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2022 FEDERAL BUDGET SUMMARY

April 7, 2022

INTRODUCTION

On April 7, 2022, The Federal Minister of Finance, the Honourable Chrystia Freeland tabled the federal budget.

Personal Income Tax Measures

Tax-Free First Home Savings Account

Budget 2022 proposes to create the Tax-Free First Home Savings Account (FHSA), a new registered account to help individuals save for their first home. Contributions to an FHSA would be deductible and income earned in an FHSA would not be subject to tax. Qualifying withdrawals from an FHSA made to purchase a first home would be non-taxable.

To open an FHSA, an individual must be a resident of Canada, and at least 18 years of age. In addition, the individual must not have lived in a home that they owned either:

- at any time in the year the account is opened, or
- during the preceding four calendar years.

The lifetime limit on contributions would be $40,000, subject to an annual contribution limit of $8,000. The full annual contribution limit would be available starting in 2023.

Unused annual contribution room could not be carried forward, meaning an individual contributing less than $8,000 in any given year would still face an annual limit of $8,000 in subsequent years.

Amounts withdrawn to make a qualifying first home purchase would not be subject to tax. Amounts that are withdrawn for other purposes would be taxable

If an individual has not used the funds in their FHSA for a qualifying first home purchase within 15 years of first opening an FHSA, their FHSA would have to be closed. Any unused savings could be transferred into an RRSP or RRIF or would otherwise have to be withdrawn on a taxable basis.

The Home Buyers Plan will continue to be available as under existing rules. However, an individual will not be permitted to make both an FHSA withdrawal and an HBP withdrawal in respect of the same qualifying home purchase.

The effective year is 2023.

Home Buyers' Tax Credit

Currently, First-time home buyers who acquire a qualifying home can obtain up to $750 in tax relief by claiming the First-Time Home Buyers' Tax Credit (HBTC). The value of this non-refundable credit is calculated by multiplying the credit amount of $5,000 by 15%.

Budget 2022 proposes to double the HBTC amount to $10,000, which would provide up to $1,500 in tax relief to eligible home buyers. Spouses or common-law partners would continue to be able to split the value of the credit if the combined total does not exceed $1,500 in tax relief.

This measure would apply to acquisitions of a qualifying home made on or after January 1, 2022.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit is a non-refundable tax credit that provides recognition of eligible home renovation or alteration expenses in respect of an eligible dwelling of a qualifying individual. A qualifying individual is an individual who is eligible to claim the Disability Tax Credit at any time in a tax year, or an individual who is 65 years of age or older at the end of a tax year.

To better support independent living, Budget 2022 proposes to increase the annual expense limit of the Home Accessibility Tax Credit to $20,000 from $10,000.

This enhancement would provide additional tax support for more significant renovations undertaken to improve accessibility

This measure would apply to expenses incurred in the 2022 and subsequent taxation years.

Residential Property Flipping Rule

Property flipping involves purchasing real estate with the intention of reselling the property in a short period of time to realize a profit. Profits from flipping properties are fully taxable as business income, meaning they are not eligible for the 50-per-cent capital gains inclusion rate or the Principal Residence Exemption.

Budget 2022 proposes to introduce a new deeming rule to ensure profits from flipping residential real estate are always subject to full taxation. Specifically, profits arising from dispositions of residential property (including a rental property) that was owned for less than 12 months would be deemed to be business income.

The new deeming rule would not apply if the disposition of property is in relation to at least one of the following life events: death, separation, personal safety, disability or illness, employment change, and insolvency.

The measure would apply in respect of residential properties sold on or after January 1, 2023.

Medical Expense Tax Credit (METC) for Surrogacy and Other Expenses

Budget 2022 proposes to provide a broader definition of patient in cases where an individual would rely on a surrogate or a donor to become a parent. In these cases, patient would be defined as:

- The taxpayer
- The taxpayer’s spouse or common-law partner
- A surrogate mother; or
- A donor of sperm, ova, or embryos.

Also, Budget 2022 proposes to allow reimbursements paid by the taxpayer to a patient, under the expanded definition proposed above, to be eligible for the METC, provided that the reimbursement is made in respect of an expense that would generally qualify under the credit.

Finally, Budget 2022 also proposes to allow fees paid to fertility clinics and donor banks to obtain donor sperm or ova to be eligible under the METC. Such expenses would be eligible where the sperm or ova are acquired for use by an individual to become a parent.

This measure would apply to expenses incurred in the 2022 and subsequent taxation years.

Business Income Tax Measures

Small Business Deduction

To facilitate small business growth, Budget 2022 proposes to extend the range over which the business limit is reduced based on the combined taxable capital employed in Canada of a Canadian Controlled Private Corporation (CCPC) and its associated corporations.

The new range would be taxable capital of $10 million to $50 million, whereas the current range is from $10 million to $15 million.

This change would allow more medium-sized CCPCs to benefit from the small business deduction. Furthermore, it would increase the amount of qualifying active business income that can be eligible for the small business deduction.

Intergenerational Share Transfers

The Income Tax Act contains a rule to prevent people from converting dividends into lower-taxed capital gains using certain self-dealing transactions—a practice referred to as “surplus stripping.” Private Member’s Bill C-208, which received Royal Assent on June 29, 2021, introduced an exception to this rule to facilitate intergenerational business transfers.

However, the exception may unintentionally permit surplus stripping without requiring that a genuine intergenerational business transfer takes place.

As the current exception rules remains unmodified, Budget 2022 announces a consultation process for Canadians to share views as to how the existing rules could be modified to protect the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers.

Canada Recovery Dividend (CRD) and Additional Tax on Banks and Life Insurers

Budget 2022 proposes to introduce the CRD in the form of a one-time 15% tax on bank and life insurer groups. A group would include a bank, a life insurer and any other financial institution that is related to the bank or life insurer.

The CRD would be determined based on a corporation’s taxable income for taxation years ending in 2021. A proration rule would be provided for short taxation years. Bank and life insurer groups subject to the CRD would be permitted to allocate a $1 billion taxable income exemption by agreement amongst group members.

The CRD liability would be imposed for the 2022 taxation year and would be payable in equal amounts over five years.

Moreover, Budget 2022 proposes to introduce an additional tax of 1.5% of the taxable income for members of bank and life insurer groups. Bank and life insurer groups subject to the additional tax would be permitted to allocate a $100 million taxable income exemption by agreement amongst group members.

Substantive CCPCs

Budget 2022 proposes targeted amendments to the Income Tax Act to align the taxation of investment income earned and distributed by "substantive CCPCs" with the rules that currently apply to CCPCs.

Substantive CCPCs are private corporations that are resident in Canada (other than CCPCs) that are ultimately controlled (in law or in fact) by Canadian-resident individuals.

Similar to the CCPC definition, the test would contain an extended definition of control that would aggregate the shares owned, directly or indirectly, by Canadian resident individuals, and would therefore deem a corporation to be controlled by a Canadian resident individual where Canadian individuals own, in aggregate, sufficient shares to control the corporation.

This measure would address tax planning that manipulates CCPC status without affecting genuine non-CCPCs (e.g., private corporations that are ultimately controlled by non-resident persons and subsidiaries of public corporations).

This way investment income earned and distributed by corporations that are, in substance, CCPCs would be taxed in the same manner as CCPCs.

Sales and Excise Tax Measures

GST/HST Health Care Rebate

Budget 2022 proposes to amend the GST/HST eligibility rules for the expanded hospital rebate to recognize the increasing role of nurse practitioners in delivering health care services, including in non-remote areas.

It is proposed that to be eligible for the expanded hospital rebate, a charity or non-profit organization must deliver the health care service with the active involvement of, or on the recommendation of, either a physician or a nurse practitioner, irrespective of their geographical location. In other words, the expanded hospital rebate would no longer distinguish between health care services rendered by physicians and nurse practitioners.

Measures impacting Registered Charities

Annual Disbursement Quota

Registered charities are generally required to expend a minimum amount each year, referred to as the disbursement quota (DQ). The DQ is currently equal to 3.5% of the registered charity's property not used directly in charitable activities or administration.

Budget 2022 proposes to increase the DQ rate from 3.5 per cent to 5 per cent for the portion of property not used in charitable activities or administration that exceeds $1 million. This would increase expenditures by charities overall, while accommodating smaller grant-making charities that may not be able to realize the same investment returns as larger charities.

When a charity is unable to meet its DQ, it may apply to the CRA and request relief from the DQ requirement. Budget 2022 proposes to amend the existing rule such that the CRA will have the discretion to grant a reduction in a charity's DQ obligation for any tax year.