The Federal Budget was tabled on April 16, 2024 and although there were no changes to any of the personal income tax rates there were several new initiatives announced.

1. Measures concerning individuals:

(A) An Increase in the Capital gains inclusion rate:

Budget 2024 proposes to increase the capital gains inclusion rate from one half to two thirds for corporations and trusts, and from one half to two thirds on the portion of capital gains realized in the year that exceed $250,000 for individuals. This change affects capital gains realized on or after June 25, 2024. So for all who have significant unrealized capital gain in investments/investment properties or cottages there is a potential decision to trigger those gains by June 24, 2024.

The inclusion rate for capital gains realized annually up to $250,000 by individuals will continue to be one half.

The $250,000 threshold would effectively apply to capital gains realized by an individual, either directly or indirectly via a partnership or trust, net of any:

- current-year capital losses;
- capital losses of other years applied to reduce current-year capital gains; and
- capital gains in respect of which the Lifetime Capital Gains Exemption, the proposed Employee Ownership Trust Exemption or the proposed Canadian Entrepreneurs' Incentive is claimed.

Claimants of the employee stock option deduction would be provided a one-third deduction of the taxable benefit to reflect the new capital gains inclusion rate, but would be entitled to a deduction of one half the taxable benefit up to a combined limit of $250,000 for both employee stock options and capital gains.

Net capital losses of prior years would continue to be deductible against taxable capital gains in the current year by adjusting their value to reflect the inclusion rate of the capital gains being offset. This means that a capital loss realized prior to the rate change would fully offset an equivalent capital gain realized after the rate change.

For tax years that begin before and end on or after June 25, 2024, two different inclusion rates would apply. As a result, transitional rules would be required to separately identify capital gains and losses realized before the effective date (Period 1) and those realized on or after the effective date (Period 2). For example, taxpayers would be subject to the higher inclusion rate in respect of the portion of their net gains arising in Period 2 that exceed the $250,000 threshold, to the extent that these net gains are not offset by a net loss incurred in Period 1 or any other taxation years.

The annual $250,000 threshold for individuals would be fully available in 2024 (i.e., it would not be prorated) and would apply only in respect of net capital gains realized in Period 2.

Other amendments would also be made to reflect the new inclusion rate. Additional design details will be released in the coming months.

(B) An increase in the Lifetime Capital Gains Exemption (LCGE):

The income tax system provides an individual with a lifetime tax exemption for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. The amount of the LCGE is $1,016,836 in 2024 and is indexed to inflation.

Budget 2024 proposes to increase the LCGE up to $1.25 million of eligible capital gains. This measure would apply to dispositions that occur on or after June 25, 2024. Indexation of the LCGE would resume in 2026.

(C) Canada Child Benefit (CCB):

Budget 2024 proposes to amend the Income Tax Act to extend eligibility for the CCB in respect of a child for six months after the child's death (the "extended period") if the individual would have otherwise been eligible for the CCB in respect of that particular child. For example, if a child dies in July, the child's primary caregiver would be eligible to receive the CCB in respect of this child for August through January under the proposed change, provided all eligibility criteria are met.

The CCB entitlement for each month during the extended period would be based on the age of the child in that particular month as if the child were still alive and would reflect the other family circumstances that apply in that month (e.g., marital status). CCB overpayments unrelated to the death of a child would still need to be repaid.

A CCB recipient would still be required to notify Canada Revenue Agency (CRA) of their child's death before the end of the month following the month of their child's death to ensure that there are no overpayments after the new extended period of six months ends.

The extended period would also apply to the Child Disability Benefit, which is paid with the CCB in respect of a child eligible for the Disability Tax Credit.

This measure would be effective for deaths that occur after 2024.

(D) Expanding the Disability Supports Deduction (DSD):

The DSD allows individuals who have an impairment in physical or mental functions to deduct certain expenses that enable them to earn business or employment income or to attend school.

Budget 2024 announces the government's intention to amend the *Income Tax Act* to make additional expenses eligible for the DSD, subject to certain conditions such as:

- Service animals trained to perform specific tasks for people with certain severe impairments;
- Alternative computer input devices, such as assistive keyboards, braille display, digital pens and speech recognition devices; and,
- Ergonomic work chairs and bed positioning devices, including related assessments.

This measure would apply to the 2024 and subsequent taxation years.

(E) Automatic enrolment in the Canada Learning Bond (CLB):

Budget 2024 announces the government's intention to amend the *Canada Education Savings Act* to introduce automatic enrolment in the CLB for eligible children who do not have a Registered Education Savings Plan (RESP) opened for them by the time the child turns four.

Starting in 2028-29, all eligible children born in 2024 or later would have an RESP automatically opened for them and the eligible CLB payments would be auto-deposited in these accounts. It should be noted that to open an RESP and apply for benefits, it's necessary to get a Social Insurance Number (SIN).

To ensure that all children can benefit from this simplified process, starting in 2028-29, caregivers of eligible children born before 2024 would also be able to request that Employment and Social Development Canada open an RESP for their child and auto-deposit the eligible CLB payments.

Budget 2024 also announces the government's intention to extend the age from 20 to 30 years to retroactively claim the CLB. This would provide those who start their post-secondary education later to benefit from the government's contribution to their education savings.

(F) A stronger Canada Pension Plan (CPP):

Budget 2024 announces that the federal government, in coordination with provincial partners, proposes to make technical amendments to the CPP legislation. These amendments would:

- Provide a top-up to the Death Benefit for certain contributors;
- Introduce a partial children's benefit for part-time students;
- Extend eligibility for the disabled contributors children's benefit when a parent reaches age 65; and,
- End eligibility for a survivor pension to people who are legally separated after a division of pensionable earnings.

(G) An Increase in Volunteer Firefighters and Search and Rescue Volunteers Tax Credits:

Budget 2024 proposes to double the credit amount for the Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit to $6,000. This would increase the maximum tax relief to $900. This enhancement would apply to the 2024 and subsequent taxation years.

2. Measures concerning housing:

(A) Increase in the Withdrawal Limit From the Home Buyers' Plan (HBP):

Budget 2024 proposes to increase the withdrawal limit for the HBP from $35,000 to $60,000.

This measure would apply to the 2024 and subsequent calendar years in respect of withdrawals made after Budget Day.

Budget 2024 also proposes to temporarily defer the start of the 15-year repayment period by an additional three years for participants making a first withdrawal between January 1, 2022, and December 31, 2025. Accordingly, the 15-year repayment period would start the fifth year following the year in which a first withdrawal was made.

(B) For renters:

- A new Canadian Renters' Bill of Rights, which will include transparency measures that will entitle prospective renters to the historical rental prices of properties for listed for rent. A standardized lease agreement will also be implemented nationally.
- On-time rental payments will positively affect credit scores.

(C) A new initiative named *Canada Builds* was announced. Canada Builds will incentivize provincial and territorial governments to construct additional rental housing by offering access to $55 billion in potential funding under the existing Apartment Construction Loan Program, subject to certain conditions. In order for provincial governments to access funding under Canada Builds, the general expectation will be that they contribute funding of their own, reduce red tape, create affordable rental units, and contribute other novel solutions to facilitate a smoother approach to rental construction in their jurisdictions.

(D)The creation of a new Housing Design Catalogue was also announced. Under this initiative, a catalogue of pre-approved blueprints will be drafted for modular homes, row houses and fourplexes. Though a relatively modest $11.6 million was committed to this project, it has the potential to significantly reduce approval and construction times for new builds.

(E) 30-year amortizations for first-time buyers purchasing new builds:

Budget 2024 announces the government is strengthening the Canadian Mortgage Charter to allow 30-year mortgage amortizations for first-time home buyers purchasing newly constructed homes.

This new insured mortgage product will be available to first-time buyers starting August 1, 2024. The government will bring forward regulatory amendments to implement this proposal.

Further details will be released in the coming months.

(F) Accelerating capital cost allowance:

Budget 2024 proposes to introduce a temporary accelerated capital cost allowance, at a rate of 10% (formerly 4%) for eligible new purpose-built rental projects that begin construction on or after Budget Day, and before January 1, 2031, and are available for residents to move in before January 1, 2036.

The measure does not change the total amount of depreciation expenses being deducted over time, it simply accelerates it. Allowing homebuilders to deduct certain depreciation expenses over a shorter period of time allows homebuilders to recover more of their costs faster, enabling further investment of their money back into new housing projects.

(G) Taxing vacant lands to incentivize construction:

Budget 2024 announces that the government will consider introducing a new tax on residentially zoned vacant land. The government will launch consultations later this year.

(H) Adding additional suites to single family homes:

Budget 2024 proposes to provide $409.6 million over four years, starting in 2025-26, to the Canada Mortgage and Housing Corporation to launch a new Canada Secondary Suite Loan Program, enabling homeowners to access up to $40,000 in low-interest loans to add secondary suites to their homes. Details of this program will be announced in the coming months.

(I) Confronting the financialization of housing:

Budget 2024 announces that the government intends to restrict the purchase and acquisition of existing single-family homes by very large, corporate investors. The government will consult in the coming months and provide further details in the *2024 Fall Economic Statement*.

3. Measures regarding businesses:

(A) Canadian Entrepreneurs' Incentive:

Budget 2024 proposes to introduce the Canadian Entrepreneurs' Incentive. This incentive would reduce the tax rate on capital gains on the disposition of qualifying shares by an eligible individual.

Specifically, this incentive would provide for a capital gains inclusion rate that is one half the prevailing inclusion rate, on up to $2 million in capital gains per individual over their lifetime.

The lifetime limit would be phased in by increments of $200,000 per year, beginning on January 1, 2025, before ultimately reaching a value of $2 million by January 1, 2034.

Under the two-thirds capital gains inclusion rate proposed in Budget 2024, this measure would result in an inclusion rate of one third for qualifying dispositions.

This measure would apply in addition to any available capital gains exemption.

A share of a corporation would be a qualifying share if certain conditions are met, including all the following conditions:

- At the time of sale, it was a share of the capital stock of a small business corporation (for the purposes of the Income Tax Act) owned directly by the claimant.
- Throughout the 24-month period immediately before the disposition of the share, it was a share of a Canadian-Controlled Private Corporation and more than 50 per cent of the fair market value of the assets of the corporation were: used principally in an active business carried on primarily in Canada by the Canadian Controlled Private Corporation, or by a related corporation, certain shares or debts of connected corporations, or a combination of these two types of assets.
- The claimant was a founding investor at the time the corporation was initially capitalized and held the share for a minimum of five years prior to disposition.
- At all times since the initial share subscription until the time that is immediately before the sale of the shares, the claimant directly owned shares amounting to more than 10% of the fair market value of the issued and outstanding capital stock of the corporation and giving the individual more than 10% of the votes that could be cast at an annual meeting of the shareholders of the corporation.
- Throughout the five-year period immediately before the disposition of the share, the claimant must have been actively engaged on a regular, continuous, and substantial basis in the activities of the business.
- The share does not represent a direct or indirect interest in a professional corporation, a corporation whose principal asset is the reputation or skill of one or more employees or a corporation that carries on certain types of businesses including a business: operating in the financial, insurance, real estate, food and accommodation, arts, recreation or entertainment sector; or providing consulting or personal care services.
- The share must have been obtained for fair market value consideration.

This measure would apply to dispositions that occur on or after January 1, 2025.

4. Other measures:

(A) Alternative Minimum Tax (AMT):

Budget 2023 announced amendments to the *Income Tax Act* that would change the AMT calculation. Draft legislative proposals to implement these changes were published for consultation in the summer of 2023.

- for the AMT carry-forward (i.e., the federal political contribution tax credit, investment tax credits and labour-sponsored funds tax credit).

These amendments would apply to taxation years that begin on or after January Budget 2024 proposes to make further changes to the AMT proposals, as described below.

Budget 2024 proposes that the tax treatment of charitable donations be revised to allow individuals to claim 80 per cent (instead of the previously proposed 50 per cent) of the Charitable Donation Tax Credit when calculating AMT.

Budget 2024 also proposes several additional amendments to the AMT proposals. These amendments would:

- fully allow deductions for the Guaranteed Income Supplement, social assistance and workers' compensation payments;
- allow individuals to fully claim the federal logging tax credit under the AMT;
- fully exempt Employee Ownership Trusts from the AMT; and

allow certain disallowed credits under the AMT to be eligible 1, 2024.

(B) Avoidance of tax debts:

The *Income Tax Act* includes an anti-avoidance rule that is intended to prevent taxpayers from avoiding paying their tax liabilities by transferring their assets to non-arm's length persons. The effect of this tax debt avoidance rule is to make the transferee jointly and severally, or solidarily, liable with the transferor for the transferor's tax debts, to the extent that the value of the property transferred exceeds the amount of consideration given by the transferee for the property.

Budget 2024 proposes to introduce a supplementary rule to strengthen the tax debt anti-avoidance rule. This rule would apply in the following circumstances:

- there has been a transfer of property from a tax debtor to another person;
- as part of the same transaction or series of transactions, there has been a separate transfer of property from a person other than the tax debtor to a transferee that does not deal at arm's length with the tax debtor; and
- one of the purposes of the transaction or series is to avoid joint and several, or solidary, liability**.**

Where these conditions are met, the property transferred by the tax debtor would be deemed to have been transferred to the transferee for the purposes of the tax debt avoidance rule.

Additionally, the *Income Tax Act* contains a penalty for those who engage in, participate in, assent to, or acquiesce in planning activity that they know, or would reasonably be expected to know, is tax debt avoidance planning. The penalty is equal to the lesser of:

- 50 per cent of the tax that is attempted to be avoided; and
- $100,000 plus any amount the person, or a related person, is entitled to receive or obtain in respect of the planning activity.

Budget 2024 proposes to extend this penalty to tax debt avoidance planning that is subject to the proposed rule.

Additionally, as noted above, in many cases tax debt avoidance planning is facilitated by a planner who receives a significant fee that is effectively funded by a portion of the avoided tax debt. The courts have held that a taxpayer who engages in tax debt avoidance planning is normally not jointly and severally, or solidarily, liable for the portion of the tax debt that has effectively been retained by the planner as a fee.

To further enhance the effectiveness of the tax debt anti-avoidance rule, Budget 2024 proposes that taxpayers who participate in tax debt avoidance planning be jointly and severally, or solidarily, liable for the full amount of the avoided tax debt, including any portion that has effectively been retained by the planner.

These measures would apply to transactions or series of transactions that occur on or after Budget Day.

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

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

investia.ca