2021 Federal Budget Tax Highlights

Budget 2021's tax measures provide COVID-19 and recovery benefits for Canadians and Canadian businesses

On April 19, 2021, the Honourable Chrystia Freeland tabled her first budget as federal Minister of Finance. Previously, the federal government had predicted a deficit for 2020-21 of $381.6 billion, but this amount was revised down to $354.2 billion. Today's budget predicts the deficit for 2021-22 will be $154.7 billion.

As expected, no changes were made to tax rates generally, although some new taxes have been proposed. Some of the key tax changes announced today, which take effect on varying dates, are summarized below. Please refer to the Department of Finance Canada's budget documents for all details of the changes highlighted.

COVID-19 support and economic recovery measures

Subsidy programs extended and adjusted — A number of changes have been proposed for the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS) and Lockdown Support programs. These include:

- extending the programs to September 25, 2021 (from June 6, 2021)
- gradually phasing out the rates in the CEWS and CERS programs
- requiring employers to have a revenue decline of more than 10 per cent to qualify, beginning on July 4, 2021
- continuing to make the CEWS available for eligible furloughed employees until August 28, 2021
- adding a business acquisition rule to the CERS, similar to the CEWS rule

Canada Recovery Hiring Program (CRHP) proposed — As an alternative to the CEWS and to encourage hiring, certain employers will be allowed to claim an amount under the proposed CRHP for six periods between June 6 and November 20, 2021. Key features of the program are:

- Eligible employers would include Canadian-controlled private corporations (CCPCs), individuals, non-profit organizations, registered charities and certain partnerships.

- The subsidy would apply to incremental remuneration increases at the rate of 50 per cent for the first three periods, declining for the final three periods to 40 per cent, 30 per cent and 20 per cent, respectively.
- Eligible weekly remuneration is limited to $1,129 per eligible employee.
- The CEWS revenue decline test would apply to determine qualification, along with other conditions.

New immediate expensing deduction — A newly proposed rule would allow CCPCs to immediately expense certain capital expenditures, effective for property acquired after April 19, 2021 and put into use before 2024. The deduction is limited to $1.5 million per year, and this limit must be shared by associated corporations.

Taxation of COVID-19 benefits — The budget proposes to allow individuals to claim COVID-19 benefit repayments as a deduction in either the year they received the benefit or the year they repaid it. Where a return has already been filed, the recipient can ask the Canada Revenue Agency (CRA) to adjust their return. This option would be available for benefit amounts repaid at any time before 2023.

Other corporate and business tax changes

Rate reduction for zero-emission technology manufacturers — Under this proposal, corporations will be able to apply reduced tax rates on eligible zero-emission technology manufacturing and processing income of 7.5 per cent for corporations generally and 4.5 per cent for corporations eligible for the small business deduction. The reduced rates would apply for taxation years that begin after 2021 and will be gradually phased out starting in 2029.

Capital Cost Allowance (CCA) for clean energy equipment — The CCA rules for Classes 43.1 and 43.2 will be broadened to include new types of expenditures, and the eligibility criteria will be adjusted.

Interest deductibility restrictions — For corporations, trusts, partnerships and branches, the budget proposes to restrict the deduction of interest expenses to earnings before interest, taxes, depreciation and amortization (EBITDA) determined on a tax basis. The maximum deduction will be limited to 40 per cent of EBITDA for taxation years beginning on or after January 1, 2023 but before January 1, 2024, and to 30 per cent for later years. Exemptions apply for CCPCs/associated groups with taxable capital of less than $15 million and for groups of corporations and trusts with an aggregate net interest expense of $250,000 or less.

Transfer pricing consultation — The government announced plans to launch a consultation on transfer pricing with a view to protecting the integrity of Canada’s tax base while preserving Canada’s attractiveness for new investment and business activity.

Personal tax changes

In addition to the change described above for COVID-19 benefit repayments, additional proposed personal tax changes include:

- changes to the requirements for the disability tax credit that appear to provide more clarity on certain aspects of the credit
- expanding the travel component of the Northern Residents Deductions
- adding postdoctoral fellowship income to earned income for purposes of Registered Retirement Savings Plans
- expanding the Canada Workers Benefit by increasing phase-out thresholds and phase-in rates, and by adding an exemption for secondary income earners

GST/HST and other indirect tax changes

Application of GST to e-commerce — The federal government confirmed that proposals to apply the GST/HST to certain e-commerce transactions will go forward on July 1, 2021. Additional proposed changes were announced in the budget that respond to comments made by stakeholders, including CPA Canada. Key proposed amendments include:

- a safe harbour rule to help protect e-platform operators that are acting in good faith or are provided with false or misleading information by a third party
- an amendment clarifying that suppliers registered for the GST/HST under the simplified framework are eligible to deduct amounts for bad debts and certain provincial HST point-of-sale rebates
- zero-rated supplies will not be counted in determining the $30,000 threshold for registration
- where the affected businesses and platform operators can show that they have taken reasonable measures but are unable to meet their new obligations for operational reasons, the CRA will take a practical approach to compliance and exercise discretion in administering these measures for the first year

Documenting input tax credits (ITCs) — Under the GST rules, information and documentation requirements apply for registrants that are eligible to claim input tax credits. The requirements increase on a graduated basis, based on a threshold of $30 or $150. The budget proposes to increase these thresholds to $100 and $500 respectively, effective April 20, 2021, and to allow billing agents to be treated as intermediaries for the purposes of these rules.

Digital services tax — The government reaffirmed its intention to implement a three per cent digital services tax for large businesses on January 1, 2022, which will apply until an acceptable multilateral approach comes into effect.

Tax on vacant residential properties — The government has announced its intention to implement an annual one per cent tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused, effective January 1, 2022. The tax would require all owners, other than Canadian citizens or permanent residents of Canada, to file a declaration as to the property's current use, with significant penalties for failure to file.

Tax on luxury goods — The budget proposes to introduce a luxury tax on certain items, effective on January 1, 2022. For vehicles and aircraft priced over $100,000, the tax would be the lesser of 10 per cent of the full value of the vehicle or the aircraft, or 20 per cent of the value above $100,000. For boats priced over $250,000, the tax would be the lesser of 10 per cent of the full value of the boat, or 20 per cent of the value above $250,000. Exemptions are available and more details will be announced.

Other indirect tax changes — The budget also proposes a number of other changes on issues. These include:

- adjusting the conditions for the GST New Housing Rebate
- increasing excise duties on tobacco
- implementing excise duties on vaping products
- amending the Customs Act to improve the collection of duties and taxes on imported goods

Tax administration changes

Anti-avoidance changes — The federal government announced several proposed initiatives related to anti-avoidance. These include:

- expanding existing mandatory disclosure rules and introducing new rules, including requirements to report notifiable transactions and uncertain tax treatments, subject to a consultation that closes on September 3, 2021
- introducing anti-avoidance rules for plans that attempt to frustrate the CRA's ability to collect tax debts, with effect as of April 20, 2021
- reviewing the general anti-avoidance rule, as the government has previously announced
- introducing new rules to address cross-border hybrid mismatch arrangements, with effect in stages starting July 1, 2022

Other proposed tax administration changes — Other proposed changes to Canada's tax administration in this budget include:

- eliminating the requirement for handwritten signatures on certain forms
- allowing issuers of information returns, such as T4As and T5s, to issue income slips electronically without a paper form
- reducing the thresholds at which electronic filing for certain returns and forms is required
- requiring most corporations and GST registrants to file GST/HST returns electronically
- providing the CRA with more resources for a variety of initiatives, including combating aggressive tax planning, protecting taxpayers' privacy and modernizing its services

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