



2022 Federal Budget Analysis

The 2022 federal budget was tabled on April 7, 2022. The following analysis covers these subject areas:

- Responsible fiscal management
- Taxation
- Sustainability and climate change
- Anti-money laundering
- Labour market and immigration
- Digital economy
- Housing
- Innovation and growth

Responsible fiscal management

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none"> • Adopt a fiscal anchor framework, including a series of metrics, to address the deficit and debt. • Commit to a comprehensive spending review that sets an annual savings target and applies to all departments and government agencies. 	<p>Budget 2022 delivers slight improvements on the upcoming deficits. The government still aims at reducing the federal debt as a share of the economy over the medium term.</p> <p>The deficit projections are as follows:</p> <p>2021-2022: -\$113.8 billion</p> <p>2022-2023: -\$52.8 billion</p> <p>2023-2024: -\$39.9 billion</p> <p>2024-2025: -\$27.8 billion</p> <p>2025-2026: -\$18.6 billion</p> <p>2026-2027: -\$8.4 billion</p> <p>Budget 2022 announces the launch of a comprehensive Strategic Policy Review to review spending and eventually lead to annual savings.</p>

Comments:

CPA Canada welcomes the improvements to the government’s fiscal projections leading to smaller deficits as well as a decreased weight of the government’s debt on the economy. We also appreciate the announcement of comprehensive spending reviews and would recommend a transparent process that involves independent stakeholders.

In the budget, the government still relies on the debt-to-GDP ratio and aims at reducing this ratio over the medium term without setting range of limits or targets. The budget forecasts a gradual decrease in federal debt-to-GDP ratio from 46.5 % in 2021-2022 to 41.5 % in 2026-2027.

CPA Canada has been strongly encouraging the government to improve accountability by adopting a [fiscal anchor framework](#) that could set standards or limits on federal spending, deficits or debt as well as establish a mechanism for potential deviations. The International Monetary Fund, in its annual report, warned Canada of the importance of clearly specifying a medium-term fiscal anchor to guard against a potential weakening of credibility in the fiscal framework.

CPA Canada would welcome further details to reassure Canadians, businesses and investors that Canada has a long-term plan for managing its debt and deficits in light of variables (e.g. inflation and/or interest rates) affecting economic growth and fiscal health.

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none"> • Adhere to a principled approach to tax policy and administration. • Exercise caution in adding new tax expenditures to Canada's overly complex tax system; review these proposals and determine if there are better ways to deliver new policies in the public interest. • Ensure that a comprehensive tax review is part of the government's long-term growth plan. • Continue to invest in the fight against tax evasion and aggressive tax avoidance. 	<p>There are a number of proposed tax changes in this year's federal budget.</p> <p>Some of the key measures for businesses and corporations include:</p> <ul style="list-style-type: none"> • Increasing the small business phase-out threshold, allowing more medium-sized businesses to benefit from the small business rate. • Announcing targeted amendments to prevent taxpayers from manipulating Canadian-controlled private corporation (CCPC) status, which will likely impact planning for mergers and acquisitions. • Expanding the general anti-avoidance rule (GAAR) so it applies to situations where unused tax attributes are created. <p>The most significant personal income tax changes are:</p> <ul style="list-style-type: none"> • Introducing the tax-free First Home Savings Account (FHSA), a new registered account that would allow prospective first-time home buyers to save up to \$40,000. • Announcing the Residential Property Flipping Rule, where any person who sells a residential property they have held for less than 12 months would be fully taxed on their profits as business income. <p>New tax expenditures were introduced, while some existing credits were enhanced. Housing, labour mobility for tradespeople, medical expenses, carbon capture and clean technology were among the areas of focus.</p> <p>In terms of measures to combat tax evasion and aggressive tax planning:</p> <ul style="list-style-type: none"> • Building on recent investments, Budget 2022 proposes to provide \$1.2 billion over five years, starting in 2022-23, for the CRA to expand audits of larger entities and non-residents engaged in aggressive tax planning; increase both the investigation and prosecution of those engaged in criminal tax evasion; and to expand its educational outreach.

Comments:

As in previous budgets, there were many tax changes and announcements included in this year's plan. We are concerned that these cumulative measures will further impact Canada's unnecessarily complicated and inefficient tax system. CPA Canada continues to believe that it is time for the federal government to take stock and undertake a full tax review to make Canada's tax system simpler, fairer and better. Failing this, the government should uphold its 2019 pledge to undertake a tax expenditure review. The House of Commons Standing Committee on Finance endorsed both types of reviews in its most recent pre-budget consultation report.

We are encouraged to note that the government intends to consult with Canadians on some of its proposals before taking action. Tax policy changes should involve public consultation from start to finish, provide sufficient lead time, and strive for minimal disruption to Canadian taxpayers and businesses. In addition, it is important that enacted measures be periodically reviewed and evaluated to ensure they are meeting their objectives effectively, efficiently and at an acceptable cost.

On a final note, we support the continued investments being made to provide the CRA with more tools and resources to fight tax evasion and aggressive tax avoidance.

Sustainability and climate change

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none"> • Prioritize the development of a plan that maps the transition to net-zero carbon emissions on a sector-by-sector basis. • Increase funding for research and development in clean energy and support these investments with greater use of demand-side policy measures. 	<p>On March 29, the federal government introduced Canada's 2030 Emissions Reduction Plan (ERP), a comprehensive sector-by-sector plan for meeting Canada's nationally determined contribution under the Paris Agreement. Budget 2022 delivers funding to support the ERP and additional measures to advance sustainability. Budget highlights include:</p> <ul style="list-style-type: none"> • A range of measures to support the adoption of zero-emission vehicles (ZEVs), including: <ul style="list-style-type: none"> ○ A sales mandate to ensure at least 20 per cent of new light-duty vehicle sales will be ZEVs by 2026, at least 60 per cent by 2030, and 100 per cent by 2035. ○ \$1.7 billion over five years to extend and broaden the Incentives for Zero-Emission Vehicles (iZEV) program. ○ Funding, through three different programs, to support a national network of electric vehicle charging stations. ○ A range of measures to support adoption of medium- and heavy-duty ZEVs. • Funds to a variety of programs that support sustainable agriculture. • An intention to establish an investment tax credit to support net-zero technologies, battery storage solutions and clean hydrogen. Details to come in the 2022 fall economic and fiscal update. • Public Services and Procurement Canada will develop measures to support the adoption of green procurement across the federal government. • A refundable investment tax credit to support adoption of carbon capture, utilization and storage. • Funding to support a net-zero electricity system by 2035. • A proposal to eliminate the flow-through share regime for fossil fuel sector activities. • A broadened role for the Canada Infrastructure Bank to invest in private sector-led infrastructure projects that will accelerate Canada's transition to a low-carbon economy. • A range of measures to conserve and protect Canada's nature. • Measures to continue the adoption of sustainable finance. • Proposed \$8 million over three years, starting in 2022-23, to support the start-up of the Montreal office of the International Sustainability Standards Board (ISSB).

Comments:

The ERP is a critical blueprint for plotting emission reductions on a sector-by-sector basis, providing businesses with the policy horizon and program support to enable long-term planning and transition investments. Budget 2022 follows through with the funding to support the ERP's initiatives.

Of particular interest to CPA Canada are measures to advance sustainable finance. We are encouraged to see the Sustainable Finance Action Council charged with developing and reporting on strategies for aligning private-sector capital with the transition to net zero. This is an important part of delivering on the first recommendation of the Expert Panel on Sustainable Finance. Equally important are the budget's measures to further the adoption of the Task Force on Climate-related Financial Disclosures framework and environmental, social and governance (ESG) considerations within federal jurisdiction.

The budget recognizes the importance of investing in innovation and technology adoption in order to build a clean economy. Particularly intriguing is the proposal to establish a \$15 billion Canada Growth Fund, which will attract private-sector investment to help meet important national economic policy goals. We will be eagerly awaiting the details of this fund in the fall economic and fiscal update.

Finally, CPA Canada applauds the federal government for its support for the Montreal centre of the new International Sustainability Standards Board. We welcome the support of the federal government and an array of partners toward the centre's start-up.

Anti-money laundering

CPA Canada Recommendations	2022 Budget
<p>Consider introducing an AML whistleblower program, similar to the one in the U.S., which includes protections and awards and was enhanced in 2021.</p>	<p>Budget 2022 proposes to:</p> <ul style="list-style-type: none">• establish a new Canada Financial Crimes Agency. Public Safety Canada will do initial work to develop and design the new agency, with details to be announced in the fall fiscal update• accelerate by two years the plan to amend the Canada Business Corporations Act to implement a public and searchable beneficial ownership registry• extend anti-money laundering and anti-terrorist financing (AML/ATF) requirements to all businesses conducting mortgage lending in Canada, to payment service providers and to crowdfunding platforms• develop legislative changes to manage emerging threats including the digitalization of money• conduct a comprehensive review of the AML/ATF Regime and bring forward additional legislative proposals• increase funding support to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

Comments:

Budget 2022 promises a range of measures intended to maintain the integrity of the financial system and protect the finances of Canadians and our national security. CPA Canada welcomes the measures to strengthen the AML regime, including the plan to establish a new financial crimes agency. We have called for reforms to assist investigations and improve the level of prosecutions of money laundering and look forward to a consultation on the agency's intended purpose.

Labour market and immigration

CPA Canada Recommendations	2022 Budget
<p>Remain committed to achieving its higher immigration targets and fine tune the economic immigration system to meet labour market needs at all levels of skills.</p>	<p>Context:</p> <p>In February, the government released its Immigration Levels Plan for 2022 – 2024. Focusing mainly on economic immigrants, Canada aims to welcome:</p> <ul style="list-style-type: none"> • 431,645 new permanent residents in 2022 • 447,055 new permanent residents in 2023 • 451,000 new permanent residents in 2024 <p>Budget 2022 Highlights:</p> <ul style="list-style-type: none"> • The budget commits \$2.1 billion over five years and \$317.6 million ongoing in funding to support the processing and settlement of new permanent residents to Canada. • Announced the intention to modernize Labour Market Transfer Agreements with the provinces to better support mid-career workers in transitioning to new employment. Funding is also provided to launch an advisory table that brings unions and trade associations together to advise government on helping workers navigate the changing labour market. • The government intends to engage experts to explore the role that a Career Extension Tax Credit could play in boosting labour force participation.

Comments:

To support Canada's ambitious Immigration Levels Plan, the budget allocates new funding to Immigration, Refugees and Citizenship Canada and other federal agencies to support processing higher volumes of applications, to streamline systems and to improve services to newcomers. With an estimated backlog of 1.8 million applications, these new resources are badly needed.

To ramp up skills training, there were announcements of modernizing legislation, consulting experts and setting up advisory bodies, but little in the way of programs or services. Preparing workers and employers for the disruptive shifts to our labour market that technology, climate change, demographics and globalization are causing is a challenging public policy issue. But all this consultation will have to quickly translate into tangible action.

Digital economy

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none">• Continue the work outlined in Canada's Digital Charter to modernize legislation and regulatory frameworks to build trust in the digital economy and ensure sound data governance.• Accelerate efforts to close Canada's gaps in providing broadband access to all homes and businesses.	<p>Highlights:</p> <ul style="list-style-type: none">• The budget reaffirms the government's commitment to accelerating and expanding the offering of digital services to Canadians.• The government intends to introduce legislative amendments to the <i>Competition Act</i> as a preliminary phase in modernizing the competition regime.

Comments:

Most of the work in implementing Canada's Digital Charter is legislative and regulatory reforms, so it is not surprising or disappointing that it is not featured prominently in Budget 2022. Both the review of the *Competition Act* and the continued commitment to advance digital government contribute to the Digital Charter. We now eagerly await the introduction of new privacy legislation to modernize the *Personal Information Protection and Electronic Documents Act*, as promised by the Minister of Innovation, Science and Industry.

Similarly, while the budget did not make significant announcements about expanding broadband access, we must note that Innovation, Science and Economic Development Canada continues to diligently pursue the goal of connecting all Canadians by 2030. For example, last month the Government of Canada and the Government of British Columbia announced an agreement to jointly pursue that goal.

Housing

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none"> • Encourage measures aimed at providing support to home buyers to improve housing affordability. However, we recommend that the federal government focus on measures that address supply constraints in Canada’s major metropolitan centers. • Avoid measures designed to put further upward pressure on home prices, such as those designed to increase leverage or lower credit quality standards, including extending amortization periods or eliminating the mortgage income stress test. 	<p>For housing supply and affordable housing, budget 2022 proposes to:</p> <ul style="list-style-type: none"> • Launch a new housing accelerator fund to incentivize the cities and towns that are stepping up to get more housing built • Build new affordable housing • Speed up housing construction and repairs for vulnerable Canadians • Leverage infrastructure and transit funding to encourage more home construction • Support greener construction and greener buildings, homes and affordable housing <p>To support first-time homebuyers, budget 2022 plans to:</p> <ul style="list-style-type: none"> • Create a Tax-free First Home Savings Account • Double the First-Time Home Buyers’ Tax Credit <p>To protect buyers and renters, budget 2022 will:</p> <ul style="list-style-type: none"> • Implement a Home Buyers’s Bill of Rights and review housing as an asset class • Ban foreign investment for two years • Tax house flipping through a minimum holding delay on properties

Comments:

Budget 2022 invests heavily in housing to address affordability and support first-time homebuyers. CPA Canada is glad to see the federal government endorsing a leadership role in housing issues especially in a rising interest rate environment. With household debt at all-time high, the budget’s focus on increasing housing supply and affordable housing is welcomed. We are hoping that the additional financial incentives for first-time homebuyer do not increase pressures on housing prices across Canada.

Innovation and growth

CPA Canada Recommendations	2022 Budget
<ul style="list-style-type: none"> In previous pre-budget submissions, CPA Canada has recommended a review of the Scientific Research and Experimental Development program. 	<p>Budget 2022 proposes to:</p> <ul style="list-style-type: none"> Establish a \$15 billion Canada Growth Fund to attract substantial private-sector investment to help meet important national economic policy goals. Create an operationally independent Canadian Innovation and Investment Agency Review tax support to R&D and intellectual property, including the Scientific Research and Experimental Development (SR&ED) program and the potential for a patent box Cut taxes for growing small businesses Expand intellectual property regime Further support Canada's innovation clusters Invest in Critical Minerals Strategy, projects and transformation

Comments:

Budget 2022 brings forth measures to review and solidify the support ecosystem for innovation as well as extend their capacities on the protection of intellectual property. CPA Canada has recommended a review of the Scientific Research and Experimental Development (SR&ED) program and is glad to see it announced in the budget as more needs to be done to improve the credit. The budget also proposes to consider the suitability of a patent box regime and to phase out access to the small business tax rate more gradually. All told, these measures seem to suggest a welcome shift from policies oriented to the size of the firm, to policies that encourage and support business growth.

Two signature announcements are the creation of a \$15 billion Canada Growth Fund and a new Canadian Innovation and Investment Agency. A well-designed Canada Growth Fund may help to fill some of the substantial gap in capital required to invest in the clean economy. A well-designed Canadian Innovation and Investment Agency may help to improve the commercialization of Canadian ideas and to scale up high-potential small firms. Further details on both are expected later in the year.

There are a great many innovation-related announcements in Budget 2022 and, while most are on the right track, we do not have the space here to comment on each individually. What is just as important to note, however, is the general direction. Many in the business community are looking to see a greater emphasis on long-term, sustainable, economic growth. Language throughout the budget suggests the government understands and is prioritizing long-term growth. What is missing is a coherent vision or overall strategy to achieve it.

The private sector-initiated Coalition for a Better Future has launched an important ongoing dialogue on this subject. In recent years, the government has sought advice from the Advisory Council on Economic Growth led by Dominic Barton and the Industry Strategy Council, chaired by Monique Leroux, FCPA. An ad-hoc group of Canadian senators weighed into the conversation with a worthwhile report last year. Considerable overlap can be found in the recommendations of these various groups. Looking ahead to Budget 2023, we will be hoping to see movement on some of the ideas and a more clearly articulated strategy for how to achieve long-term, sustainable, economic growth.

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