NATIONAL BANK

FEDERAL BUDGET 2023-2024

SUMMARY FOR INVESTORS
MARCH 28, 2023

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On March 28, 2023, the Federal Government shared its budget. See the key announcements according to our experts.

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Highlights

1. **Strengthening the Intergenerational Business Transfer Framework:** Budget 2023 proposes to amend the rules introduced by Bill C-208 enacted since June 29, 2021. The stated purpose of this Bill was to facilitate intergenerational business transfers. However, the rules introduced by the Bill contained inadequate conditions. Therefore, to ensure that they apply only where a genuine intergenerational business transfer takes place, additional conditions are proposed to be added in accordance with the type of transfer (immediate or gradual). These measures would apply to business transfers that occur on or after January 1, 2024.

2. **Alternative Minimum Tax (AMT):** The AMT is intended to ensure that the highest-income Canadians cannot disproportionately lower their tax bill through advantages in the tax system. Budget 2023 proposes legislative amendments to raise the AMT rate from 15 per cent to 20.5 per cent and further limit the excessive use of tax preferences, and to broaden the AMT base by further limiting tax preferences (i.e., exemptions, deductions, and credits). Furthermore, the basic AMT exemption would increase from $40,000 to $173,000 resulting in a tax cut for middle-class Canadians while the AMT will more precisely target the very wealthy.

3. **Improving Registered Education Savings Plans:**
   - **By increasing the Educational Assistance Payments (EAP) withdrawal limits**: Budget 2023 proposes to increase EAP withdrawals of up to $8,000 in respect of the first 13 consecutive weeks of enrollment for beneficiaries enrolled in full-time programs, and up to $4,000 per 13-week period for beneficiaries enrolled in part-time programs.
   - **By allowing divorced or separated parents to open joint RESPs:** Budget 2023 proposes to allow divorced or separated parents to jointly enter into a new RESP contract for one or more of their children or to transfer an existing RESP for which they are joint subscribers to another promoter.

4. **Additional funding for post-secondary students for the school year beginning August 1, 2023:** Budget 2023 proposes to enhance student financial assistance for the school year, including the increase of the Canada Student Grants by 40 per cent, by raising the interest-free Canada Student Loan limit from $210 to $300 per week of study and by waiving the requirement for students aged 22 years or older to undergo credit screening in order to qualify for federal student grants and loans for the first time. Quebec, the Northwest Territories, and Nunavut, which do not participate in the program, can receive federal funding to provide their own comparable support.

5. **Flexibility and expansion for the Registered Disability Savings Plan (RDSP**): Budget 2023 announces that the government will extend by three years (to December 31, 2026) the measure expiring on December 31, 2023, which allows a qualifying family member (a parent, spouse or common-law partner) to open an RDSP and hold the plan for an adult whose capacity to enter into an RDSP contract is in doubt and who does not have a legal representative. The budget also proposes to expand the definition of “eligible family member” to include a sibling of the beneficiary who is 18 years of age or older.

6. **New Grocery Rebate**: Through the Goods and Services Tax Credit (GST Credit), the federal government is providing new, targeted inflation relief to low- and modest-income Canadians and families. Eligible individuals would receive, as soon as possible following the passage of legislation (through the GSTC system), an additional GSTC amount equivalent to twice the amount received for January. The maximum amount under the Grocery Rebate would be: $153 per adult, $81 per child, and $81 for the single supplement.

7. **Dental Care Plan**: Budget 2023 proposes to expand the Canadian Dental Care Plan to provide dental coverage for uninsured Canadians with annual family income of less than $90,000, with no co-pays for those with family incomes under $70,000.

8. **Lowering Credit Card Transaction Fees for Small Businesses:** More than 90 per cent of credit card-accepting businesses (Visa, MasterCard) will see their interchange fees reduced by up to 27 per cent from the existing weighted average rate. These reductions are expected to save eligible small businesses in Canada approximately $1 billion over five years.

Individual

1. Strengthening the Intergenerational Business Transfer Framework

Because capital gains are generally subject to a lower tax rate than dividends, individuals may seek to obtain significant tax benefits by entering into a series of transactions aimed at converting corporate distributions of after-tax business income from their corporations (ordinarily taxed as dividends) into lower-taxed capital gains. Section 84.1 of the *Income Tax Act* is designed to address this type of tax planning by re-characterizing the capital gain as a dividend.

Bill C-208 introduced an exception to section 84.1, effective June 29, 2021, for certain share transfers from parents to corporations owned by their children or grandchildren.

The purpose of Bill C-208 was to facilitate intergenerational business transfers in circumstances where section 84.1 inappropriately applied. The rules introduced by Bill C-208 contain insufficient safeguards and are available where no transfer of a business to the next generation has taken place.

Budget 2023 proposes to amend the rules introduced by Bill C-208 to ensure that they apply only where a genuine intergenerational business transfer takes place. A genuine intergenerational share transfer would be a transfer of shares of a corporation (the Transferred Corporation) by a natural person (the Transferor) to another corporation (the Purchaser Corporation) where a number of conditions are satisfied. The following existing conditions would be maintained:

- each share of the Transferred Corporation must be a “qualified small business corporation share” or a “share of the capital stock of a family farm or fishing corporation” (both as defined in the *Income Tax Act*), at the time of the transfer; and
- the Purchaser Corporation must be controlled by one or more persons each of whom is an adult child of the Transferor (the meaning of “child” for these purposes would include grandchildren, step-children, children-in-law, nieces and nephews, and grandnieces and grandnephews).

To ensure that only genuine intergenerational share transfers are excluded from the application of section 84.1, additional conditions are proposed to be added. To provide flexibility, it is proposed that taxpayers who wish to undertake a genuine intergenerational share transfer may choose to rely on one of two transfer options:

- an immediate intergenerational business transfer (three-year test) based on arm’s length sale terms; or
- a gradual intergenerational business transfer (five-to-ten-year test) based on traditional estate freeze characteristics (an estate freeze typically involves a parent crystalizing the value of their economic interest in a corporation to allow future growth to accrue to their children while the parent’s fixed economic interest is then gradually diminished by the corporation repurchasing the parent’s interest).

The following table outlines the proposed conditions to qualify as a genuine intergenerational business transfer under both options (transfers to grandchildren, nieces, and nephews would also qualify).

Proposed Conditions	Immediate Business Transfer (three-year test)	Gradual Business Transfer (five to ten-year test)
1) Transfer of Control of the Business	Parents immediately and permanently transfer **both legal and factual*** control, including an immediate transfer of a majority of voting shares, and a transfer of the balance of voting shares within 36 months *Factual control means economic and other influence that allows for effective control of a corporation (for example, economic dependence on a person who also acts as the controlling mind)	Parents immediately and permanently transfer **only legal**** control, including an immediate transfer of a majority of voting shares (no transfer of factual control), and a transfer of the balance of voting shares within 36 months **Legal control generally means the right to elect a majority of the directors of a corporation
2) Transfer of Economic Interests in the Business	Parents immediately transfer a majority of the common growth shares, and transfer the balance of common growth shares within 36 months (It is expected that the transfers of legal and factual control as well as future growth of the business are sufficient to ensure the parents have transferred a substantial economic interest in the business to their child(ren).)	Parents immediately transfer a majority of the common growth shares, and transfer the balance of common growth shares within 36 months In addition, within 10 years of the initial sale, parents reduce the economic value of their debt and equity interests in the business to: (a) 50% of the value of their interest in a farm or fishing corporation at the initial sale time, or (b) 30% of the value of their interest in a small business corporation at the initial sale time
3) Transfer of Management of the Business	Parents transfer management of the business to their child within a reasonable time based on the particular circumstances (with a 36-month safe harbour)	Parents transfer management of the business to their children within a reasonable time based on the particular circumstances (with a 36-month safe harbour)
4) Child Retains Control of the Business	Child(ren) retains legal (not factual) control for a 36-month period following the share transfer	Child(ren) retains legal (not factual) control for the greater of 60 months or until the business transfer is completed
5) Child Works in the Business	At least one child remains actively involved in the business for the 36-month period following the share transfer	At least one child remains actively involved in the business for the greater of 60 months or until the business transfer is completed

The Transferor and child (or children) would be required to jointly elect for the transfer to qualify as either an immediate or gradual intergenerational share transfer.

Capital Gains Reserve: Budget 2023 also proposes to provide a ten-year capital gains reserve for genuine intergenerational share transfers that satisfy the above proposed conditions.

These measures would apply to transactions that occur on or after January 1, 2024.

2. Minimum Tax for High-Income Individuals

The Alternative Minimum Tax (AMT) is a parallel tax calculation that allows fewer deductions, exemptions, and tax credits than under the ordinary income tax rules, and that currently applies a flat 15-per-cent tax rate with a standard $40,000 exemption amount instead of the usual progressive rate structure. The taxpayer pays the AMT or regular tax, whichever is highest. Additional tax paid as a result of the AMT can generally be carried forward for seven years and can be credited against regular tax to the extent regular tax exceeds AMT in those years.

Budget 2023 proposes several changes to the AMT calculation. Key design features of the new AMT regime are described in detail below. **Note however, that additional details will be released later this year.**

a. Broadening the AMT Base

A number of changes are proposed to broaden the AMT base by further limiting tax preferences (i.e., exemptions, deductions, and credits):

- **Capital Gains and Stock Options:** The government proposes to increase the AMT capital gains inclusion rate from 80 per cent to 100 per cent. Capital loss carry forwards and allowable business investment losses would apply at a 50-per-cent rate. It is also proposed that 100 per cent of the benefit associated with employee stock options would be included in the AMT base.

- **Donations of Publicly Listed Securities:** The government proposes to include 30 per cent of capital gains on donations of publicly listed securities in the AMT base, mirroring the AMT treatment of capital gains eligible for the lifetime capital gains exemption. The 30-per-cent inclusion would also apply to the full benefit associated with employee stock options to the extent that a deduction is available because the underlying securities are publicly listed securities that have been donated.

- **Deductions and Expenses:** Under the new rules, the AMT base would be broadened by disallowing 50 per cent of certain deductions, such as (**non-exhaustive**):
  - interest and carrying charges incurred to earn income from property.
  - non-capital loss carryovers.
  - deduction for limited partnership losses of other years.
  - employment expenses, other than those to earn commission income.
  - deductions for Canada Pension Plan, Quebec Pension Plan, and Provincial Parental Insurance Plan contributions.
  - deduction for Guaranteed Income Supplement and Allowance payments.
  - deduction for social assistance payments
  - childcare expenses.
  - etc.

- **Non-Refundable Credits:** Currently, most non-refundable tax credits can be credited against the AMT. The government proposes that only 50 per cent of non-refundable tax credits would be allowed to reduce the AMT, **subject to certain exceptions**.

b. Raising the AMT Exemption

The government proposes to increase the exemption from $40,000 to the start of the fourth federal tax bracket. Based on expected indexation for the 2024 taxation year, this would be approximately $173,000. The exemption amount would be indexed annually to inflation.

c. Increasing the AMT Rate

The government proposes to increase the AMT rate from 15 per cent to 20.5 per cent, corresponding to the rates applicable to the first and second federal income tax brackets, respectively.

d. Carry Forward Period

The length of the carry forward would be maintained at seven years.

Coming into Force: The proposed changes would come into force for taxation years that begin after 2023.

3. Registered Education Savings Plans

a. Increasing Educational Assistance Payment withdrawal limits

When an RESP beneficiary is enrolled in an eligible post-secondary program, government grants and investment income can be withdrawn from the plan as Educational Assistance Payments (EAPs) in order to assist with post-secondary education-related expenses. EAPs are taxable income for the RESP beneficiary.

The *Income Tax Act* requires that RESPs place limits on the amount of EAPs that can be withdrawn. For beneficiaries enrolled full-time (i.e., in a program of at least three consecutive weeks' duration requiring at least 10 hours per week of courses or work in the program), the limit is $5,000 in respect of the first 13 consecutive weeks of enrollment in a 12-month period. For beneficiaries enrolled part-time (i.e., in a program of at least three consecutive weeks' duration requiring at least 12 hours per month of courses in the program), the limit is $2,500 per 13-week period.

Budget 2023 proposes to amend the *Income Tax Act* such that the terms of an RESP may permit EAP withdrawals of up to $8,000 in respect of the first 13 consecutive weeks of enrollment for beneficiaries enrolled in full-time programs, and up to $4,000 per 13-week period for beneficiaries enrolled in part-time programs.

These changes would come into force on Budget Day. RESP promoters may need to amend the terms of existing plans in order to apply the new EAP withdrawal limits. Individuals who withdrew EAPs prior to Budget Day may be able to withdraw an additional EAP amount, subject to the new limits and the terms of the plan. The *Income Tax Act* allows for EAPs to be withdrawn up to six months after a beneficiary ceases to be enrolled in an eligible program.

b. Allowing Divorced or Separated Parents to Open Joint RESPs

At present, only spouses or common-law partners can jointly enter into an agreement with an RESP promoter to open an RESP. Parents who opened a joint RESP prior to their divorce or separation can maintain this plan afterwards, but are unable to open a new joint RESP with a different promoter.

Budget 2023 proposes to enable divorced or separated parents to open joint RESPs for one or more of their children, or to move an existing joint RESP to another promoter.

This change would come into force on Budget Day.

4. Students

Budget 2023 proposes to provide $813.6 million in 2023-24 to enhance student financial assistance for the school year starting August 1, 2023. This includes:

- Increasing Canada Student Grants by 40 per cent—providing up to $4,200 for full-time students.
- Raising the interest-free Canada Student Loan limit from $210 to $300 per week of study.
- Waiving the requirement for mature students, aged 22 years or older, to undergo credit screening in order to qualify for federal student grants and loans for the first time.

These changes will allow post-secondary students to access up to $14,400 in enhanced Canada Student Financial

Assistance for the upcoming school year. Students with disabilities and students with dependents will also receive an increase in Canada Student Grants.

The federal government will work with students in the year ahead to develop a long-term approach to student financial assistance, in time for Budget 2024.

Quebec, the Northwest Territories, and Nunavut, which do not participate in the program, can receive federal funding to provide their own comparable support.

5. Registered Disability Savings Plans

Where the contractual competence of an individual who is 18 years of age or older is in doubt, the RDSP plan holder must be that individual's guardian or legal representative as recognized under provincial or territorial law. However, establishing a legal representative can be a lengthy and expensive process that can have significant repercussions for individuals. Some provinces and territories have introduced measures that provide sufficient flexibility to address this concern.

a. Qualifying Family Members

A temporary measure, which is legislated to expire on December 31, 2023, allows a qualifying family member, who is a parent, spouse or common-law partner, to open an RDSP and be the plan holder for an adult whose capacity to enter into an RDSP contract is in doubt, and who does not have a legal representative.

Budget 2023 proposes to extend the qualifying family member measure by three years, to December 31, 2026. A qualifying family member who becomes a plan holder before the end of 2026 could remain the plan holder after 2026.

The federal government continues to encourage provinces and territories to examine how they can better accommodate the needs of potential RDSP beneficiaries by developing appropriate, inclusive, and long-term solutions to address RDSP legal representation issues.

b. Siblings as Qualifying Family Members

To increase access to RDSPs, Budget 2023 also proposes to broaden the definition of 'qualifying family member' to include a brother or sister of the beneficiary who is 18 years of age or older. This will enable a sibling to establish an RDSP for an adult with mental disabilities whose ability to enter into an RDSP contract is in doubt and who does not have a legal representative.

This proposed expansion of the existing qualifying family member definition would apply as of royal assent of the enabling legislation and be in effect until December 31, 2026. A sibling who becomes a qualifying family member and plan holder before the end of 2026 could remain the plan holder after 2026.

6. Retirement Compensation Arrangements

A retirement compensation arrangement (RCA) is a type of employer-sponsored arrangement that generally allows an employer to provide supplemental pension benefits to employees.

A refundable tax is imposed at a rate of 50 per cent on contributions to an RCA trust, as well as on income and gains earned or realized by the trust. The tax is generally refunded as the retirement benefits are paid from the RCA trust to the employee. For example, $100 in contributions to the RCA trust would result in remitting $50 of refundable tax to the Canada Revenue Agency. Conversely, if the RCA trust pays out $100 in benefits during a year, it would trigger a $50 tax refund.

Employers who do not pre-fund supplemental retirement benefits through contributions to an RCA trust, and instead settle retirement benefit obligations as they become due, can obtain a letter of credit (or a surety bond) issued by a financial institution in order to provide security to their employees. To secure or renew the letter of credit, the employer pays an annual fee or premium charged by the issuer. These fees or premiums are subject to the 50-per-cent refundable tax. For example, if the annual fee for a letter of credit is $100,000, the employer must contribute $200,000 to the RCA trust, as $100,000 will be paid to the financial institution to cover the fee and the other $100,000 will be remitted to the Canada Revenue Agency for the refundable tax. When retirement benefits become due from an unfunded plan, the employer pays the benefits out of corporate revenues. Consequently, there are no benefit payments from an RCA trust to trigger a 50-per-cent refund, and employers are required to fund escalating refundable tax balances with no practical mechanism for recovery.

Budget 2023 proposes to amend the *Income Tax Act* so that fees or premiums paid for the purposes of securing or renewing a letter of credit (or a surety bond) for an RCA that is supplemental to a registered pension plan will not be subject to the refundable tax. This change would apply to fees or premiums paid on or after Budget Day.

Budget 2023 also proposes to allow employers to request a refund of previously remitted refundable taxes in respect of fees or premiums paid for letters of credit (or surety bonds) by RCA trusts, based on the retirement benefits that are paid out of the employer's corporate revenues to employees that had RCA benefits secured by letters of credit (or surety bonds). Employers would be eligible for a refund of 50 per cent of the retirement benefits paid, up to the amount of refundable tax previously paid. This change would apply to retirement benefits paid after 2023.

7. Employee Ownership Trusts

An Employee Ownership Trust (EOT) is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to pay directly to acquire shares.

For business owners, an EOT provides an additional option for succession planning.

Budget 2023 proposes new rules to facilitate the use of EOTs to acquire and hold shares of a business. The new rules would define qualifying conditions to be an EOT and propose changes to tax rules to facilitate the establishment of EOTs. These changes would extend the capital gains reserve to ten years for qualifying sales to an EOT, create an exception to the current shareholder loan rule, and exempt EOTs from the 21-year deemed disposition rule that applies to certain trusts.

These amendments would apply as of January 1, 2024.

8. The Grocery Rebate

The Goods and Services Tax Credit (GSTC) helps to offset the impact of the GST on low- and modest-income individuals and families. The GSTC is non-taxable, income-tested, and indexed to inflation.

For the 2022-23 benefit year:

- GSTC entitlement is subject to a five-per-cent phase-out rate based on the portion of 2021 adjusted family net income above $39,826.
- for single adults without children, the additional single supplement is subject to a two-per-cent phase-in rate based on the portion of 2021 net income over $9,919 - and
- single parents receive an additional maximum single supplement and the adult amount for their first child (the per-child amount is provided for each additional child).

Budget 2023 proposes to introduce an increase to the maximum GSTC amount for January 2023 that would be known as the Grocery Rebate. Eligible individuals would receive an additional GSTC amount equivalent to twice the amount received for January. The Grocery Rebate would be paid as soon as possible following the passage of legislation, through the GSTC system. The maximum amount under the Grocery Rebate would be:

- $153 per adult.
- $81 per child - and
- $81 for the single supplement.

To legislate this change, the maximum GSTC amount for January 2023 would be replaced with an amount that is triple the maximum for that month under the current rules. For this January 2023 replacement payment only, the phase-in and phase-out rates would be tripled to six per cent from two per cent and to 15 per cent from five per cent, respectively. This ensures that the Grocery Rebate would be fully phased in and phased out at the same income levels as under the current GSTC rules for the 2022-23 benefit year. There would be no change to the income thresholds at which the single supplement phases in and GSTC entitlement phases out.

9. Deduction for Tradespeople’s Tool Expenses

Under the deduction for tradespeople’s tool expenses, a tradesperson can claim a deduction of up to $500 of the amount by which the total cost of eligible new tools acquired in a taxation year as a condition of employment exceeds the amount of the Canada Employment Credit ($1,368 in 2023). The total cost of eligible new tools cannot exceed the total of the employment income earned as a tradesperson and any apprenticeship grants received to acquire the tools, which are required to be included in income.

Budget 2023 proposes to double the maximum employment deduction for tradespeople’s tools from $500 to $1,000, effective for 2023 and subsequent taxation years.

As a consequence of this change, extraordinary tool costs that are eligible to be deducted under the apprentice vehicle mechanics' tools deduction would be those costs that exceed the combined amount of the increased deduction for tradespeople’s tool expenses ($1,000) and the Canada Employment Credit ($1,368 in 2023) or five per cent of the taxpayer’s income earned as an apprentice mechanic (including from apprenticeship grants), whichever is greater.

10. Canadian Dental Care Plan

Budget 2023 proposes to expand the Canadian Dental Care Plan. The plan will provide dental coverage for uninsured Canadians with annual family income of less than $90,000, with no co-pays for those with family incomes under $70,000. The plan would begin providing coverage by the end of 2023 and will be administered by Health Canada, with support from a third-party benefits administrator. Details on eligible coverage will be released later this year.

In order for Health Canada and Employment and Social Development Canada to have access to taxpayer information needed to deliver the permanent Canadian Dental Care Plan, Budget 2023 proposes to provide legislative authority for the Canada Revenue Agency to share taxpayer information with:

- an official of Employment and Social Development Canada or Health Canada solely for the purposes of the administration or enforcement of the Canadian Dental Care Plan; and
- an official of Health Canada solely for the evaluation or formulation of policy for that plan.

These amendments would come into force upon royal assent.

Business

1. Flow-Through Shares and Critical Mineral Exploration Tax Credit – Lithium from Brines

Flow-through share agreements allow certain corporations to renounce or "flow through" both Canadian exploration expenses and Canadian development expenses to investors, who can deduct the expenses in calculating their taxable income (at a 100-per-cent and 30-per-cent rate on a declining-balance basis, respectively).

In addition to claiming the regular flow-through deductions, individuals (other than trusts) who invest in flow-through shares of a corporation can claim the Critical Mineral Exploration Tax Credit (CMETC) – a 30-per-cent non-refundable tax credit – in respect of specified critical mineral exploration expenses incurred by the corporation and transferred to the individual under a flow-through share agreement.

Flow-through share agreements and the CMETC facilitate the raising of equity to fund eligible exploration and development by enabling companies to issue shares at a premium.

Budget 2023 proposes to include lithium from brines as a mineral resource. This will allow relevant principal-business corporations that undertake certain exploration and development activities to issue flow-through shares and renounce expenses to their investors. Budget 2023 also proposes to expand the eligibility of the CMETC to lithium from brines.

2. Tax on Repurchases of Equity

The 2022 Fall Economic Statement announced the government's intention to introduce a two-per-cent tax on the net value of all types of share repurchases by public corporations in Canada.

Budget 2023 provides the design and implementation details of the proposed measure. The tax would apply to public corporations, which for the purpose of this measure refers to Canadian resident corporations whose shares are listed on a designated stock exchange but excludes mutual fund corporations. To ensure comparable treatment among different types of publicly traded businesses, the tax would also apply to the following entities, if they have units listed on a designated stock exchange:

- real estate investment trusts;
- specified investment flow-through (SIFT) trusts; and
- SIFT partnerships.

The tax would apply in respect of repurchases and issuances of equity that occur on or after January 1, 2024.

3. International Tax Reform

Canada is one of 138 members of the Organisation for Economic Co-operation and Development (OECD)/Group of 20 (G20) Inclusive Framework on Base Erosion and Profit Shifting (the Inclusive Framework) that have joined a two-pillar plan for international tax reform agreed to on October 8, 2021.

Pillar One is intended to reallocate a portion of taxing rights over the profits of the largest and most profitable multinational enterprises (MNEs) to market countries (i.e., where their users and customers are located). Pillar Two is intended to ensure that the profits of large MNEs are subject to an effective tax rate of at least 15 per cent, regardless of where they are earned.

The Budget provides an update on recent developments and upcoming implementation steps in relation to the pillars.

4. Lowering Credit Card Transaction Fees for Small Businesses

More than 90 per cent of credit card-accepting businesses (Visa, MasterCard) will see their interchange fees reduced by up to 27 per cent from the existing weighted average rate. These reductions are expected to save eligible small businesses in Canada approximately $1 billion over five years.

Other Measures

1. General Anti-Avoidance Rule

The general anti-avoidance rule (GAAR) in the *Income Tax Act* is intended to prevent abusive tax avoidance transactions while not interfering with legitimate commercial and family transactions. If abusive tax avoidance is established, the GAAR applies to deny the tax benefit created by the abusive transaction. A consultation on various approaches to modernizing and strengthening the GAAR has recently been conducted.

To respond to the issues raised in the paper taking into account stakeholder feedback, Budget 2023 proposes to amend the GAAR by: introducing a penalty; extending the reassessment period in certain circumstances; introducing a preamble; changing the avoidance transaction standard; and introducing an economic substance rule.

The government is interested in stakeholders' views on these proposals and interested parties are invited to send written representations by May 31, 2023. Following this period of consultation, the government intends to publish revised legislative proposals and announce the application date of the amendments

2. Protecting Canadians from the Risks of Crypto-Assets

To help protect Canadians' savings and the security of our financial sector, Budget 2023 announces that:

- the Office of the Superintendent of Financial Institutions (OSFI) will consult federally regulated financial institutions on guidelines for publicly disclosing their exposure to crypto-assets.
- the government will require federally regulated pension funds to disclose their crypto-asset exposures to OSFI. The government will also work with provinces and territories to discuss crypto-asset or related activities disclosures by Canada's largest pension plans, which would ensure Canadians are aware of their pension plan's potential exposure to crypto-assets.

The government will bring forward proposals to protect Canadians from the risks of crypto-asset markets, and will provide further details in the 2023 fall economic and fiscal update.

3. Taxation of Dividends Received by Financial Institutions

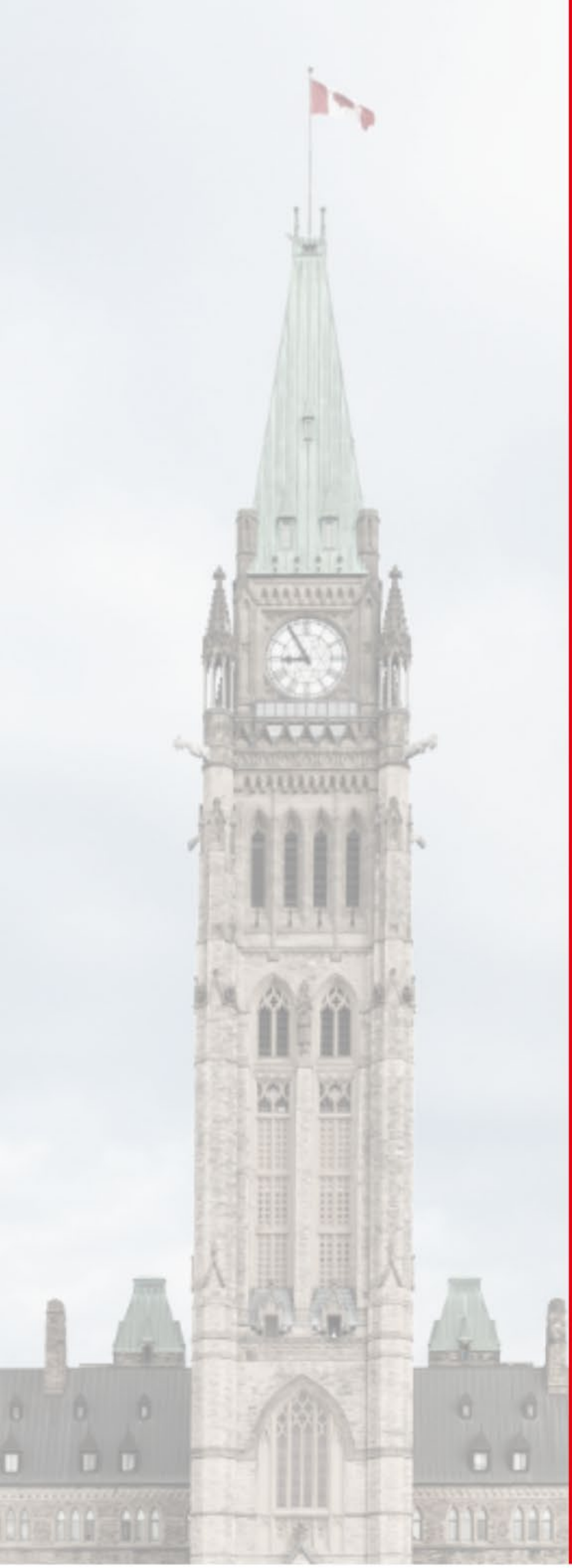
Currently, the dividends that financial institutions receive on Canadian shares are not treated as business income and are effectively exempt from tax. Budget 2023 proposes to amend the *Income Tax Act* to treat dividends received on Canadian shares held by financial institutions in the ordinary course of their business as business income.

This measure will apply to dividends received after 2023.

4. Alcohol Excise Duty

Alcohol excise duties are automatically indexed to total Consumer Price Index (CPI) inflation at the beginning of each fiscal year (i.e., on April 1st).

Budget 2023 proposes to temporarily cap the inflation adjustment for excise duties on beer, spirits and wine at two per cent, for one year only, as of April 1, 2023.



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