2021 Economic and Fiscal Update: Tax Highlights

On December 14, 2021, the Honourable Chrystia Freeland delivered the federal government's Economic and Fiscal Update, presenting updates on some proposed 2021 federal budget tax measures and introducing new initiatives. However, no update was provided on other tax proposals from the 2021 federal budget or the proposed trust reporting rules, so when we can expect these proposals to advance remains to be seen.

Below we highlight key tax-related measures announced in the Economic and Fiscal Update, along with a round-up of previously announced tax measures that remain outstanding.

New tax proposals

Some of the most important new tax changes are as follows.

Relief for guaranteed income supplement (GIS) recipients and students — Many Canadians who received the Canada Emergency Response Benefit (CERB) or Canada Recovery Benefit (CRB) in 2020 saw their 2021 GIS benefits decline or eliminated given the impact these two emergency programs had on their taxable incomes. To ease this hardship, the government proposes to provide one-time payments to GIS and Allowance recipients who received CERB or CRB in 2020. The government also proposes to provide debt relief to students who received CERB but were eligible for the Canada Emergency Student Benefit (CESB) by allowing them to offset their CERB-related debt by the amount of their CESB entitlement.

Simplified home office expense deduction extended and enhanced — The government proposes to extend the temporary simplified method of claiming employee home office expenses and increase the maximum temporary flat rate deduction to $500 annually. This measure will now apply to the 2021 and 2022 tax years. However, the government did not indicate whether the simplified version of the T2200 form would be used for these claims or offer guidance on how the rules would be interpreted for employees who work from home but their employer's offices are available to use.

Enhanced support for teachers — The government proposes to increase the Eligible Educator School Supply Tax Credit to 25 per cent (from 15 per cent) on eligible supplies, to a maximum of $1,000. Purchased supplies may be eligible no matter where they are used. The government also proposes to enhance the list of eligible teaching supplies to include certain electronic devices. An eligible educator making a claim would be required to provide a certificate from their employer attesting to the eligible supplies. This measure would apply for 2021 and later tax years.

Small Businesses Air Quality Improvement Tax Credit — The government proposes to introduce a temporary Small Businesses Air Quality Improvement Tax Credit for eligible entities for qualifying expenditures attributable to air quality improvements in qualifying locations incurred from September 1, 2021 to December 31, 2022. The refundable tax credit will be 25 per cent of an eligible entity's qualifying expenditures, to a maximum of $10,000 per qualifying location and $50,000 across all qualifying locations. The limits on qualifying expenditures would be shared among affiliated businesses. The credit would be included in the taxable income of the business in the tax year the credit is claimed.

Updates on previously announced tax proposals

The government confirmed that it will proceed with some tax measures from the 2021 federal budget, including the following:

Digital services tax — The government intends to impose a three per cent digital services tax (DST) on large businesses on January 1, 2022, but only if the OECD's two-pillar plan for international tax reform does not come into force by January 1, 2024. If no agreement is reached, the DST would be applied retroactively to revenues arising on or after January 1, 2022. As an update, the government reconfirmed these plans and released draft legislation as part of the December 14, 2021 "Notice of Ways and Means Motion to introduce an Act to implement a Digital Services Tax." The government also launched a consultation on the draft legislation that closes on February 22, 2022.

Tax on vacant residential properties — The government previously 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. In its update, the government confirmed that this tax would apply for 2022, but with a new exemption for certain vacation or recreational properties. Draft legislation was released as part of the "Notice of Ways and Means to implement certain provisions of the economic and fiscal update tabled in Parliament on December 14, 2021 and other measures."

Tax on luxury goods — The 2021 federal budget proposed to introduce a luxury tax on certain items, effective January 1, 2022. For vehicles and aircraft priced over $100,000, the tax would be the lesser of 10 per cent of the item's full value, 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 boat's full value, or 20 per cent of the value above $250,000. The government announced that it will release draft legislation, including details on coming-into-force, in early 2022.

Carbon capture, utilization, and storage tax credit — The 2021 federal budget proposed an investment tax credit for capital invested in carbon capture, utilization and storage projects with the goal of substantially reducing emissions. As an update, the government stated that it will outline the final design of the proposed investment tax credit in Budget 2022.

Returning the proceeds from the price on pollution to farmers — In the 2021 federal budget, the federal government announced its intention, starting in 2021-22, to return a portion of the proceeds from the price on pollution directly to farmers in backstop jurisdictions (i.e., those jurisdictions subject to the federal pollution pricing system because they do not impose their own; currently Alberta, Saskatchewan, Manitoba, and Ontario). The government confirmed that this proposal will move forward and provided further details.

Other outstanding tax initiatives

Federal budget changes are usually enacted through one of two bills tabled in Parliament. Changes that require immediate enactment are generally included in a first bill, which is normally passed into law before Parliament adjourns for the summer (this year, it was Bill C-30, Budget Implementation Act, 2021, No. 1). Other legislative changes are typically released in draft legislation during the summer and tabled in Parliament as a second bill in the fall.

This year, however, the federal election call pre-empted the tabling of a second piece of legislation, so some key 2021 federal budget tax proposals have not been moved forward. These include proposals related to:

- interest deductibility
- immediate expensing of capital expenditures
- rate reduction for zero-emission technology manufacturers
- capital cost allowance for clean energy equipment
- new mandatory disclosure requirements
- avoidance of tax debt rules
- hybrid mismatch arrangements
- electronic filing and certification of tax and information returns

The government also did not provide an update on the new reporting rules for trusts, which were first introduced in the 2018 federal budget and are proposed to apply for the 2021 taxation year. These rules will require more trusts to file a T3 trust return and more information to be reported on settlors, trustees, beneficiaries and other individuals who can exert control over a trust.

We will continue to track developments on these changes and update you as we learn more.