



2022 Federal Budget Tax Highlights

On April 7, 2022, the Honourable Chrystia Freeland tabled her second budget as federal Minister of Finance and Deputy Prime Minister. In last year's budget, the federal government had predicted a deficit for 2021-22 of \$154.7 billion, but in today's budget, this amount was revised down to \$113.8 billion. A deficit of \$52.8 billion is predicted for 2022-23.

As expected, no changes were made to tax rates generally, although the phase-out threshold for the small business rate for eligible corporations was increased. Some of the key tax changes announced today, which take effect on varying dates, are summarized below. Please see the Department of Finance Canada's budget documents for details of these changes.

Corporate and business tax changes

Small business phase-out threshold increased – Under current rules, Canadian-controlled private corporations (CCPC) are eligible for a lower corporate income tax rate on their first \$500,000 of business income. Access to the lower rate begins to be phased out when taxable capital exceeds \$10 million and is fully phased out at \$15 million. The budget proposes to increase these threshold amounts to \$10 million and \$50 million respectively, allowing more medium-sized businesses to benefit from the small business rate.

Investment tax credit for carbon capture, utilization and storage – The budget introduces a refundable investment tax credit for eligible carbon capture, utilization and storage expenses. The credit rates range from 37.5 to 60 per cent through 2030 and lower rates apply in later years.

New investment tax credit for clean technology – Budget 2022 announces that the government will engage with experts to establish an investment tax credit of up to 30 per cent, focused on net-zero technologies, battery storage solutions and clean hydrogen. Details of the investment tax credit will be provided in the 2022 fall economic and fiscal update.

Clean technology tax incentives – CCA classes 43.1 and 43.2 would be expanded to include air-source heat pumps and their manufacturing would also be eligible for the reduced tax rate for zero-emission technology manufacturing or processing activity proposed in last year's budget.

Critical mineral exploration tax credit – The government proposes a new 30 per cent credit for renounced exploration expenses that will be incurred as part of an exploration project that targets specified minerals used to produce batteries and magnets. Eligible expenses would not benefit from both the proposed credit and the existing mineral exploration tax credit.

Flow-through shares for oil, gas and coal activities – The government proposes to eliminate the flow-through share regime for oil, gas and coal activities by no longer allowing related exploration or development expenditures to be renounced to a flow-through share investor.

Measures for financial institutions – Budget 2022 proposes to increase corporate income tax rates for banking and life insurance groups to 16.5 per cent (from 15 per cent) on taxable income over \$100 million. These companies would also be subject to a temporary Canada Recovery Dividend, a one-time, 15 per cent tax on taxable income above \$1 billion for the 2021 tax year, which would be payable over five years. Finally, specific

legislation will be introduced to prevent taxpayers from realizing artificial tax deductions using hedging and short selling arrangements.

Intergenerational transfers: Bill C-208 follow-up – The government plans to consult with stakeholders on how the rules introduced in Bill C-208 should be amended to allow for genuine intergenerational business transfers while protecting tax system integrity. New legislation to address these issues is expected to be tabled in the fall after the consultation.

Substantive CCPCs – The budget proposes targeted amendments that would prevent taxpayers from manipulating the status of their corporations in an attempt to avoid being classified as a CCPC to achieve a tax deferral on investment income earned in their corporations.

Scientific Research and Experimental Development program review – The government intends to review this program to ensure that it is effective in encouraging research and development and to explore opportunities to modernize and simplify it, including the eligibility criteria.

Patent box review – The government will consider and seek views on the suitability of adopting a patent box regime in Canada.

Rollover for small business investments – The government is reviewing whether the tax system delivers adequate support for investments in growing businesses. In particular, the review will examine the capital gain deferral for small business investments.

Employee ownership trusts – Based on feedback from consultations, the budget proposes to create rules for employee ownership trusts to support employee ownership of a business. The government will continue to engage with stakeholders as it develops and finalizes the rules.

Personal tax changes

Tax-Free First Home Savings Account introduced – Budget 2022 proposes to introduce a new Tax-Free First Home Savings Account that would allow prospective first-time home buyers to save up to \$40,000. Like an RRSP, contributions would be tax-deductible and withdrawals used to purchase a first home, including investment income, would be non-taxable, like a TFSA. A number of additional rules will apply.

First-Time Home Buyers' Tax Credit increased – Budget 2022 proposes to double the amount for this credit to \$10,000, for a maximum credit of \$1,500.

Home Accessibility Tax Credit increased – The budget proposes to double the qualifying expense limit of this credit to \$20,000, for a maximum tax credit of up to \$3,000 for eligible accessibility renovations or alterations.

Multigenerational Home Renovation Tax Credit introduced – To support multigenerational families living under one roof, this new credit would provide up to \$7,500 for constructing a secondary unit for a senior or an adult with a disability.

Residential property flipping rule announced – To ensure profits from flipping properties are fully taxed, 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. Exemptions would apply if the sale is for certain reasons, such as a death, disability, the birth of a child, a new job or separation. The government plans to release draft legislation for consultation before finalizing these rules.

Labour mobility deduction for tradespeople introduced – The government proposes to provide a tax deduction for up to \$4,000 per year in eligible travel and temporary relocation expenses to eligible tradespersons and apprentices.

Medical expense credit for surrogacy and other expenses – Eligibility for this tax credit would be extended to:

- medical expenses related to a surrogate mother or a sperm, ova or embryo donor, including expenses reimbursed to a surrogate for in vitro fertilization expenses
- certain fees paid to fertility clinics and donor banks in Canada

Minimum tax for high earners – The government plans to examine a new minimum tax regime targeting high-income Canadians and to release details on a proposed approach in its 2022 fall economic and fiscal update.

International and other income tax changes

OECD Pillar 1/Pillar 2 update – Canada is one of 137 members of the Organisation for Economic Co-operation and Development (OECD) that have joined a two-pillar plan for international tax reform. In the budget, the government outlined next steps. On Pillar 2, which proposes a global minimum tax, the budget papers set out a detailed outline of a consultation that ends July 7, 2022.

Other international tax announcements – The government plans to implement reporting rules based on the OECD’s model rules for reporting by digital platform operators with respect to platform sellers. Withholding tax changes will be introduced to deal with coupon stripping arrangements.

General anti-avoidance rule (GAAR) developments – The government intends to expand the GAAR so it applies to situations where unused tax attributes are created. The government will conduct a consultation on the GAAR over the summer with a goal to release tax legislation by the end of 2022.

Other income tax changes – Proposed changes to other income tax rules include:

- increasing the disbursement quota for charities to 5 per cent (from 3.5 per cent), among other administrative changes
- improving the operation of the tax rules for charitable partnerships
- requiring financial institutions to report the fair market value of RRSPs and RRIFs they administer
- confirming that the government intends to follow through on a long list of outstanding income tax and other initiatives previously announced (while generally providing no further updates)

GST/HST and other indirect tax changes

Targeted indirect tax measures – Among this budget’s indirect tax changes, the government announced plans to:

- allow additional nurse practitioners to qualify for the expanded GST/HST health care rebate by eliminating the geographical restriction for nurse practitioners
- make all assignment sales of newly constructed or substantially renovated residential housing taxable for GST/HST purposes so that the tax would apply to the total amount paid for a new home by its first occupant
- refine the excise duty framework for vaping products introduced in Budget 2021
- refine the excise duty framework for cannabis products by, among other changes, allowing certain producers to remit the duties quarterly instead of monthly

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