claimed by someone who renovates a home to make the dwelling more accessible to a qualifying individual who claims the Disability Tax Credit or for an individual age 65 or older at the end of the tax year.

Home Buyers’ Tax Credit

Effective Date: January 1, 2022

ITA: 118
The Home Buyers' Tax Credit will be increased from $5,000 to $10,000.

Residential Property Flipping Rule

Effective Date: 2023/01/01
Gains on the sale of a home within 12 months of purchase will be taxed as business income (not capital gains) and will not be eligible for the Principal Residence Exemption. Gains will be exempt if the disposition is a result of any of the following:

- The death (or impending death) of the taxpayer
- The size of the household will increase (e.g. birth or adoption of a child or elderly parent to move into the home)
- Separation or divorce
- Threat to personal safety such as domestic violence
- Disability or illness of the taxpayer
- Move more than 40 km due to change in employment
- Bankruptcy or insolvency of the taxpayer
- Involuntary dispositions such as expropriation, destruction or condemnation of the property

Tax-Free First Home Savings Account (FHSA)

Effective Date: 2023
Canadian residents who have not lived in an owner-occupied home in the current or preceding four years may contribute up to $8,000 per year to a new FHSA. The maximum lifetime contributions to the account is $40,000. Unused contribution room may not be carried forward. The plan must be closed if the funds are withdrawn to purchase a home or the plan has been in existence for 15 years.
Contributions to the plan would be deductible and income earned in the plan would not be subject to tax. Withdrawals from the plan to purchase a first home would not be taxable but any other withdrawal would be taxed. FHSA and HBP withdrawals may not both be made in respect of the same home purchase. FHSA plans may be transferred to an RRSP or RRIF if the funds are not used to purchase a home.

A comprehensive 2022 Federal Budget Analysis from the tax planning teams at CI Global Asset Management and Mackenzie Investments are attached. A link to the 2022 Federal Budget Analysis of Manulife Investments follows:

https://www.manulife.ca/advisors/insurance/tax-retirement-and-estate-planning/news-and-views/2022/federal-budget-2022.html

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

investia.ca

Gary H. Attack, BBA, CFP®, RFP, RRC®

CERTIFIED FINANCIAL PLANNER®

Investia Financial Services Inc.

203-1601 River Rd. E, Kitchener, ON N2A 3Y4

T: 519-894-2661

TF: 1-800-716-5538

Fax: 519-894-6656

gary@ghafinancial.com

www.ghafinancial.com