

2021

Federal budget

Insights from our
Tax & Estate Planning professionals

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Wealth

On April 19, 2021, Finance Minister Chrystia Freeland released the Liberal Government's first federal budget in over two years ("Budget 2021"). As the title *A Recovery Plan for Jobs, Growth, and Resilience* suggests, Budget 2021 is largely focused on measures intended to assist Canadians and businesses in their fight against the COVID-19 pandemic and boost the creation of jobs and growth, so that a strong recovery of the economy is possible, particularly for the low- and middle-class Canadians and businesses that have suffered the most.

While there was much speculation on ways in which the government could increase revenues, please note that Budget 2021 does **not** propose changes to the following items:

- Personal income tax rates;
- Corporate income tax rates;¹
- The capital gains inclusion rate of 50%; and
- The principal residence exemption.

While this report is not intended to be a summary of all of the measures announced in Budget 2021, the following are items we believe are of interest to Richardson Wealth clients and their families.

National early learning and child care system

Budget 2021 announces the intention of the government to work closely with provincial/territorial and Indigenous partners to build a national system that will provide families access to high-quality and affordable early learning and child care.

The government endeavors to reduce average regulated early learning and child care fees by 50% as early as the end of 2022, with the ultimate goal of reducing these fees down to an average of \$10 per day by 2025-2026. These targets will apply for families outside of Quebec.² To accomplish this, the government is budgeting up to \$30 billion in funding over the next 5 years, with ongoing amounts to be provided to maintain these initiatives.

Extension of wage and rent subsidies and lockdown support

The pandemic has caused a significant reduction to revenues for employers and businesses, many of whom have struggled to continue paying for costs such as employee payroll and rents.

1 Budget 2021 does propose some temporary corporate income tax reductions limited to qualifying zero-emission technology manufacturers.

2 Quebec already has a child care system in place.



To support these employers and businesses, the government had introduced the:

1. **Canada Emergency Wage Subsidy (CEWS)**, which commenced March 15, 2020 and provides employers with subsidies for wages paid to employees. Currently, the maximum CEWS rate for active employees is 75% of remuneration paid up to a per-employee maximum of \$847 per week, provided that the employer suffered a revenue decline of at least 70%.
2. **Canada Emergency Rent Subsidy (CERS) and Lockdown Support**, which commenced September 27, 2020 and provides businesses with subsidies to cover a portion of commercial rent or property expenses. Currently, the maximum CERS rate is 65% of eligible expenses for businesses who suffered a revenue decline of at least 70%. A top-up Lockdown Support rate of 25% may also be available.

The CEWS, CERS, and Lockdown Support are all currently set to expire on June 5, 2021. Budget 2021 proposes to extend these programs until **September 25, 2021**. With the extension, the government also proposes to gradually decrease the subsidy rates for the CEWS and CERS starting July 4, 2021, from a maximum of 75% to 20% by the end. The intention is to slowly wean employers and businesses off of the CEWS and CERS as vaccinations increase and the economy recovers.

It appears that Budget 2021 will not decrease the Lockdown Support after July 4, 2021. As such, the maximum Lockdown Support rate of 25% will continue until the proposed end of the program on September 25, 2021.

Furthermore, Budget 2021 proposes that if a publicly-listed company is receiving the CEWS and is found to be paying its top executives (e.g., chief executive and financial officers) more in 2021 than in 2019, such company will be required to repay the CEWS received for periods after June 5, 2021 and until the end of the program on September 25, 2021.

Canada Recovery Hiring Program (CRHP)

While Budget 2021 proposes to extend the CEWS beyond June 5, 2021, it also introduces the **CRHP**, a new program to reduce employers' costs of hiring new workers or increasing existing worker hours as part of facilitating the economic recovery. The CRHP is mainly available to Canadian-controlled private corporations (CCPC) and individuals—public for-profit corporations are not eligible.

The CRHP will pay a subsidy for “incremental remuneration” paid to eligible employees between **June 6, 2021** and **November 20, 2021**. Increased remuneration is the difference between remuneration paid during the eligibility period and the baseline period of March 14, 2021 to April 10, 2021, with a per-employee maximum of \$1,129 per week. Incremental remuneration could result from increasing wages for existing workers or by hiring new workers.

The maximum CRHP rate is 50% of an eligible employee's incremental remuneration in June, July, and August, 40% in September, 30% in October, and 20% in November. Employers can qualify for the CRHP provided they suffered a revenue decline of more than 0% between June 6, 2021 and July 3, 2021, and at least 10% between July 4, 2021 and November 20, 2021.

It is important to note that employers can claim either the CRHP or the CEWS for a particular qualifying period, but not both.

While employers can only claim the CEWS or the CRHP, it appears they have the flexibility to claim the one that provides the greater benefit. For example, an employer who starts hiring new employees or increasing wages on existing employees may receive a higher CRHP than CEWS once its revenues start recovering and get closer to pre-pandemic levels. Moreover, once the CEWS ends on September 25, 2021, employers can then shift to the CRHP until November 20, 2021. Clients are encouraged to consult with their professional tax advisors to coordinate these proposals to ensure the optimal tax benefit.

It also appears that the CRHP is not available to a new business, as the eligibility requirements include having a business number as of March 2020.

Extension of recovery benefits and Employment Insurance (EI) benefits

Many employed and self-employed individuals impacted by the pandemic were not eligible to receive EI benefits. In response, the government introduced the Canada Emergency Response Benefit (CERB), which commenced March 15, 2020 and ended September 27, 2020. The CERB was then immediately transitioned into several recovery benefits for those who still needed support—these include the:

1. **Canada Recovery Benefit (CRB)**, which provides an eligible individual with \$1,000 every 2 weeks for up to 26 weeks.
2. **Canada Recovery Caregiving Benefit (CRCB)**, which provides a household with \$500 per week for up to 26 weeks.
3. **Canada Recovery Sickness Benefit (CRSB)**, which provides an eligible individual with \$500 per week for up to 2 weeks.

All of the recovery benefits are currently available until **September 25, 2021**.

In February 2021, the government increased the maximum number of weeks available to 38 weeks under the CRB and CRCB, and to 4 weeks under the CRSB, as well as the maximum number of weeks available from 24 weeks to 50 weeks for EI regular benefits.

As Canadians continue to fight against the pandemic, Budget 2021 proposes additional relief pertaining to the above measures:

- The CRB will be extended by an **additional 12 weeks**, from 38 weeks to a **maximum of 50 weeks**. The first 4 of the additional 12 weeks are to be paid at \$500 per week, and the remaining 8 weeks are to be paid at \$300 per week. Individuals who apply for the CRB after July 17, 2021 can also receive \$300 per week.
- The CRCB will be extended by an **additional 4 weeks**, from 38 weeks to a **maximum of 42 weeks**.
- EI sickness benefits will be extended from **15 weeks to a maximum of 26 weeks**, starting in **summer 2022**.

This appears to suggest that an individual who is continuously eligible for the CRB and has claimed it since September 27, 2020 can now receive a total of **\$23,400** in gross payments.

Similarly, a household with an individual who is continuously eligible for the CRCB and has claimed it since September 27, 2020 can now receive a total of **\$21,000** in gross payments.

Although additional weeks of payments have been proposed for the CRB and CRCB, these benefits continue to only be available until September 25, 2021. Individuals have been able to retroactively apply for payments for past periods, provided applications are made within 60 days after the end of the period in question. For example, as of April 19, 2021, individuals can no longer make retroactive applications for periods prior to February 13, 2021.

Tax treatment of COVID-19 benefit repayments

Individuals who received COVID-19 benefits from the government during 2020 may have to repay them during 2021 if it is determined that they are ineligible. Existing tax rules would require the benefit to be reported as income on the 2020 tax returns, with a deduction reported on the 2021 tax returns. This can create unfair cash flow issues as income tax is prepaid on a benefit that is ultimately returned to the government.

In response, Budget 2021 proposes to revise the rules such that an individual can choose to claim a deduction for the repayment of a COVID-19 benefit in the year the benefit was originally received, rather than when it is repaid. This proposal will apply for benefits repaid at any time before 2023. Benefits that qualify for this proposed treatment include the:

- CERB;
- EI Emergency Response Benefits;
- Canada Emergency Student Benefits; and
- CRB, CRCB, and CRSB

New national tax on vacant property owned by non-residents

As an investment in making housing affordable for all Canadians, Budget 2021 announces the intention to implement a new **1% national tax on vacant and underused residential real estate** owned by those who are non-residents and non-Canadians.³ The 1% tax will be charged annually on the value of residential real estate, beginning **January 1, 2022**. Moreover, starting in 2023, all owners of residential property in Canada, other than Canadian citizens or permanent residents, will be required to file a declaration with the Canada Revenue Agency in respect of such property, even if the tax is not applicable. Significant penalties for failure to file these declarations can be charged.

The government will announce a consultation in the coming months to solicit feedback on this potential tax. Outstanding questions include how to determine value, how the tax would apply to multiple owners, what would constitute “vacant” and “underused,” etc.

The proposed annual declaration would include information such as the property address and estimated value. The declaration would also allow an owner to claim a potential exemption from the vacancy tax, which may apply if the property were rented out for a minimum period of time during the year.

New luxury tax on select goods

Budget 2021 asks the wealthy to “pay a little more” by introducing a **tax on the sales of personal-use luxury cars and aircraft** with a retail sales price over **\$100,000**, and **personal-use boats** with a retail sales price over **\$250,000**. The tax will be effective **January 1, 2022**, and further details are to be provided by the government in the coming months on this proposal.

If enacted in its current state, the tax is equal to the lesser of:

- **20%** of the value above the thresholds (i.e., \$100,000 for cars and aircrafts and \$250,000 for boats); or

- **10%** of the full value of the car, aircraft, or boat.

Furthermore, the GST/HST will apply to the final sale price, inclusive of this luxury tax.

Example:

On February 1, 2022, an individual purchases a sports car with a retail sales price of \$400,000. The proposed luxury tax on this purchase is estimated at **\$40,000** [i.e., lesser of 20% of (\$400,000 less \$100,000 threshold) or 10% of \$400,000]. The GST/HST would then be applied on a final value of **\$440,000**.

Application of the GST/HST to e-commerce

Budget 2021 proposes that starting **July 1, 2021**, non-resident vendors are required to register for the GST/HST and to collect and remit the tax on taxable digital products or services to Canadian consumers. These include things such as online video and streaming services, and software applications.

This proposal means that Canadian consumers will likely be responsible for paying the GST/HST collected by the non-resident vendors through future increased costs to use the digital product or service.

Additional Old Age Security (OAS) benefits for Canadians age 75 and over

Budget 2021 proposes the following improvements to OAS benefits for seniors:

- **A one-time payment of \$500 in August 2021** for OAS pensioners who are age 75 or older as of June 2022.

³ Some provinces, such as British Columbia and Ontario, have their own provincial “speculation” and “vacancy” taxes that may apply on residential real estate located there.

- A **10% increase in regular OAS payments** for pensioners age 75 or older as of **July 2022**. This will provide additional benefits of \$766 to full pensioners in the first year and will be indexed to inflation.

It appears that the one-time payment of \$500 will not be subject to the OAS recovery tax (i.e., “claw back”), nor will it be treated as income for purposes of the tax-free Guaranteed Income Supplement. However, it appears the 10% increase in regular OAS payments will be subject to the recovery tax.

Expanding Disability Tax Credit (DTC) eligibility

The **DTC** is a non-refundable tax credit available for individuals with disabilities and those that support them. While the DTC provides valuable tax savings, the more significant benefit associated with qualifying for the DTC is the ability to open a **Registered Disability Savings Plan (RDSP)**, which provides grants and bonds on contributions as well as tax-deferred growth on amounts within such plan until withdrawn. However, in order to be eligible for the DTC and the RDSP, an application has to first be made with the Canada Revenue Agency and it must be shown that the disabled individual has a severe and prolonged impairment. The impairment can be physical or mental.

In Budget 2021, the government proposes to improve the eligibility for mental functions and life-sustaining therapy by updating the list of mental functions of everyday life used for assessing eligibility for the DTC, as well as including more activities in determining time spent on life-sustaining therapy and reduce the minimum frequency of therapy required in order to qualify for the DTC. For example, impairments of mental functions under current rules only include memory, problem-solving, goal-setting and judgment (taken together), and adaptive function. The proposed rules will expand the impairments of mental functions to include attention, concentration, regulation of behavior and emotions, to name a few.

Registered Retirement Savings Plan (RRSP) and postdoctoral fellowship income

Currently, postdoctoral fellowship income is taxable but does not qualify as “earned income” for purposes of the RRSP contribution limit. Budget 2021 proposes to include postdoctoral fellowship income in RRSP earned income in the 2021 and future taxation years. Furthermore, taxpayers who received postdoctoral fellowship income in the 2011 to 2020 taxation years will be able to file adjusted tax returns with the Canada Revenue Agency to include such amounts in their RRSP contribution limit calculations. This will provide such individuals with additional room to make tax-deductible contributions for their retirement.

Interest deductibility limits for certain corporations

Corporations often borrow as part of their operations. Provided that the borrowings are used for business purposes, interest costs are generally tax-deductible. The government, however, has expressed concern over corporations claiming excessive interest deductions, particularly through cross-border arrangements with foreign corporations or through debts used to acquire assets that do not generate taxable income.

Budget 2021 proposes to introduce an “earnings-stripping rule” to limit the amount of interest that certain corporations can deduct. This rule will limit a company’s deductible interest expense to 40% of “tax EBITDA” for taxation years beginning on or after January 1, 2023, and to 30% of tax EBITDA for taxation years beginning on or after January 1, 2024.⁴ Exemptions to this rule are available for CCPCs that, together with associated corporations, have taxable capital employed in Canada under \$15 million,⁵ and groups of corporations whose net interest expense among Canadian members is \$250,000 or less. The government plans to provide draft legislation on this measure for consultation in the summer.

⁴ EBITDA is earnings before interest, taxes, depreciation, and amortization.

⁵ A corporation’s “taxable capital employed in Canada” generally refers to its shareholder’s equity and debt, with certain adjustments. It is used to determine if a CCPC is eligible for the federal small business deduction limit of \$500,000. The federal small business deduction limit starts decreasing once taxable capital exceeds \$10 million and is fully eliminated once taxable capital exceeds \$15 million.

Confirmation of previously-announced measures

In addition to introducing the key measures outlined above, Budget 2021 confirms the government's intent to proceed with various measures that were announced prior to April 19, 2021. Notable measures include:

- An annual cap of \$200,000 on the amount of **employee stock options** that can vest in a calendar year and qualify for the stock option deduction. The cap will be based on the fair market value of the shares subject to the option agreement at the grant date. This measure is intended to apply for employee stock options granted on or after **July 1, 2021** and will not apply to options granted by CCPCs or other corporations with annual gross revenues of \$500 million or less.
- **Enhanced annual reporting requirements by trustees** of most trusts to disclose certain identifying information pertaining to all settlors, trustees, beneficiaries, and other persons that can exert control over such trusts. These requirements apply to trusts with taxation years **ending on or after December 31, 2021** even if they do not generate any income or make any distributions to beneficiaries.

[Click here](#) for our Year-end Tax Planning Checklist for further insight into trust reporting rules.

Tax & Estate Planning

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