APRIL 2022

FEDERAL BUDGET
INCOME TAX HIGHLIGHTS

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OVERVIEW OF THE FEDERAL BUDGET 2022

Finance Minister Chrystia Freeland released her second federal budget April 7, 2022. The focus of the budget was not upon income tax measures but rather directed at addressing housing affordability, a national dental care program and defence spending.

The following brief describes personal and business income tax measures that may affect you.

Members of the Hendry Warren team would be pleased to discuss these proposals with you in greater detail.

KEY PERSONAL INCOME TAX MEASURES

- ✓ The new tax-free first home savings account
- ✓ Enhanced home buyers' tax credit
- ✓ The new multigenerational home renovation tax credit
- ✓ Enhanced home accessibility tax credit
- ✓ Residential property flipping rule

THE NEW TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA) EFFECTIVE DATE JANUARY 1, 2023

- A new registered account to help individuals save for their first home
- Initial contributions will be permitted in 2023 (exact timing yet to be confirmed)
- To be eligible for an FHSA you must be a resident of Canada, 18 years of age or older and must not have owned a home at any time in the year the account is opened or during the preceding four calendar years
- There will be a lifetime contribution limit of **$40,000** with an annual contribution limit of **$8,000**. Unused annual contribution room cannot be carried forward

THE NEW TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA) EFFECTIVE DATE JANUARY 1, 2023

- Contributions to an FHSA will be tax deductible, and income earned in the plan will be non-taxable
- Amounts withdrawn from a FHSA to make a qualifying first home purchase would not be taxable
- If the funds in a FHSA are not used within 15 years of being opened, the account would have to be closed and the funds transferred to an RRSP/RRIF on a tax deferred basis or withdrawn and be subject to tax
- Individuals will be allowed to transfer funds from an RRSP to a FHSA on a tax-free basis subject to the lifetime and annual limits noted above. Such transfers will not however restore RRSP contribution room

ENHANCED HOME BUYERS’ TAX CREDIT (HBTC) EFFECTIVE DATE JANUARY 1, 2022

- The existing HBTC provides first time home buyers with up to **$750** of tax savings upon the purchase of a qualifying home.
- To qualify, neither you nor your spouse may have owned and lived in another home in the year of purchase or the four preceding years
- The budget proposes to increase the tax savings arising from the HBTC for 2022 and beyond to **$1,500**

THE NEW MULTIGENERATIONAL HOME RENOVATION TAX CREDIT (MHRTC)-EFFECTIVE JANUARY 1, 2023

- In a bid to assist accommodating qualifying relations in your home, the MHRTC will provide a tax credit equal to **15%** of the lesser of your eligible renovation costs or **$50,000**
- Qualifying relations include individuals **18 years of age or older** (at the end of the year that includes the end of the renovation period), and who are a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of you or your spouse
- While there are many rules surrounding this credit the key takeaways are that the dwelling must be owned by you, your spouse or the qualifying relation and that it is where you ordinarily reside or intend to reside within **12 months** after the renovation

THE NEW MULTIGENERATIONAL HOME RENOVATION TAX CREDIT (MHRTC)-EFFECTIVE JANUARY 1, 2023

- Eligible renovation costs will include renovation, alteration or an addition to an eligible dwelling which results in the creation of a secondary self-contained unit which enables the qualifying relation to reside in the dwelling with you
- The credit would be eligible for claim in the tax year in which the renovation ends
- Maintenance or routine repair costs will not be eligible for this credit nor will mortgage or other interest costs

ENHANCED HOME ACCESSIBILITY TAX CREDIT (HATC) – EFFECTIVE JANUARY 1, 2022

- The existing HATC provides a tax saving of up to **$750** for eligible home renovation or alteration expenses
- To qualify for the HATC the qualifying individual must either be eligible for the disability tax credit or be 65 years of age by the end of the taxation year.
- The 2022 federal budget proposes to double the tax savings to provide additional support for renovations which improve accessibility

RESIDENTIAL FLIPPING RULE – EFFECTIVE JANUARY 1, 2023

- The federal government has been concerned with individuals purchasing real estate then selling it within a short period of time and claiming the Principal Residence Exemption (PRE). A PRE claim generally results in no tax being payable on the gain.
- CRA has long considered that the gain arising from such activity should not be tax free but rather fully taxable business income
- The 2022 budget proposes a new deeming rule that will deem (unless an exception applies) that a property sold within 12 months of purchase, will be fully taxable as business income and not eligible for the principal residence exemption

RESIDENTIAL FLIPPING RULE – EFFECTIVE JANUARY 1, 2023

- The deeming rule would apply in respect of residential properties sold on or after January 1, 2023
- There are many proposed exceptions to the deeming provision including death of the owner, an addition to the family through birth, adoption or elder care, separation, personal safety (due to a threat of domestic violence), disability or illness, employment change, insolvency or expropriation/natural disaster

KEY BUSINESS INCOME TAX MEASURES

- Small business deduction – improvements to access
- Intergenerational share transfers
- New rules affecting flow-through shares

SMALL BUSINESS DEDUCTION (SBD)– IMPROVEMENTS TO ACCESS EFFECTIVE DATE TAXATION YEARS THAT BEGIN ON OR AFTER APRIL 7, 2022

- The SBD is an incentive which lowers the federal tax rate on active business income for Canadian Controlled Private Companies (CCPC) from **15%** to **9%**
- The lower rate applies to a maximum of **$500,000** of active business income for a corporation or associated group
- The **$500,000** SBD ceiling currently starts to erode where the "taxable capital" of the corporation exceeds **$10 million** and is lost completely when it reaches **$15 million**

SMALL BUSINESS DEDUCTION (SBD)– IMPROVEMENTS TO ACCESS EFFECTIVE DATE TAXATION YEARS THAT BEGIN ON OR AFTER APRIL 7, 2022

- In general terms taxable capital is the sum of long-term loans and equity
- The 2022 budget proposes to extend the range of the threshold such that the SBD would now be lost entirely when taxable capital reaches **$50 million**.
- By way of example a CCPC with **$30 million** of taxable capital would now have **$250,000** of its eligible income taxed at the **9%** rate under these proposals versus **$o** under the current rules

INTERGENERATIONAL SHARE TRANSFERS– FINANCE IS REQUESTING INPUT BY JUNE 17TH , 2022 FOR POSSIBLE CHANGES

- Prior to June 29th, 2021 a transfer of shares from a parent to a child created a larger tax liability for the parent, than if they had sold the shares to a stranger
- To address this inequity, a private members Bill (C-208) provided a mechanism to remove this higher tax burden
- The department of finance believes that this mechanism has opened the door to unintended tax planning known as "**surplus stripping**"

INTERGENERATIONAL SHARE TRANSFERS– FINANCE IS REQUESTING INPUT BY JUNE 17TH , 2022 FOR POSSIBLE CHANGES

- **Surplus stripping** is a series of transactions that permit the accumulated profits in a corporation to be withdrawn at a much-reduced personal tax rate
- The government has indicated that it is seeking input from stakeholders to address their concerns over surplus stripping while preserving the ability for an intergenerational transfer of shares to occur on an equal footing with an arms-length sale

APPLICATION OF GENERAL ANTI-AVOIDANCE RULE TO TAX ATTRIBUTES

- Budget amends the definition of ***"tax benefit"*** in the **GAAR** to include a reduction, increase or preservation of an amount that could at a subsequent time be relevant for purposes of computing (and that results in) a reduction, avoidance or deferral of tax or other amount payable under the act.
- The definition of ***"tax consequences"*** is amended to include "any other amount that is, or could at a subsequent time be, relevant for the purpose of" reducing the tax or other amount payable or increasing a tax refund or other amount.
- These proposed amendements may require additonal caution when tax planning.

NEW RULES AFFECTING FLOW-THROUGH SHARES – EFFECTIVE DATES DEPEND ON RESOURCE TYPE

- Flow-through shares are a common tool for resource companies to raise capital and for investors to benefit from tax incentives the resource companies cannot use
- To promote the exploration of minerals used in the production of components of electric vehicles, a new **30% Critical Mineral Exploration Tax Credit (CMETC)** will be availabe for expenditures renounced under an eligible flow-through agreement entered into after April 7th, 2022 and before March 31, 2027
- Conversely the flow-through of exploration and development expenses for oil, gas and coal projects will no longer be available for expenditures renounced under flow-through share arrangements entered into after March 31, 2023

WONDERING HOW THESE MEASURES WILL AFFECT YOU?

Members of the Hendry Warren team would be pleased to discuss these proposals with you in greater detail.

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