HENDRY WARREN LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

2022 TAX BUDGET HIGHLIGHTS

The following pages contain a summary of some of the tax changes that were proposed by the Federal Government in the 2022 budget.

H W L L P . C A

JUNE 2022

TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA)

The new **FHSA** is a registered account to help individuals save for their first home. Contributions to an FHSA would be deductible and the income earned in the FHSA would not be subject to tax. Qualifying withdrawals from an FHSA made to purchase a home would be non-taxable.

The lifetime limit on contributions would be $40,000 subject to an annual contribution limit of $8,000. Unused annual contribution room could NOT be carried forward. If you contribute less than the $8,000 limit in a given year you would still face an annual limit of $8,000 in subsequent years.

Amounts withdrawn from an FHSA for purposes other than purchasing a qualifying first home would be taxable. An individual could transfer funds from an FHSA to a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF). Amounts transferred to these accounts would not be taxable until the funds are ultimately withdrawn from those accounts. Transfers would not reduce or be limited by the individual's available RRSP room.

If an individual has not used the funds in their FHSA for a qualifying first home purchase within 15 years of first opening an FHSA, their FHSA would have to be closed and the amounts withdrawn or transferred to an RRSP or RRIF. Individuals would also be allowed to transfer funds from an RRSP to an FHSA on a tax-free basis, subject to the $40,000 lifetime and $8,000 annual contribution limits. These transfers would not restore an individual's RRSP contribution room.

The home buyers' plan which allows up to $35,000 to be withdrawn from an RRSP would not be impacted by the new FHSA.

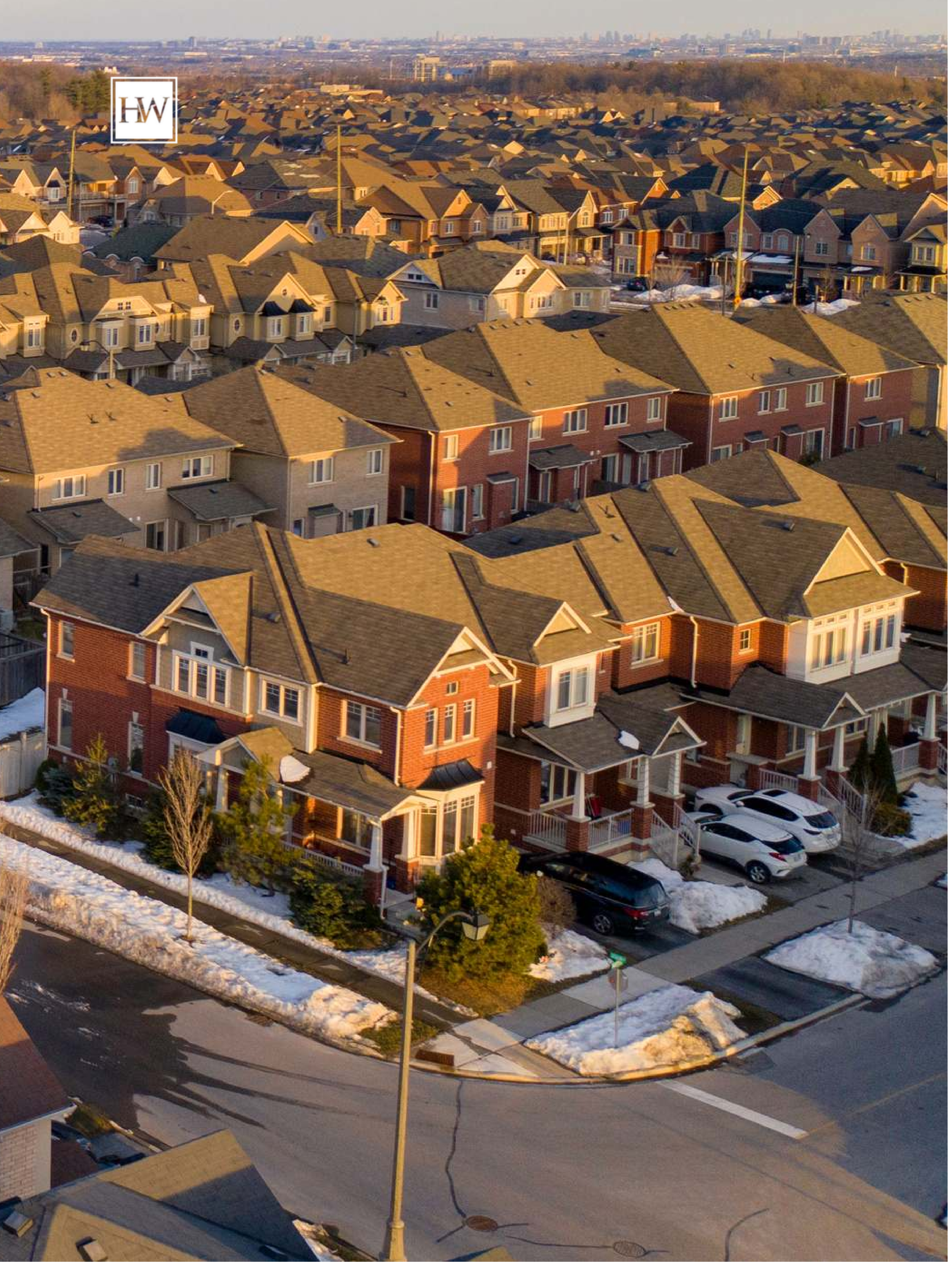
TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA)

Effective Date

It is expected that individuals will be able to open an FHSA and start contributing **at some point in 2023**.

Comments

The FHSA would be quite advantageous for individuals saving up for their first home. Amounts contributed to the plan are tax deductible and withdrawals are tax-free. As a result, the FHSA will benefit higher income earners more than lower income earners. Given the income earned in the FHSA can grow tax-free and funds can be transferred to an RRSP or RRIF in the future, it will likely be preferable to maximize the FHSA before making any RRSP contributions for those that are eligible for the FHSA.



HOME BUYERS' TAX CREDIT (HBTC)

First-time home buyers who acquire a qualifying home can save up to $750 on their income tax returns by claiming the HBTC. The budget proposes to double the HBTC amount to provide up to **$1,500** in tax savings.

Effective Date

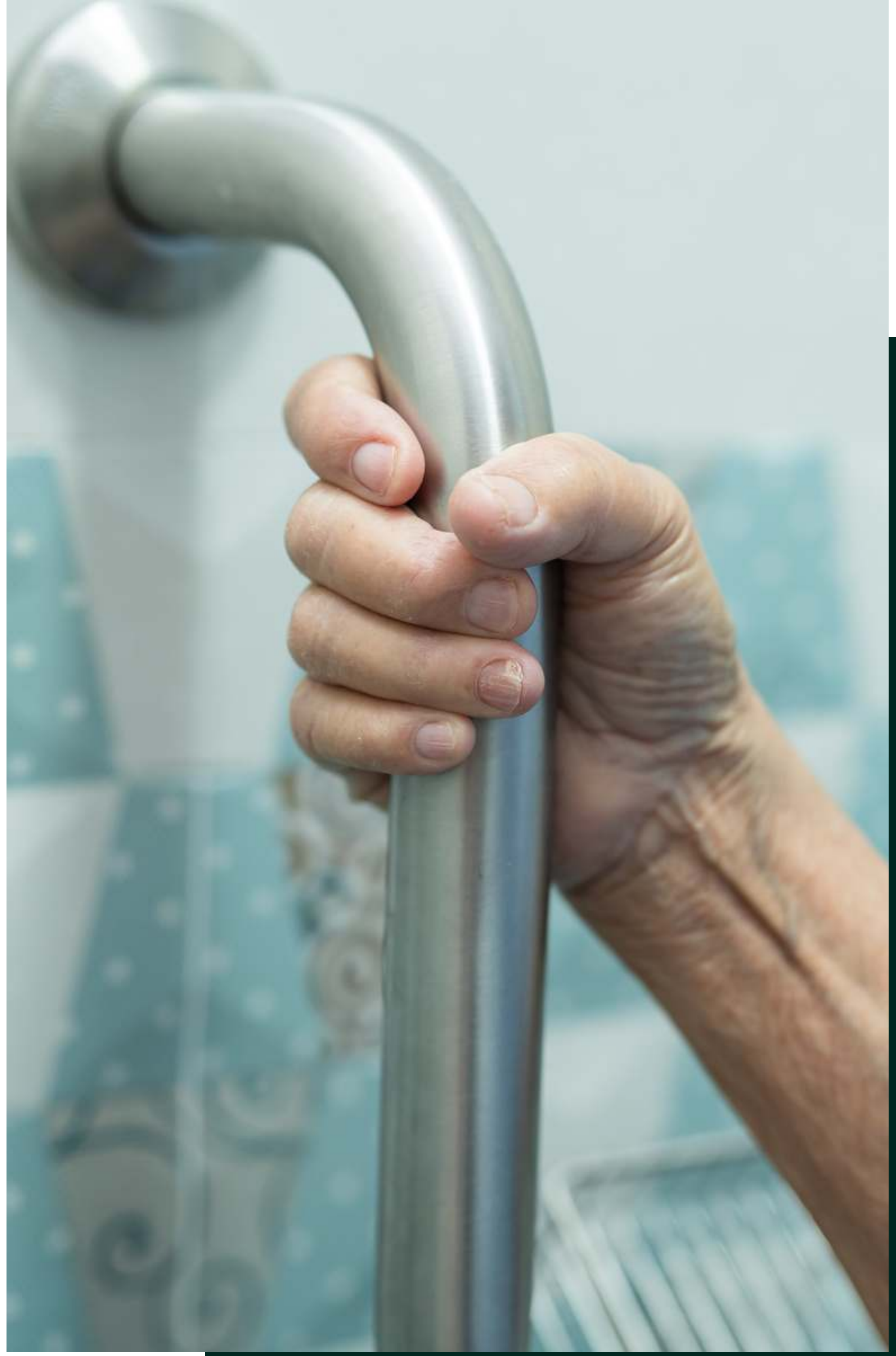
The increase in HBTC will apply to acquisitions of a qualifying home made on or after **January 1, 2022**.

MULTIGENERATIONAL HOME RENOVATION TAX CREDIT

The new **Multigenerational Home Renovation Tax Credit (MHRTC)** would be a refundable tax credit for expenses paid by an individual for a renovation that creates a secondary dwelling unit to permit a senior or person with a disability to live with a particular family member. The credit would be 15% of up to $50,000 worth of costs incurred for the renovation. The types of expenses that are eligible for the credit include the cost of labour, building materials, fixtures, permits, etc.

Effective Date

The MHRTC would apply for the 2023 and subsequent taxation years in respect of work performed and paid for and/or goods acquired on or after **January 1, 2023**.



RESIDENTIAL PROPERTY FLIPPING RULE

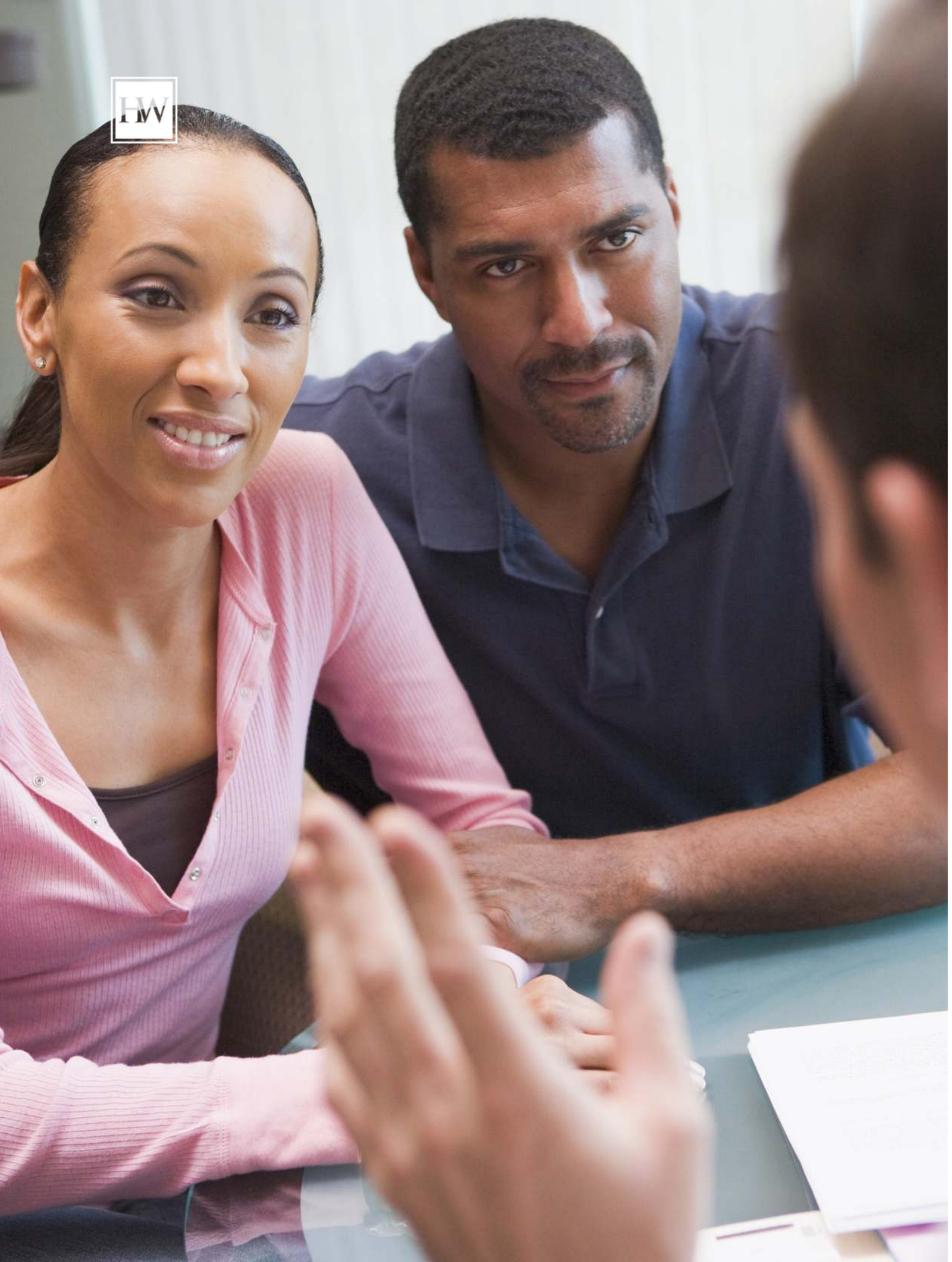
The profit realized on properties purchased with the intention of reselling the property in a short period of time would usually treated as fully taxable business income rather than as a capital gain potentially eligible for the principal residence exemption. It is a question of fact whether the profit is considered business income or a capital gain. The government proposes to introduce new legislation that would treat profits from the sale of a property that was owned for less than 12 months as business income by default rather than having to establish that the facts result in business income treatment. There will be several exceptions to this deeming rule such as death, having to upsize due to family circumstances (children, taking care of a family member, etc.), separation, safety, illness, etc.

Effective Date

Residential properties sold **on or after January 1, 2023** would be subject to these new rules.

Comments

These new rules specifically target property flippers, particularly those that have not been reporting profits as business income. Most families should not be impacted by these changes.



MEDICAL EXPENSES TAX CREDIT FOR SURROGACY AND OTHER EXPENSES

Some medical costs incurred by individuals have historically not been eligible for the **Medical Expenses Tax Credit (METC)**. The budget proposes to expand eligible METCs to include the following expenses:

- Expenses paid on behalf of a surrogate mother or a donor of sperm, ova or embryos.
- Expenses reimbursed to a surrogate mother or donor of sperm, ova or embryos for expenses incurred by the mother or donor. This could include prescription medication related to the pregnancy of the surrogate mother.
- Fees paid to acquire donated human sperm or ova. Only expenses incurred in Canada would be eligible.

Effective Date

These types of expenses incurred in **2022 and subsequent years** would be eligible for the METC.

Comments

These changes will provide families who use assisted reproductive technologies some long overdue income tax relief.

ANNUAL DISBURSEMENT QUOTA FOR REGISTERED CHARITIES

Registered charities are generally required to expend a minimum amount each year, referred to as the **disbursement quota (DQ)**. The DQ is currently equal to 3.5% of the registered charity's property not used directly in charitable activities or administration. Budget 2022 proposes to increase the DQ rate from 3.5% to 5% per cent for the portion of property not used in charitable activities or administration that exceeds $1 million. This would increase expenditures by charities overall, while accommodating smaller grant-making charities that may not be able to realize the same investment returns as larger charities.

Effective Date

This change would apply for taxation years beginning on or after **January 1, 2023**.

CORPORATE SMALL BUSINESS DEDUCTION

The **Small Business Deduction (SBD)** provides a reduced corporate tax rate on up to $500,000 of income earned on qualifying active business income by certain Canadian corporations. The SBD is reduced for corporate groups that have taxable capital employed in Canada between $10M and $15M and eliminated for corporate groups that have taxable capital employed in Canada over $15M. It is proposed that the range of taxable capital reduction be increased to $10M to $50M which would allow more corporations to benefit from the SBD.

Effective Date

This change would apply to taxation years that begin on or after **April 7, 2022**.

GENUINE INTERGENERATIONAL SHARE TRANSFERS

Prior to June 29, 2021 income tax legislation made it less attractive to sell a business to certain family members (such as children or grandchildren) than unrelated parties. On June 29, 2021 **Bill C-208** introduced rules that allowed for sales to certain family members to benefit from the same income tax treatment as sales to unrelated parties. When Bill C-208 became law, the government had several concerns over the rules outlined in the bill. Although no changes to the rules were proposed in the Budget, the Department of Finance indicated that they would table legislation in the fall to address their concerns after a consultation period.

Effective Date

No effective date was announced but a new bill is expected to be tabled in the fall after the conclusion of the consultation process.

Comments

It is expected that favourable intergenerational share transfers will remain available after any legislative changes the current rules will likely be less restrictive. If you are considering selling your business to the next generation.Consider consulting your accountant to determine if you can benefit from the current legislation.

CONTACT US

Hendry Warren LLP

(613) 235-2000

www.hwllp.ca

info@hwllp.ca

881 Lady Ellen Place, Suite 200
Ottawa ON, K1Z 5L3