Canada Budget 2021-2022

Summary for Investors

April 19, 2021

NATIONAL BANK

Individuals

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1. Increasing Old Age Security (OAS) for Canadians 75 and Over

Many seniors are living longer and relying on monthly benefits to afford retirement. That is why the Government is committed to increasing Old Age Security (OAS) benefits for seniors aged 75 and older.

The Government plans to implement this commitment in two steps:

- Budget 2021 proposes to meet the immediate needs of this group of seniors by providing a one-time taxable payment of $500 in August 2021 to OAS pensioners who will be 75 or over as of June 2022. This payment is not subject to OAS clawback.
- Budget 2021 then proposes to introduce legislation to increase regular OAS payments for pensioners 75 and over by 10 per cent on an ongoing basis as of July 2022.

2. Establishing a Canada-Wide Early Learning and Child Care System

The Federal Government will work with provincial, territorial, and Indigenous partners to build a Canada-wide, community-based system of quality child care.

The Government will also ensure that families in Canada are no longer burdened by high child care costs — with the goal of bringing fees for regulated child care down to $10 per day, on average, within the next five years.

By the end of 2022, the Government is aiming to achieve a 50 per cent reduction in average fees for regulated early learning and child care to make it more affordable for families.

These targets would apply everywhere outside of Quebec, where prices are already affordable through its well-established system. Budget 2021 proposes to proceed with an asymmetrical agreement with the Province of Quebec that will allow for further improvements to their system.

Over the next five years, the Government will work with provinces and territories to make meaningful progress toward a system that works for families. The aforementioned Federal funding would allow for:

- A 50 per cent reduction in average fees for regulated early learning and child care in all provinces outside of Quebec, to be delivered before or by the end of 2022.
- An average of $10 a day by 2025-26 for all regulated child care spaces in Canada.
- Ongoing annual growth in quality affordable child care spaces across the country, building on the approximately 40,000 new spaces already created through previous Federal investments.
- Meaningful progress in improving and expanding before- and after-school care in order to provide more flexibility for working parents.

Supporting Accessible Child Care Spaces

For families who have children with disabilities, it is often challenging to find affordable and accessible child care spaces that meet their needs.

To make immediate progress for children with disabilities, Budget 2021 proposes to provide $29.2 million over two years, starting in 2021-22, to Employment and Social Development Canada through the Enabling Accessibility Fund to support child care centres as they improve their physical accessibility. This funding, which could benefit over 400 child care centres, would support improvements such as the construction of ramps and accessible doors, washrooms, and play structures.

3. Tax Treatment of COVID-19 Benefit Amounts

A range of taxable benefits have been made available to qualified individuals in response to the COVID-19 pandemic. Generally, if a benefit amount is repaid (for example, where an individual determines that they were not eligible for the benefit in question), this amount can only be deducted for income tax purposes in the year the repayment takes place.

Therefore, if the repayment does not occur in the same year as the year of receipt of the benefit, an individual may owe tax with respect to the benefit for the year of receipt, while obtaining a deduction for the repayment amount in a future tax year.

The Budget proposes to amend the *Income Tax Act* to allow individuals the option to claim a deduction with respect to the repayment of a COVID-19 benefit amount in computing their income for the year in which the benefit amount was received, rather than the year in which the repayment was made. This option would be available for benefit amounts repaid at any time before 2023.

For these purposes, COVID-19 benefits would include:

- *Canada Emergency Response Benefits/Employment Insurance Emergency Response Benefits*
- *Canada Emergency Student Benefits*
- *Canada Recovery Benefits*
- *Canada Recovery Sickness Benefits,* and
- *Canada Recovery Caregiving Benefits*.

Individuals may only deduct benefit amounts once they have been repaid. An individual who makes a repayment, but who has already filed an income tax return for the year in which the benefit was received, would be able to request an adjustment to the return for that year.

The Budget also proposes to amend the *Income Tax Act* to ensure that the COVID-19 benefit amounts noted above, and similar provincial or territorial benefit amounts, are included in the taxable income of those individuals who reside in Canada but are considered non-resident persons for income tax purposes. As a result, COVID-19 benefits received by these non-resident persons would be taxable in Canada in a manner generally similar to employment and business income earned in Canada.

4. Providing Additional Weeks of Recovery Benefits and EI Regular Benefits

The Government proposes to provide up to 12 additional weeks of the *Canada Recovery Benefit* to a maximum of 50 weeks. The first 4 of these additional 12 weeks will be paid at $500 per week. The Government intends that the remaining 8 weeks of this extension will be paid at a lower amount of $300 per week claimed. All new *Canada Recovery Benefit* claimants after July 17, 2021, would also receive the $300 per week benefit, available up until September 25, 2021.

The Budget also proposes to extend the *Canada Recovery Caregiving Benefit* an additional 4 weeks to a maximum of 42 weeks at $500 per week, in the event that caregiving options, particularly for those supporting children, are not sufficiently available in the interim.

The Budget proposes legislative amendments to provide authority for additional potential extensions of the *Canada Recovery Benefit* and its associated suite of sickness and caregiving benefits, as well as regular EI benefits until no later than November 20, 2021, should they be needed.

5. Disability Tax Credit

To help more families and people living with disabilities access the Disability Tax Credit, and other related support measures like the *Registered Disability Savings Plan* and the *Child Disability Benefit*, the Budget proposes to:

- update the list of mental functions of everyday life that is used for assessment for the Disability Tax Credit. Using terms that are more clinically relevant would make it easier to be assessed, reduce delays, and improve access to benefits, and
- also to recognize more activities in determining time spent on life-sustaining therapy and to reduce the minimum-required frequency of therapy to qualify for the Disability Tax Credit. To ensure these changes enable applicants to have a fair and proper assessment of their eligibility for the Disability Tax Credit, the government will undertake a review of these changes in 2023.

It is estimated that, as a result of these measures, an additional 45,000 people will qualify for the Disability Tax Credit, and related benefit programs linked to its eligibility, each year. These proposed changes would apply to 2021 and subsequent taxation years, with respect to DTC certificates filed with the Minister of National Revenue on or after Royal Assent.

6. Toward a New Disability Benefit

To ensure all persons with disabilities have the support they need to overcome persistent barriers to full economic and social participation, the Government is committed to bringing forward a new disability benefit.

Budget proposes to provide $11.9 million over three years, starting in 2021-22, to Employment and Social Development Canada to undertake consultations to reform the eligibility process for Federal disability programs and benefits. This will help maximize the reach of these programs and improve the lives of Canadians with disabilities. This work would feed directly into the design of a new disability benefit.

In preparation for legislation, the Government will undertake extensive consultations with stakeholders on the design of the new benefit and engage with provinces and territories, which play a central role in providing support to many Canadians with disabilities. Employment and Social Development Canada will also establish a steering committee to oversee the development of this work, alongside the Canada Revenue Agency, the Department of Finance Canada, and Veterans Affairs Canada.

7. Canada Workers Benefit

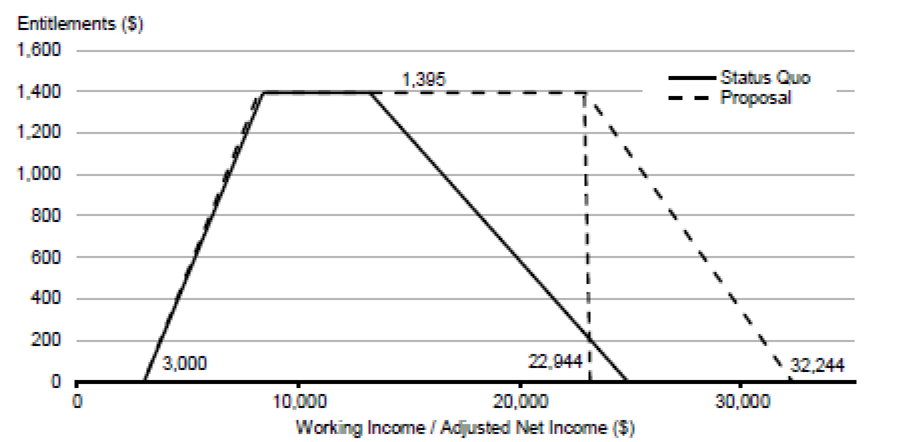
The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit that supplements the earnings of low- and modest-income workers, and improves their work incentives. Under current law, in 2021, the CWB grows by 26 cents for every dollar of “working income” (generally employment and business income) in excess of $3,000, up to a maximum entitlement of $1,395 for single individuals without dependants, and $2,403 for families (couples and single parents). The benefit is then reduced by 12 per cent of adjusted net income in excess of $13,194 for single individuals without dependants, and $17,522 for families.

The Budget proposes to enhance the CWB starting in 2021. This enhancement would increase:

- the phase-in rate from 26 per cent to 27 per cent for single individuals without dependants, as well as families
- the phase-out thresholds from $13,194 to $22,944 for single individuals without dependants, and from $17,522 to $26,177 for families, and
- the phase-out rate from 12 per cent to 15 per cent.

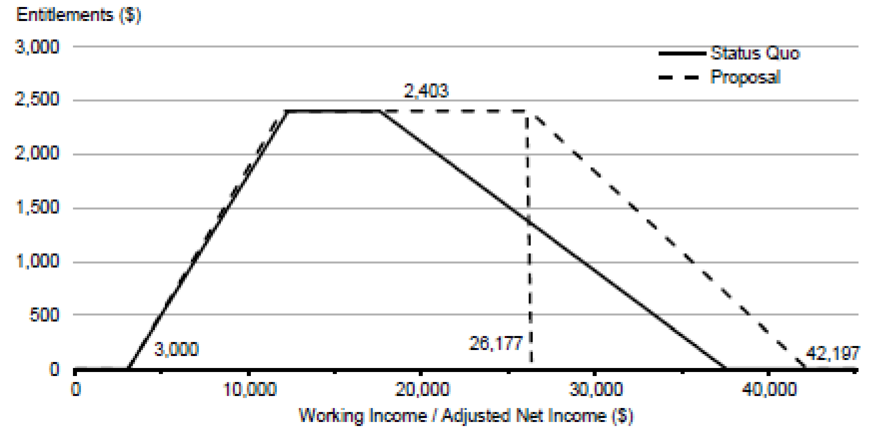
Chart 1 shows the proposed enhancement of the CWB in 2021 for a single individual without dependants and Chart 2 shows the same for families.

Chart 1
Enhanced Canada Workers Benefit—2021
(Single Individuals without Dependants)



Note: It is assumed that adjusted net income is equal to working income.

Chart 2
Enhanced Canada Workers Benefit—2021
(Single Parents and Couples)



Note: It is assumed that adjusted net income is equal to working income.

The CWB also features a supplement that is available to individuals who are eligible for the Disability Tax Credit. Corresponding changes would be made to the disability supplement's phase-in and reduction rates, as well as the reduction threshold.

To improve work incentives for secondary earners in a couple, the Budget also proposes to introduce a "secondary-earner exemption" to the CWB, a special rule for individuals with an eligible spouse. This would allow the spouse or common-law partner with the lower working income to exclude up to $14,000 of their working income in the computation of their adjusted net income, for the purpose of the CWB phase-out.

For example, in the absence of the secondary-earner exemption, a dual-earner couple with adjusted family net income of $50,000 would receive no CWB in 2021. Suppose the secondary earner in this couple earned $20,000 of working income. With the introduction of the secondary-earner exemption, the secondary earner's adjusted net income would be reduced by the lesser of their working income ($20,000) and $14,000. The resulting adjusted family net income of $36,000 would entitle the couple to a benefit of $930.

The Government recognizes the efforts that provinces and territories have taken to improve work incentives for low- and modest-income individuals and families.

To ensure that benefits are harmonized and that the CWB builds on these efforts, the Government will continue to allow for province- or territory-specific changes to the design of the benefit through reconfiguration agreements.

These measures would apply to the 2021 and subsequent taxation years. Indexation of amounts relating to the CWB would continue to apply after the 2021 taxation year, including the secondaryearner exemption.

8. Providing Relief from Student Debt

Budget 2021 is reforming the Canada Student Loans Program. The new Canada Student Financial Assistance Program will make student debt easier to pay down and provide direct support to students with the greatest need. Provinces and territories that do not currently participate in the Canada Student Loans Program will continue to receive equivalent compensation from the Government of Canada for their own student financial assistance programs that offer comparable benefits to the Canada Student Financial Assistance Program.

Waiving Interest on Student Loans for an Additional Year

The Government proposes to introduce legislation that would extend the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023.

Enhancing Repayment Assistance

Every year, the Government of Canada provides repayment assistance to approximately 350,000 borrowers with low incomes. Currently, for a single borrower the threshold for this support is earning $25,000 per year or less. The 2021 Budget proposes to increase the threshold for repayment assistance to $40,000 for borrowers living alone, so that nobody earning $40,000 per year or less will need to make any payments on their student loans.

For students from larger households, the threshold will be modified to match the Canada Student Grants. For example, for a household with four individuals, the 2020-21 Canada Student Grant cut-off is $63,735 which rises with inflation, while the current repayment assistance threshold is $59,508.

Additionally, the cap on monthly student loan payments will be reduced from 20 per cent of household income to 10 per cent. To ensure that the eligibility for repayment assistance keeps pace with the cost of living, the new income cut-offs will be indexed to inflation.

9. Doubling the Canada Student Grants for Two Additional Years

When the pandemic caused other sources of income for students — such as part-time jobs — to dry up, the Government of Canada helped out by doubling Canada Student Grants for the 2020-2021 school year, providing an additional $2,600, on average, of non-repayable aid to students in need.

The Government is announcing its intention to extend the doubling of the Canada Student Grants until the end of July 2023.

10. Expanding Access to Support for Students and Borrowers with Disabilities

Students with disabilities face some of the highest costs and most significant barriers to long-term success. Every year, the Canada Student Loans Program supports students and borrowers with permanent disabilities through enhanced grants and repayment assistance. But these supports are not available to students whose disabilities are not lifelong.

The Government is announcing its intention to extend disability support under the Canada Student Loans Program to recipients whose disabilities are persistent or prolonged, but not necessarily permanent.

11. Helping Youth and Students Build Job Skills and Connect with Employers

Student Work Placement Program

Budget 2021 proposes to invest $239.8 million in the Student Work Placement Program in 2021-22 to support work-integrated learning opportunities for post-secondary students. This funding would increase the wage subsidy available for employers to 75 per cent, up to $7,500 per student, while also increasing employers' ability to access the program. This is expected to provide 50,000 young people (an increase of 20,000) with valuable experience-building opportunities in 2021-22.

Youth Employment and Skills Strategy

Budget 2021 proposes to invest $109.3 million in 2022-23 for the Youth Employment and Skills Strategy to better meet the needs of vulnerable youth facing multiple barriers to employment, while also supporting over 7,000 additional job placements for youth. This builds on funding announced in the *2020 Fall Economic Statement* which is already expected to result in over 30,600 new placements in 2021-22. This will make it easier for young people to secure good jobs.

Canada Summer Jobs

Budget 2021 proposes to invest $371.8 million in new funding for the Canada Summer Jobs Program in 2022-23 to support approximately 75,000 new job placements in the summer of 2022. This supplements the *2020 Fall Economic Statement* funding that already supports approximately 94,000 additional job placements in 2021-22. In total, the Canada Summer Jobs Program will support around 220,000 summer jobs over the next two years.

12. Postdoctoral Fellowship Income

For income tax purposes, postdoctoral fellows are generally not considered to be students. Thus, postdoctoral fellowship income generally does not qualify for the scholarship exemption from income tax. Although fully included in taxable income, and similar in nature to employment income, postdoctoral fellowship income does not currently qualify as "earned income" for the purpose of determining an individual's contribution limit for a registered retirement savings plan (RRSP).

The Budget proposes to include postdoctoral fellowship income in "earned income" for RRSP purposes. This would provide postdoctoral fellows with additional RRSP room in order to make deductible RRSP contributions.

This measure would apply with respect to postdoctoral fellowship income received in 2021 and subsequent taxation years. This measure would also retroactively apply with respect to postdoctoral fellowship income received in the 2011 to 2020 taxation years, where the taxpayer submits a request in writing to the Canada Revenue Agency for an adjustment to their RRSP room for the relevant years.

13. Taxes Applicable to Registered Investments

A trust or corporation that satisfies certain requirements can apply to the Canada Revenue Agency to be a registered investment for registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), or deferred profit-sharing plans. Units of a trust (or shares of a corporation) qualify as investments for the types of plans for which the trust or corporation is registered.

Certain categories of registered investments (e.g., mutual fund trusts and mutual fund corporations) must have a minimum number of investors. A trust or corporation that is a registered investment and is not sufficiently widely held (e.g., a trust that does not have the 150 unit-holders required to qualify as a mutual fund trust) is limited to holding investments that would be qualified investments for the types of registered plans for which it is registered. For example, if a trust or corporation is a registered investment for RRSPs, it can hold only investments that qualify as investments for an RRSP.

Budget 2021 proposes that the tax imposed under Part X.2 of the Income Tax Act be pro-rated based on the proportion of shares or units of the registered investment that are held by investors who are themselves subject to the qualified investment rules. For example, if a registered investment is registered for RRSPs and 20 per cent of its units are held by RRSPs while 80 per cent of its units are held by individuals via their non-registered accounts, the monthly tax imposed under Part X.2 would now be 20 per cent of 1 per cent of the fair market value of a non-qualified investment at the time it was acquired.

14. Fixing Contribution Errors in Defined Contribution Pension Plans

Budget 2021 proposes to provide more flexibility to plan administrators of defined contribution pension plans to correct for both under-contributions and over-contributions. The proposals would permit certain types of errors to be corrected via additional contributions to an employee's account under a defined contribution pension plan to compensate for an under-contribution error made in any of the preceding five years, subject to a dollar limit. The proposals would also permit plan administrators to correct for employee pension over-contribution errors for any of the five years prior to the year in which the excess amount is refunded to the employee or employer, as the case may be, who made the contribution.

The proposed rules would require the plan administrator to file a prescribed form with respect to each affected employee, rather than to amend T4 slips for prior years. Additional contributions to correct for under-contributions would reduce the employee's registered retirement savings plan (RRSP) contribution room for the taxation year following the year in which the retroactive contribution is made. To the extent this results in negative RRSP room, it would only impact the employee's contributions in future years. Refunds of over-contributions would generally restore the employee's RRSP contribution room for the taxation year in which the refund is made.

This measure would apply with respect to additional contributions made, and amounts of over-contributions refunded, in the 2021 and subsequent taxation years.

15. Lower Home Energy Bills Through Interest-Free Loans for Retrofits

The *2020 Fall Economic Statement* put forward a program to provide Canadians with one million free energy audits and up to 700,000 grants, valued at up to $5,000, to complete energy efficient home improvements. To help homeowners and build upon these measures, Budget 2021 proposes to provide loans via the Canada Mortgage and Housing Corporation (CMHC) to help homeowners complete deep home retrofits through interest-free loans worth up to $40,000. Loans would be available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment. This program will also provide a dedicated stream of funding to support low-income homeowners and rental properties serving low-income renters including cooperatives and not-for-profit, owned housing. The program would be available by summer 2021.

16. Establishing a $15 Federal Minimum Wage

The Government of Canada is announcing its intention to introduce legislation that will establish a Federal minimum wage of $15 per hour, rising with inflation, with provisions to ensure that where provincial or territorial minimum wages are higher, that wage will prevail. This will benefit workers in the Federally-regulated private sector.

Businesses

1. Extending the Canada Emergency Wage Subsidy

Since the beginning of the pandemic, the *Canada Emergency Wage Subsidy* ("**CEWS**") was extended on several occasions and received numerous modifications. The CEWS program is currently set to expire in June 2021.

The Budget proposes to extend the CEWS until September 25, 2021. It also proposes to gradually decrease the subsidy rate, beginning July 4, 2021, in order to ensure an orderly phase-out of the program.

The Government will seek the legislative authority to have the ability to further extend the CEWS program through regulations until November 20, 2021, should the economic and public health situation require it beyond September 2021

We will update the internal SharePoint site in which our summaries related to COVID-19 are grouped including, among others, the *Wage Subsidies for Employers Appendix* that provides the key features of the CEWS program. This Appendix will be updated shortly to reflect the latest modifications proposed to this program by the Budget.

NOTE: Any publicly listed corporation that decides to increase executive pay may have their wage subsidy funds clawed back. Accordingly, the Budget proposes to require that any publicly listed corporation receiving the wage subsidy and found to be paying its top executives more in 2021 than in 2019 will need to repay the equivalent in wage subsidy amounts received for any qualifying period starting after June 5, 2021, and until the end of the CEWS program.

2. Extending the Canada Emergency Rent Subsidy and Lockdown Support

The *Canada Emergency Rent Subsidy and Lockdown Support* ("CERS") program in place since October 9, 2020, is set to expire in June 2021.

The Budget proposes to extend the CERS until September 25, 2021. It also proposes to gradually decrease the rate of the rent subsidy, beginning July 4, 2021, in order to ensure an orderly phase-out of this program.

The Government will seek the legislative authority to have the ability to further extend the CERS program through regulations until November 20, 2021, should the economic and public health situation require support beyond September 2021.

We will update the internal SharePoint site in which our summaries related to COVID-19 are grouped including, among others, the *Canada Emergency Rent Subsidy Appendix* that provides the key features of this program. The Appendix will be updated shortly to reflect the latest modifications proposed to the CERS program by the Budget.

3. New Canada Recovery Hiring Program

The Budget proposes to introduce the new *Canada Recovery Hiring Program* to provide eligible employers with a subsidy of up to 50 per cent on the incremental remuneration paid to qualifying employees between June 6, 2021, and November 20, 2021.

An eligible employer would be permitted to claim either the hiring subsidy or the Canada Emergency Wage Subsidy (CEWS) for a particular qualifying period, but not both.

The proposed details of the hiring subsidy will be provided shortly in the *Wage Subsidies for Employers Appendix*. This Appendix will be updated soon to reflect the latest changes proposed to the CEWS program by the Budget. Since the eligibility conditions for this new hiring subsidy reflect essentially the same criteria as those of the CEWS, we will include the details of this new subsidy in this Appendix (see section regarding the CEWS above).

4. Limitations on Excessive Interest Deductions

Many firms borrow in order to fund their operations. Generally, the interest charges on those borrowings are considered a cost of doing business and, therefore, are deductible from income for tax purposes.

However, some large companies, typically multinationals, use excessive deductions of interest to reduce the taxes they pay in Canada.

Budget 2021 proposes that, starting in 2023, the amount of interest that certain businesses can deduct be limited to 40 per cent of their earnings in the first year of the measure, and 30 per cent thereafter.

Relief will be provided for small businesses and for other situations that do not represent significant tax-base erosion risks. The Government expects to release draft legislation this summer and will seek stakeholder input on the new rules.

5. Immediate Expensing

The capital cost allowance (CCA) system determines the deductions that a business may claim each year for income tax purposes with respect to the capital cost of its depreciable property. With some exceptions, depreciable property is divided into CCA classes, and a CCA rate for each class of property is prescribed in the *Income Tax Regulations*.

Prior to November 21, 2018, the CCA in the first year that a property was available for use was generally limited to half the amount that would otherwise be available (the “half-year” rule). On November 21, 2018, the Government announced a temporary enhanced first-year allowance, referred to as the Accelerated Investment Incentive, equal to up to three times the previously applicable first-year allowance. In addition, the Government announced immediate expensing for investments in machinery and equipment used in manufacturing or processing, as well as for specified clean energy generation equipment.

Budget 2021 proposes to provide temporary immediate expensing with respect to certain property acquired by a Canadian-Controlled Private Corporation (CCPC). This immediate expensing would be available for “eligible property” acquired by a CCPC on or after Budget Day and that becomes available for use before January 1, 2024, up to a maximum amount of $1.5 million per taxation year.

The immediate expensing would only be available for the year in which the property becomes available for use. The $1.5 million limit would be shared among associated members of a group of CCPCs. The limit would be prorated for taxation years that are shorter than 365 days. The half-year rule would be suspended for property for which this measure is used. For those CCPCs with less than $1.5 million of eligible capital costs, no carry-forward of excess capacity would be allowed.

Eligible Property

Eligible property under this new measure would be capital property that is subject to the CCA rules, other than property included in CCA classes 1 to 6, 14.1, 17, 47, 49 and 51, which are generally long-lived assets.

Coming In To Force

This measure would apply for eligible property that is acquired on or after Budget Day and that becomes available for use before 2024.

6. Rate Reduction for Zero-Emission Technology Manufacturers

Budget 2021 proposes a temporary measure to reduce corporate income tax rates for qualifying zero-emission technology manufacturers. Specifically, taxpayers would be able to apply reduced tax rates on eligible zero-emission technology manufacturing and processing income of:

- 7.5 per cent, where that income would otherwise be taxed at the 15 per cent general corporate tax rate, and
- 4.5 per cent, where that income would otherwise be taxed at the 9 per cent small business tax rate.

A list of zero-emission technology manufacturing or processing activities is presented in the budget.

Minimum Proportion of Eligible Activities

A taxpayer would qualify for the reduced tax rates on its eligible income only if at least 10 per cent of its gross revenue from all active businesses carried on in Canada is derived from eligible activities.

Application and Phase-Out

The reduced tax rates would apply to taxation years that begin after 2021. The reduced rates would be gradually phased out starting in taxation years that begin in 2029, and fully phased out for taxation years that begin after 2031 (as shown in Table 8).

Table 8

Schedule of Reduced Tax Rates

Taxation years that begin in:	2022 to 2028	2029	2030	2031	2032 or later
Reduced Tax Rate on Income Eligible for the Small Business Deduction	4.5%	5.625%	6.75%	7.875%	9%
Reduced Tax Rate on Other Eligible Income	7.5%	9.375%	11.25%	13.125%	15%

7. Mandatory Disclosure Rules

Budget 2021 launches public consultations on proposals to enhance Canada's income tax mandatory disclosure rules, building on the advice of the BEPS Project. This consultation will address changes to the Income Tax Act's reportable transaction rules, a new requirement to report notifiable transactions, and a new requirement for specified corporations to report uncertain tax treatments.

8. Avoidance of Tax Debts

The *Income Tax Act* has an anti-avoidance rule (the "tax debt avoidance rule") that is intended to prevent taxpayers from avoiding their tax liabilities by transferring their assets to non-arm's-length persons for insufficient consideration.

In these circumstances, the rule causes the transferee to be jointly and severally liable with the transferor for tax debts of the transferor for the current or any prior taxation year, to the extent that the value of the property transferred exceeds the amount of consideration given for the property.

Some taxpayers are engaging in complex transactions that attempt to circumvent the tax debt avoidance rule. Budget 2021 proposes a number of measures to address this planning, as well as a penalty for those who devise and promote such schemes.

An anti-avoidance rule would be introduced that would provide that for the purposes of the tax debt avoidance rule, and a penalty would also be introduced for planners and promoters of tax debt avoidance schemes. The penalty would be equal to the lesser of:

- 50 per cent of the tax that is attempted to be avoided, and
- $100,000 plus the promoter's or planner's compensation for the scheme.

Other Measures

1. Maintaining Flexible Access to Employment Insurance Benefits

The Budget proposes for a suite of legislative changes to make EI more accessible and simple for Canadians over the coming year. The changes would:

- maintain uniform access to EI benefits across all regions, including through a 420-hour entrance requirement for regular and special benefits, with a 14-week minimum entitlement for regular benefits, and a new common earnings threshold for fishing benefits.
- support multiple job holders and those who switch jobs to improve their situation as the recovery firms up, by ensuring that all insurable hours and employment count toward a claimant's eligibility, as long as the last job separation is found to be valid.
- allow claimants to start receiving EI benefits sooner by simplifying rules around the treatment of severance, vacation pay, and other monies paid on separation.
- extend the temporary enhancements to the Work-Sharing program such as the possibility to establish longer work-sharing agreements and a streamlined application process which will continue to help employers and workers avoid layoffs.

2. Extending Employment Insurance Sickness Benefits

The Budget proposes funding over five years, starting in 2021-22, to enhance sickness benefits from 15 to 26 weeks.

This extension, which would take effect in summer 2022, would each provide additional time and flexibility to recover and return to work.

The Budget also proposes to make amendments to the *Employment Insurance Act*, as well as corresponding changes to the *Canada Labour Code* to ensure that workers in Federally-regulated industries have the job protection they need while receiving EI sickness benefits.

3. Tax on Unproductive Use of Canadian Housing by Foreign Non-resident Owners

In the *2020 Fall Economic Statement*, the Government announced that it would take steps over the coming year to implement a national, tax-based measure targeting the unproductive use of domestic housing that is owned by non-resident, non-Canadians. This will help to ensure that foreign, non-resident owners, who simply use Canada as a place to passively store their wealth in housing, pay their fair share.

Budget 2021 announces the Government's intention to implement a national, annual 1 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. The tax will require all owners, other than Canadian citizens or permanent residents of Canada, to file a declaration as to the current use of the property, with significant penalties for failure to file.

Homes are to live in. This measure is one tool among several to ensure that Canada's housing market is a place to grow for Canadians starting their families and building their future.

In the coming months, the Government will release a consultation paper to provide stakeholders with an opportunity to comment on the parameters of the proposed tax, including on whether special rules should be established for small tourism and resort communities. Moving forward, the Government intends to work closely with provinces, territories, and municipalities.

It is estimated that this measure will increase Federal revenues by $700 million over four years, starting in 2022-23. These revenues will help to support the Government's significant investments to make housing more affordable for all Canadians.

4. Electronic Filing and Certification of Tax and Information Returns

To improve the administration of, and compliance with, the tax system, Budget 2021 proposes amendments to various legislation that would improve the Canada Revenue Agency's (CRA) ability to operate digitally. For example;

- **Notices of Assessment:** Allow the CRA the ability to send certain notices of assessment electronically without the taxpayer having to authorize the CRA to do so. This proposal would apply with respect to individuals who file their income tax returns electronically, and to those who employ the services of tax preparers who file their income tax returns electronically. This measure would come in to force on Royal Assent of the enacting legislation.
- **Correspondence with Businesses**: Change the default method of correspondence for businesses that use the CRA's *My Business Account* portal to electronic only. However, businesses could still choose to also receive paper correspondence. This measure would come in to force on Royal Assent of the enacting legislation.
- **Information Returns:** Amend the Income Tax Regulations to allow issuers of T4A (Statement of Pension, Retirement, Annuity, and Other Income) and T5 (Statement of Investment Income) information slips to provide them electronically, without having to also issue a paper copy and without the taxpayer having to authorize the issuer to do so. This measure would apply with respect to information sent after 2021.

5. Tax on Select Luxury Goods

Budget 2021 proposes to introduce a tax on the retail sale of new luxury cars and personal aircraft priced over $100,000, and boats priced over $250,000, effective as of January 1, 2022. For vehicles, aircraft and boats sold in Canada, the tax would apply at the point of purchase if the final sale price paid by a consumer (not including the GST/HST or provincial sales tax) is above the $100,000 or $250,000 price threshold, as the case may be. Importations of vehicles, aircraft and boats would also be subject to the tax.

Tax Base

Luxury Vehicles

It is proposed that all new passenger vehicles typically suitable for personal use be **included** in the base, including coupes, sedans, station wagons, sports cars, passenger vans and minivans equipped to accommodate less than 10 passengers, SUVs, and passenger pick-up trucks.

It is proposed that the following vehicles typically purchased for personal use be **excluded** from the base:

- Motorcycles and certain off-road vehicles, such as all-terrain vehicles and snowmobiles,
- Racing cars (i.e., vehicles that are not street-legal and are owned solely for on-track or off-road racing), and
- Motor homes (commonly known as recreational vehicles, or RVs) that are designed to provide temporary living, sleeping, or eating accommodation for travel, vacation, seasonal camping, or recreational use.

For greater certainty, off-road, construction, and farm vehicles would fall outside the scope of the tax. Similarly, certain commercial (e.g., heavy-duty vehicles such as some trucks and cargo vans) and public sector (such as buses, police cars and ambulances) vehicles, as well as hearses, would not be subject to the tax.

Aircraft

It is proposed that the tax apply to all new aircraft typically suitable for personal use, including airplanes, helicopters and gliders. As a general rule, it is proposed that large aircraft typically used in commercial activities, such as those equipped for the carriage of passengers and having a certified maximum carrying capacity of more than 39 passengers, be excluded from the base.

Smaller aircraft used in certain commercial (such as public transportation) and public sector (police, military and rescue aircraft, air ambulances) activities would also be excluded from the base.

Boats

It is proposed that the tax apply to new boats such as yachts, recreational motorboats and sailboats, typically suitable for personal use. Smaller personal watercraft (e.g., water scooters) would be excluded from the base. For greater certainty, floating homes, commercial fishing vessels, ferries, and cruise ships would fall outside the scope of the tax.

Tax Rate

For vehicles and aircraft priced over $100,000, the amount of the tax would be the lesser of 10 per cent of the full value of the vehicle/aircraft or 20 per cent of the value above $100,000.

For boats priced over $250,000, the amount of the tax would be the lesser of 10 per cent of the full value of the boat or 20 per cent of the value above $250,000.

6. Excise Duty on Tobacco

Budget 2021 proposes to increase the tobacco excise duty rate by $4 per carton of 200 cigarettes, along with corresponding increases to the excise duty rates for other tobacco products outlined in Table 9.

Inventories of cigarettes held by certain manufacturers, importers, wholesalers and retailers at the beginning of the day after Budget Day would be subject to an inventory tax of $0.02 per cigarette (subject to certain exemptions). Taxpayers would have until June 30, 2021, to file a return and pay the cigarette inventory tax.

Table 9

Tobacco Excise Duty Rate Structure

Products	Current Excise Duty Rates (Effective April 1, 2021)	Proposed Excise Duty Rates after Budget Day
Cigarettes (per five cigarettes or fraction thereof)	$0.62725	$0.72725
Tobacco Sticks (per stick)	$0.12545	$0.14545
Manufactured Tobacco (per 50 grams or fraction thereof)	$7.84062	$9.09062
Cigars	$27.30379 per 1,000 cigars plus the greater of $0.09814 per cigar and 88 per cent of the sale price or duty-paid value	$31.65673 per 1,000 cigars plus the greater of $0.11379 per cigar and 88 per cent of the sale price or duty-paid value

This measure would come in to force on the day after Budget Day.

7. GST New Housing Rebate Conditions

The GST New Housing Rebate entitles homebuyers to recover 36 per cent of the GST (or the Federal component of the HST) paid on the purchase of a new home priced up to $350,000. The maximum rebate is $6,300. The GST New Housing Rebate is phased out for new homes priced between $350,000 and $450,000. There is no GST New Housing Rebate for new homes priced at $450,000 or more. In addition to the above price thresholds, several other conditions must be met in order for a purchaser to qualify for the GST New Housing Rebate.

In particular, the purchaser must be acquiring the new home for use as their primary place of residence or as the primary place of residence of a relation (i.e., an individual related by blood, marriage, common-law partnership or adoption, or a former spouse or former common-law partner). Under the current rules, if two or more individuals who are not considered relations for GST New Housing Rebate purposes buy a new home together, all of those individuals must meet this condition – otherwise none of them will be eligible for the GST New Housing Rebate.

Budget 2021 proposes to remove the condition that where two or more individuals buy a new home together, each of them must be acquiring the home for use as their primary place of residence or the primary place of residence of a relation. Instead, the GST New Housing Rebate would be available as long as the new home is acquired for use as the primary place of residence of any one of the purchasers or a relation of any one of the purchasers.

In addition to new homes purchased from a builder, the GST New Housing Rebate is available with respect to owner-built homes, co-op housing shares, and homes constructed on leased land. The proposed change to the rebate conditions would also be applicable in these circumstances. The proposed change would also apply to new housing rebates with respect to the provincial component of the HST.

This measure would apply to an agreement of purchase and sale entered into after Budget Day. However, in the case of a rebate for owner-built homes, the measure would apply where construction or substantial renovation of the residential complex is substantially completed after Budget Day.

8. Information Requirements to Support ITC Claims

Businesses must obtain and retain certain information in order to support their ITC claims. The required information is contained in documents provided by their suppliers, such as invoices or receipts.

The information requirements for these documents are graduated, with progressively more information required when the amount paid or payable with respect to a supply equals or exceeds thresholds of $30 or $150.

To simplify tax compliance for businesses, Budget 2021 proposes to increase the current ITC information thresholds to $100 (from $30) and $500 (from $150), and to allow billing agents to be treated as intermediaries for purposes of the ITC information rules.

These measures would come in to effect the day after Budget Day.

9. Application of the GST/HST to E-Commerce

In the *2020 Fall Economic Statement*, the Government of Canada proposed a number of changes to the Goods and Services Tax/Harmonized Sales Tax (GST/HST) system to ensure that the GST/HST applies in a fair and effective manner to the growing digital economy.

Without going into too many details, it is important to mention these measures would come in to effect July 1, 2021.

The government also released draft legislative proposals in relation to the measures, and invited interested parties to submit comments on these proposals and the associated draft legislation.

Budget 2021 proposes amendments to these proposals and the associated draft legislation, which take into consideration comments received from stakeholders.

These amendments are intended to ensure that the proposals and draft legislation operate effectively and to clarify the application of certain provisions.

10. Registration and Revocation Rules Applicable to Charities

In order to further strengthen Canada's Anti-Money Laundering and AntiTerrorist Financing Regime, Budget 2021 proposes a number of amendments to the Income Tax Act in order to limit opportunities for the abuse of charitable registration status for terrorist financing purposes. Budget 2021 also proposes changes to the rules applicable to all registered charities with respect to certain false statements.

Budget proposes funding over five years, starting in 2021-22, to enhance sickness benefits from 15 to 26 weeks. This extension which would take effect in summer 2022 would provide Canadians each year with additional time and flexibility to recover and return to work.

Budget also proposes to make amendments to the *Employment Insurance Act*, as well as corresponding changes to the *Canada Labour Code* to ensure that workers in Federally-regulated industries have the job protection they need while receiving EI sickness benefits.

11. Protecting Taxpayer Information

The Budget proposes to provide funding over five years to the Canada Revenue Agency to invest in new technologies and tools that match the growing sophistication of cyber threats, and to ensure the CRA's workforce has the specialized skills to proactively monitor threats and better safeguard Canadian data.

12. Modernizing CRA Services

The Budget proposes to provide funding over three years to the Canada Revenue Agency to reduce processing time for T1 adjustments (i.e., corrections to people's general income tax return) by making online self-service more user-friendly and improving automated processing of T1 adjustments. Faster processing of T1 adjustments will provide Canadians with more timely access to their credits and benefits.

13. Revitalizing Tourism

To assist the sector in tourism, arts, and culture recovery, the Government proposes to make available a further package of supports, totaling $1 billion over three years, starting in 2021-22 helping Major Festivals, Community Festivals and Events, Helping Visitors Discover Canada, and Support for Local Tourism Businesses.