Canada Budget 2022-2023

Summary for Investors

April 7, 2022

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Individuals

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1. 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.

Some key design features of the FHSA are described below. The government will release its proposals for other design elements in the near future.

Eligibility

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 had owned either:

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

Individuals would be limited to making non-taxable withdrawals in respect of a single property in their lifetime.

Once an individual has made a non-taxable withdrawal to purchase a home, they would be required to close their FHSAs within a year from the first withdrawal and would not be eligible to open another FHSA.

Contributions

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 a given year would still face an annual limit of $8,000 in subsequent years.

An individual would be permitted to hold more than one FHSA, but the total amount that an individual contributes to all of their FHSAs could not exceed their annual and lifetime FHSA contribution limits.

Withdrawals and Transfers

Amounts withdrawn to make a qualifying first home purchase would not be subject to tax. Amounts that are withdrawn for other purposes would be taxable.

To provide flexibility, an individual could transfer funds from an FHSA to a registered retirement savings plan (RRSP) (at any time before the year they turn 71) or registered retirement income fund (RRIF). Transfers to an RRSP or RRIF would not be taxable at the time of transfer, but amounts would be taxed when withdrawn from the RRSP or RRIF in the usual manner. Transfers would not reduce, or be limited by, the individual's available RRSP room. Withdrawals and transfers would not replenish FHSA contribution limits.

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.

Individuals would also be allowed to transfer funds from an RRSP to an FHSA on a tax-free basis, subject to the $40,000 lifetime and $8,000 annual contribution limits. These transfers would not restore an individual's RRSP contribution room.

Home Buyers' Plan

The Home Buyers' Plan (HBP) allows individuals to withdraw up to $35,000 from an RRSP to purchase or build a home without having to pay tax on the withdrawal. Amounts withdrawn under the HBP must be repaid to an RRSP over a period not exceeding

exceeding 15 years, starting the second year following the year in which the withdrawal was made.

The HBP 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.

Effective Date

The government would work with financial institutions to have the infrastructure in place for individuals to be able to open an FHSA and start contributing at some point in 2023.

2. Home Buyers' Tax Credit

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 the lowest personal income tax rate (15 per cent in 2022). Any unused portion of the HBTC may be claimed by an individual's spouse or common-law partner as long as the combined total does not exceed $750 in tax relief.

An individual is a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. This credit is also available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the Disability Tax Credit, even if the first-time home buyer condition is not met.

A qualifying home is one that the individual or individual's spouse or common-law partner intends to occupy as their principal residence no later than one year after its acquisition.

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 as long as 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.

3. Multigenerational Home Renovation Tax Credit

Budget 2022 proposes to introduce a new Multigenerational Home Renovation Tax Credit. The proposed refundable credit would provide recognition of eligible expenses for a qualifying renovation. A qualifying renovation would be one that creates a secondary dwelling unit to permit an eligible person (a senior or a person with a disability) to live with a qualifying relation. The value of the credit would be 15 per cent of the lesser of eligible expenses and $50,000.

Eligible Persons

Seniors and adults with disabilities would be considered eligible persons for the purpose of the Multigenerational Home Renovation Tax Credit.

- Seniors are individuals who are 65 years of age or older at the end of the taxation year that includes the end of the renovation period.
- Adults with disabilities are individuals who are 18 years of age or older at the end of the taxation year that includes the end of the renovation period, and who are eligible for the Disability Tax Credit at any time in that year.

Qualifying Relations

For the purposes of this credit, a qualifying relation, in respect of an eligible person, would be an individual who is 18 years of age or older at the end of the taxation year that includes the end of the renovation period and is a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of the eligible person (which includes the spouse or common-law partner of one of those individuals).

Eligible Claimants

The Multigenerational Home Renovation Tax Credit may be claimed by:

- an individual who ordinarily resides, or intends to ordinarily reside, in the eligible dwelling within twelve months after the end of the renovation period and who is:
    - an eligible person;
    - the spouse or common-law partner of the eligible person;
    - a qualifying relation, in respect of an eligible person; or
- a qualifying relation, in respect of an eligible person, who owns the eligible dwelling.

Where one or more eligible claimants make a claim in respect of an eligible renovation, the total of all amounts claimed in respect of the qualifying renovation must not exceed $50,000. If the claimants cannot agree as to what portion of the amounts each can claim, the Minister of National Revenue would be allowed to fix the portions.

Eligible Dwelling

For the purposes of this credit, an eligible dwelling would be defined as a housing unit that is:

- owned (either jointly or otherwise) by the eligible person, the spouse or common-law partner of the eligible person or a qualifying relation in respect of the eligible person; and
- where the eligible person and a qualifying relation in respect of the eligible person ordinarily reside, or intend to ordinarily reside, within twelve months after the end of the renovation period.

An eligible dwelling would include the land subjacent to the housing unit and the immediately contiguous land, but would not include the portion of that land that exceeds the greater of ½ hectare and the portion of that land that the individual establishes is necessary for the use and enjoyment of the housing unit as a residence.

Qualifying Renovation

For the purposes of this credit, a qualifying renovation would be defined as a renovation or alteration of, or addition to, an eligible dwelling that is:

- of an enduring nature and integral to the eligible dwelling; and
- undertaken to enable an eligible person to reside in the dwelling with a qualifying relation, by establishing a secondary unit within the dwelling for occupancy by the eligible person or the qualifying relation.

A secondary unit would be defined as a self-contained dwelling unit with a private entrance, kitchen, bathroom facilities and sleeping area. The secondary unit could be newly constructed or created from an existing living space that did not already meet the requirements to be a secondary unit. To be eligible, relevant building permits for establishing a secondary unit must be obtained and renovations must be completed in accordance with the laws of the jurisdiction in which an eligible dwelling is located.

One qualifying renovation would be permitted to be claimed in respect of an eligible person over their lifetime.

Renovation Period

For the purposes of this credit, the renovation period means a period that:

- begins at the time that an application for a building permit for a qualifying renovation is submitted; and
- ends at the time when the qualifying renovation passes a final inspection, or proof of completion of the project according to all legal requirements of the jurisdiction in which the renovation was undertaken is otherwise obtained.

The credit would be available to be claimed for the taxation year that includes the end of the renovation period.

Eligible Expenses

Expenses would be eligible for the Multigenerational Home Renovation Tax Credit if they are made or incurred during the renovation period, for the purpose of a qualifying renovation, and are reasonable in the context of that purpose (i.e., enabling an eligible person to reside in the dwelling with a qualifying relation).

Eligible expenses would include the cost of labour and professional services, building materials, fixtures, equipment rentals, and permits. Items such as furniture, as well as items that retain a value independent of the renovation (such as construction equipment and tools), would not be integral to the dwelling and expenses for such items would therefore not qualify for the credit.

The following are examples of other expenses that would not be eligible for the Multigenerational Home Renovation Tax Credit:

- the cost of annual, recurring or routine repair or maintenance;
- expenses for household appliances and devices, such as audiovisual electronics;
- payments for services such as outdoor maintenance and gardening, housekeeping or security;
- the costs of financing a renovation (e.g., mortgage interest costs);
- goods or services provided by a person not dealing at arm's length with the claimant, unless that person is registered for Goods and Services Tax/Harmonized Sales Tax purposes under the Excise Tax Act; and
- any expenses not supported by receipts.

Expenses that may be included in a claim must be reduced by any reimbursement or any other form of assistance that an individual is or was entitled to receive, including any related rebates, such as those for Goods and Services Tax/Harmonized Sales Tax. Expenses would not be eligible for the Multigenerational Home Renovation Tax Credit if they are claimed under the Medical Expense Tax Credit and/or Home Accessibility Tax Credit.

Coming into Force

This measure would apply for 2023 and subsequent taxation years, in respect of work performed and paid for, and/or goods acquired on or after January 1, 2023.

4. Making Property Flippers Pay Their Fair Share

Property flipping—buying a house and selling it for much more than what was paid for it just a short time prior—can unfairly lead to higher housing prices.

Any person who sells a property they have held for less than 12 months would be considered to be flipping properties and would be subject to full taxation on their profits as business income. They would not be eligible for the 50% capital gains inclusion rate or the Principal Residence Exemption.

The new deeming rule would not apply if the disposition of property is caused by one of the following life events: death, household addition, separation, personal safety, disability, illness, employment change, insolvency, involuntary disposition (expropriation, destruction).

The measure would apply to residential properties sold on or after January 1, 2023.

5. 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. The value of the credit is calculated by applying the lowest personal income tax rate (15 per cent in 2022) to an amount that is the lesser of eligible expenses and $10,000.

To better support independent living, Budget 2022 proposes to increase the annual expense limit of the Home Accessibility Tax Credit to $20,000. This enhancement would provide additional tax support for more significant renovations undertaken to improve accessibility, such as building a bedroom and/or a bathroom to permit first-floor occupancy for a qualifying person who has difficulty accessing living spaces on other floors.

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

6. Borrowing by Defined Benefit Pension Plans

Generally, a registered pension plan cannot borrow money, except in limited circumstances. Borrowing is allowed for the acquisition of income-producing real property where the borrowed amount does not exceed the cost and only that real property is pledged. Borrowing is also permitted where the term does not exceed 90 days and when no property of the plan is given as security. Temporary rules permit borrowing for terms longer than 90 days if repaid by April 30, 2022.

Budget 2022 proposes to provide more borrowing flexibility to administrators of defined benefit registered pension plans (other than individual pension plans). It maintains the rule for real property acquisitions. However, it replaces the 90-day term limit by a borrowing limit with:

The limit equal to the lesser of:

- 20 per cent of the value of the plan's assets (net of unpaid borrowed amounts);
- the amount by which 125 per cent of the plan's actuarial liabilities exceeds the value of the plan's assets (net of unpaid borrowed amounts).

The new borrowing limit would be redetermined on the first day of each fiscal year of the plan, based on the value of assets and unpaid borrowed amounts, and the actuarial liabilities on the most recent actuarial valuation report. Each redetermined limit would not apply to borrowings entered into before that time.

7. Reporting Requirements for RRSPs and RRIFs

Financial institutions are currently required to report annually to the Canada Revenue Agency the payments out of, and contributions to, each RRSP and RRIF that they administer. Starting in 2023, the Budget proposes to require financial institutions to also report the fair market value, determined at the end of the year, of assets held in each RRSP and RRIF.

By comparison, financial institutions file an annual information return on the tax-free savings accounts that they administer, which includes the fair market value of assets held.

8. Medical Expense Tax Credit for Surrogacy and Other Expenses

For 2022, the METC is available for qualifying medical expenses in excess of the lesser of $2,479 and three per cent of the individual's net income.

Some approaches to building a family involve medical expenses for individuals other than the intended parents. Budget 2022 proposes to broaden the METC to recognize these circumstances.

Medical Expenses Related to a Surrogate Mother or Sperm, Ova or Embryo Donor

Budget 2022 proposes to provide a broader definition of patient in cases where an individual would rely on a surrogate or a donor in order 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.

This broader definition would allow medical expenses paid by the taxpayer, or the taxpayer's spouse or common-law partner, with respect to a surrogate mother or donor to be eligible for the METC. For example, expenses paid by the intended parent to a fertility clinic for an in vitro fertilization procedure with respect to a surrogate mother or for hormone medication for an ova donor would be eligible for the METC.

Reimbursement of Medical Expenses Incurred by a Surrogate Mother or Sperm, Ova or Embryo Donnor

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.

Fees Paid to Acquire Donated Human Sperm or Ova

Budget 2022 also proposes to allow fees paid to fertility clinics and donor banks in order 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 in order to become a parent.

Eligible Expenses

Only expenses incurred in Canada would be eligible. All expenses claimed under the METC would be required to be in accordance with the Assisted Human Reproduction Act and associated regulations.

Coming into Force

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

9. Labour Mobility Deduction for Tradespeople

Budget 2022 proposes to introduce a Labour Mobility Deduction for Tradespeople to recognize certain travel and relocation expenses of workers in the construction industry. Eligible workers would be allowed to deduct up to $4,000 in eligible expenses per year.

An eligible individual would be a tradesperson or an apprentice who:

- makes a temporary relocation that enables them to obtain or maintain employment under which the duties performed by the taxpayer are of a temporary nature in a construction activity at a particular work location; and
- ordinarily resided prior to the relocation at a residence in Canada, and during the period of the relocation, at temporary lodging in Canada near that work location.
- qualifies as an Eligible Temporary Relocation

To qualify as an eligible temporary relocation:

- the temporary lodging must be at least 150 kilometres closer than the ordinary residence to the particular work location;
- the particular work location must be located in Canada; and
- the temporary relocation must be for a minimum duration of 36 hours.

It would further be required that the particular work location not be in the locality in which the eligible individual principally works (i.e., carries on employment or business activity).

Eligible Expenses

Eligible expenses would be reasonable amounts associated with expenses incurred for:

- temporary lodging for the eligible individual near the particular work location;
- transportation for the individual for one round trip from the location where the individual ordinarily resides to the temporary lodging; and
- meals for the individual in the course of travel while making one round trip to and from the temporary lodging.

An individual would not be permitted to claim lodging expenses for a period of time under this measure unless they maintain an ordinary residence elsewhere that remains available for their or their immediate family's use during that time period.

An individual would not be allowed to claim expenses in respect of which they received financial assistance from an employer that is not included in income.

The maximum amount of expenses that could be claimed in respect of a particular eligible temporary relocation would be capped at 50 per cent of the worker's employment income from construction activities at the particular work location in the year. Flexibility would be provided by allowing expenses to be claimed in a tax year before or after the year they were incurred provided they were not deductible in a prior year. This would enable workers to claim expenses in the tax year they earned the associated employment income and address cases where expenses related to a relocation span two tax years.

Amounts claimed under the Labour Mobility Deduction for Tradespeople would not be deductible under the existing Moving Expense Deduction. Similarly, amounts that are otherwise deducted could not be claimed under the Labour Mobility Deduction for Tradespeople.

Coming into Force

This measure would apply to 2022 and subsequent taxation years.

10. Dental Care for Canadians

A third of Canadians do not have dental insurance and, in 2018, more than one in five Canadians reported avoiding dental care because of the cost.

Budget 2022 proposes to provide funding of $5.3 billion over five years, starting in 2022-23, and $1.7 billion ongoing, to Health Canada to provide dental care for Canadians. This will start with under 12-year-olds in 2022, and then expand to under 18-year-olds, seniors, and persons living with a disability in 2023, with full implementation by 2025. The program would be restricted to families with an income of less than $90,000 annually, with no co-pays for those under $70,000 annually in income.

11. Next Steps Towards a Minimum Tax for High Earners

The Alternative Minimum Tax (AMT), which has been in place since 1986, plays a role in ensuring that the wealthiest Canadians do not take advantage of the tax system to lower their federal tax bill.

However, the AMT has not been substantially updated since its introduction, and there are still thousands of wealthy Canadians who pay little to no personal income tax each year. That is unfair, and the federal government is committed to changing it.

Budget 2022 announces the government's commitment to examine a new minimum tax regime, which will go further towards ensuring that all wealthy Canadians pay their fair share of tax. The government will release details on a proposed approach in the 2022 Fall economic and fiscal update.

Businesses

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1. Small Business Deduction

Small businesses may benefit from a reduced corporate income tax rate of 9 per cent—a preference relative to the general corporate income tax rate of 15 per cent. This rate reduction is provided through the "small business deduction" and applies on up to $500,000 per year of qualifying active business income (i.e., the "business limit") of a Canadian-controlled private corporation (CCPC). There is a requirement to allocate the business limit among associated CCPCs.

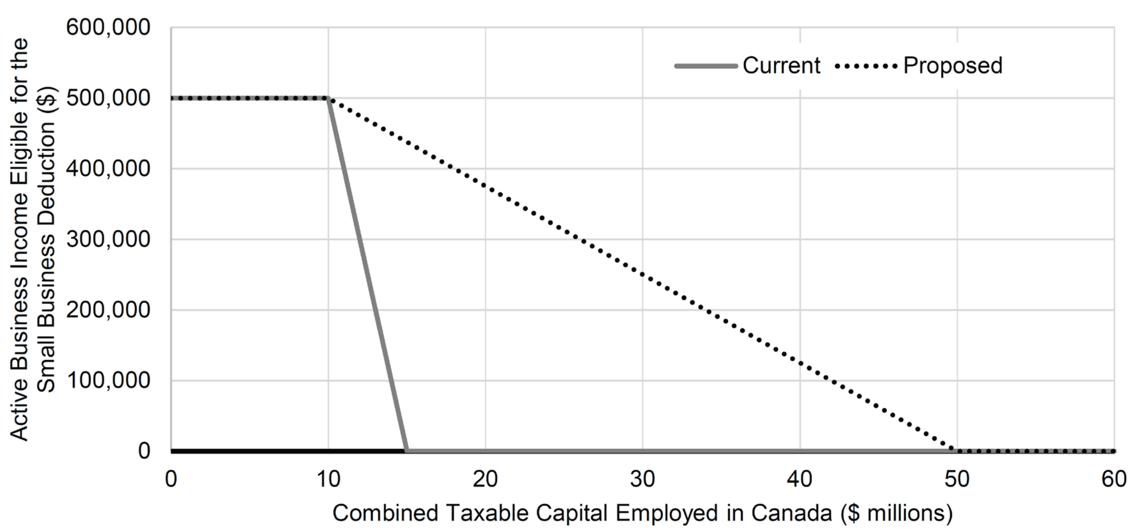
In order to target the preferential tax rate to small businesses, the business limit is reduced on a straight-line basis when:

- the combined **taxable capital** employed in Canada of the CCPC and its associated corporations is between $10 million and $15 million; or
- the combined "adjusted aggregate investment income" of the CCPC and its associated corporations is between $50,000 and $150,000.

The business limit is the lesser of the two amounts determined by these business limit reductions.

Budget 2022 proposes to extend the range over which the business limit is reduced based on the combined **taxable capital** employed in Canada of the CCPC and its associated corporations. The new range would be $10 million to $50 million (see Chart 1 below).

Chart 1
Current and Proposed Reductions of the Business Limit Based on Taxable Capital



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. For example, under the new rules:

- a CCPC with $30 million in taxable capital would have up to $250,000 of active business income eligible for the small business deduction, compared to $0 under current rules; and
- a CCPC with $12 million in taxable capital would have up to $475,000 of active business income eligible for the small business deduction, compared to up to $300,000 under current rules.

This measure would apply to taxation years that begin on or after Budget Day.

2. Genuine 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 in order to facilitate intergenerational business transfers. However, the exception may unintentionally permit surplus stripping without requiring that a genuine intergenerational business transfer takes place.

Budget 2022 announces a consultation process for stakeholders to share their views as to how the existing rules could be strengthened to protect the integrity of the tax system, while continuing to facilitate genuine intergenerational business transfers. The government is committed to bringing forward legislation, as necessary, to address this specific issue which could be included in a bill to be tabled in the Fall after conclusion of the consultation process.

3. Substantive CCPCs

Currently, some people are manipulating the Canadian-controlled private corporation (CCPC) status of their corporations to avoid paying the additional refundable corporate income tax that they would otherwise pay on investment income earned in their corporations. This may be done in a number of ways, such as by moving a corporation into a foreign low-tax jurisdiction, by using foreign shell companies, or by moving passive portfolios to an offshore corporation.

Budget 2022 proposes targeted amendments to the Income Tax Act to ensure that, for taxation years that end on or after April 7, 2022, investment income earned and distributed by private corporations that are, in substance, **CCPCs,** is subject to the same taxation as investment income earned and distributed by CCPCs.

4. Critical Mineral Exploration Tax Credit

Flow-through share agreements allow corporations to renounce or "flow through" specified expenses to investors, who can deduct the expenses in calculating their taxable income.

The Mineral Exploration Tax Credit (METC) provides an additional income tax benefit for individuals who invest in mining flow-through shares, which augments the tax benefits associated with the deductions that are flowed through. The METC is equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Budget 2022 proposes to introduce a new 30 per cent Critical Mineral Exploration Tax Credit (CMETC) for specified minerals.

The specified minerals that would be eligible for the CMETC are: copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals, and uranium. These minerals are used in the production of batteries and permanent magnets, both of which are used in zero-emission vehicles or are necessary in the production and processing of advanced materials, clean technology, or semi-conductors.

Eligible expenditures would not benefit from both the proposed CMETC and the METC. The administration of the CMETC would generally follow the rules in place for the METC. However, the CMETC would only apply in relation to exploration expenditures for the minerals listed above.

The CMETC would apply to expenditures renounced under eligible flow-through share agreements entered into after Budget Day and on or before March 31, 2027.

5. Flow-Through Shares for Oil, Gas, and Coal Activities

Flow-through share agreements allow 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 or 30 per cent rate on a declining-balance basis, respectively). This facilitates the raising of equity to fund eligible exploration and development by enabling companies to issue shares at a premium.

Budget 2022 proposes to eliminate the flow-through share regime for fossil fuel sector activities. This will be done by no longer allowing expenditures related to oil, gas, and coal exploration and development to be renounced to flow-through share investors for flow-through share agreements entered into after March 31, 2023.

6. Employee Ownership Trusts

Employee ownership trusts encourage employee ownership of a business and facilitate the transition of privately owned businesses to employees. Budget 2021 announced that the government would engage with stakeholders to examine what barriers exist to the creation of these trusts in Canada.

These consultations revealed that the main barrier to the creation of employee ownership trusts in Canada was the lack of a dedicated trust vehicle under current tax legislation tailored to the requirements of these structures.

- Budget 2022 proposes to create the Employee Ownership Trust—a new, dedicated type of trust under the *Income Tax Act* to support employee ownership.

The government will continue to engage with stakeholders to finalize the development of rules for the Employee Ownership Trust and to assess remaining barriers to the creation of these trusts.

Other Measures

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1. Annual Disbursement Quota for Registered Charities

Registered charities are generally required to expend a minimum amount each year, referred to as the disbursement quota (DQ). Budget 2022 proposes to make a number of changes to increase expenditures by larger charities, and to improve the enforcement and operation of the DQ rules.

Modifying the Rate of the DQ

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.

In addition, Budget 2022 proposes to amend the Income Tax Act to clarify that expenditures for administration and management are not considered qualifying expenditures for the purpose of satisfying a charity's DQ.

Relief for Certain Circumstances

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 particular tax year;
- allow the CRA to publicly disclose information relating to such a decision; and
- remove the accumulation of property rule.

Coming into Force

These measures would apply to charities in respect of their fiscal periods beginning on or after January 1, 2023.

The amendment removing the accumulation of property rule would not apply to approved property accumulations resulting from applications submitted by a charity prior to January 1, 2023.

2. Charitable Partnerships

Budget 2022 proposes a number of changes allowing charities to make qualified disbursements to organizations that are not qualified donees, provided that they meet certain accountability requirements under the Income Tax Act. Additional measures designed to ensure compliance by charities with these new rules are forthcoming.

Accountability Requirements

Budget 2022 proposes to allow charities to make qualifying disbursements to organizations that are not qualified donees, provided that these disbursements are in furtherance of the charity's purposes and the charity ensures that the funds are applied to charitable activities by the grantee.

In addition, to be considered a qualifying disbursement, charities will be required to meet certain mandatory accountability requirements defined in the Income Tax Act that are designed to ensure that their resources will be used for charitable purposes, including:

- Conducting a pre-grant inquiry sufficient to provide reasonable assurances that the charity's resources will be used for the purposes set out in the written agreement. This will include a review of the identity, past history, practices, activities, and areas of expertise of the grantee.

- Having a written agreement between the charity and the grantee, including:
  - the terms and conditions of the funding provided;
  - a description of the charitable activities that the recipient will undertake;
  - a requirement that any funds not used for the purposes for which they were granted be returned to the charity; and
  - a requirement that records relating to the use of the charity's resources be maintained and accessible for a minimum of six years following the end of the relevant taxation year.
- Monitoring the grantee, which would include receiving periodic reports on the use of the charity's resources, at least annually (e.g., details on the use of the funds, compliance with the terms of the grant, and progress made toward the purposes of the grant), and taking remedial action as required.
- Receiving full and detailed final reports from the grantee, including outlining the results achieved with the charity's resources, detailing how the funds were spent, and providing sufficient documentary evidence to demonstrate that funds were used for the purposes for which they were granted. The charity would also be required to demonstrate that these final reports and supporting documentation were reviewed and approved by the charity.
- Publicly disclosing on its annual information return details relating to grants above $5,000.

Books and Records

Budget 2022 proposes to require charities to, upon request by the CRA, take all reasonable steps to obtain receipts, invoices, or other documentary evidence from grantees to demonstrate amounts were spent appropriately.

Directed Donations

Budget 2022 proposes to extend an existing provision in the Income Tax Act, which currently applies to registered Canadian amateur athletic associations and registered journalism organizations, to registered charities. This rule would prohibit registered charities from accepting gifts, the granting of which was expressly or implicitly conditional on making a gift to a person other than a qualified donee.

Coming into Force

These changes would apply as of royal assent of the enacting legislation.

3. Hedging and Short Selling by Canadian Financial Institutions

Certain taxpayers in financial institution groups would be engaged in aggressive tax planning arrangements whereby a dividend received deduction is claimed in circumstances giving rise to an unintended tax benefit.

For example, where a Canadian bank owns Canadian shares, a registered securities dealer in the Canadian bank's corporate group will borrow identical shares under a securities lending arrangement and sell the borrowed shares short.

In this scenario, the Canadian bank claims a dividend received deduction for the dividends received on the Canadian shares, resulting in tax-free dividend income. The registered securities dealer deducts two-thirds of the amount of the dividend compensation payments made to the lender that reflect the same dividends paid on the shares. In sum, the Canadian banking group generates an artificial tax deduction under the arrangement equal to two-thirds of the amount of dividend compensation payments made to the lender over the term of the arrangement.

A registered securities dealer could carry out a similar transaction on its own with respect to Canadian shares owned by it. That is, it could borrow and sell short identical shares, claiming both the dividend received deduction for dividends received on its shares and a two-thirds deduction for dividend compensation payments made to the lender.

Budget 2022 proposes amendments to the Income Tax Act to:

- deny the dividend received deduction for dividends received by a taxpayer on Canadian shares if a registered securities dealer that does not deal at arm's length with the taxpayer enters into transactions that hedge the taxpayer's economic exposure to the Canadian shares, where the registered securities dealer knew or ought to have known that these transactions would have such an effect;

- deny the dividend received deduction for dividends received by a registered securities dealer on Canadian shares that it holds if it eliminates all or substantially all of its economic exposure to the Canadian shares by entering into certain hedging transactions; and
- provide that, in the above situations, the registered securities dealer will be permitted to claim a full reduction, rather than a two-thirds deduction, for a dividend compensation payment it makes under a securities lending arrangement entered into in connection with the above hedging transactions.

The proposed amendments would apply to dividends and related dividend compensation payments that are paid, or become payable, on or after Budget Day, unless the relevant hedging transactions or related securities lending arrangements were in place before Budget Day, in which case the amendment would apply to dividends and related dividend compensation payments that are paid after September 2022.

4. International Tax Measures

Expanding Anti-Avoidance Tax Rules – Interest Coupon Stripping

Interest coupon stripping is a way that some taxpayers avoid paying tax on cross-border interest payments (when the recipient is non-resident of Canada). Due to differences between Canada's various tax treaties, the interest received from Canadian residents is often subject to different tax rates depending on where the recipient resides. Interest coupon stripping arrangements exploit these differences and allow some to pay less in taxes.

To improve the fairness of Canada's international tax system, Budget 2022 proposes to create a specific anti-avoidance rule in the Income Tax Act to ensure that the appropriate amount of tax is paid when an interest coupon stripping arrangement is used.

5. Sales and Excise Tax Measures

- Budget 2022 proposes to make all assignment sales of newly constructed or substantially renovated residential housing taxable for GST/HST purposes, effective May 7, 2022.

- Budget 2022 proposes to implement the previously announced excise duty on vaping products, effective as of October 1, 2022. The proposed federal excise duty rate would be $1.00 per 2 mL, or fraction thereof, for containers with less than 10 mL of vaping liquid. For containers with more than 10 mL, the applicable federal rate would be $5.00 for the first 10 mL, and $1.00 for every additional 10 mL, or fraction thereof.

- Budget 2022 proposes to eliminate excise duty on low-alcohol beer, effective as of July 1, 2022. This will bring the tax treatment of low-alcohol beer into line with the treatment of wine and spirits with the same alcohol content.

- Wine is generally subject to excise duties. Wine that is produced in Canada and composed wholly of agricultural or plant product grown in Canada (i.e., 100-per-cent Canadian wine) is, however, exempt from excise duties.

- Budget 2022 proposes to repeal the 100-per-cent Canadian wine excise duty exemption. The proposed measure would come into force on June 30, 2022.

6. Zero-Emission Vehicles (ZEV)

Making the Switch to ZEV More Affordable

A $1.7 billion investment over five years to extend the Incentives for ZEV program until March 2025. Eligibility under the program will also be broadened to support the purchase of more vehicle models, including vans, trucks, and SUVs.

Helping Businesses Switch to Medium and Heavy Duty ZEV

A $547,000,000 investment over four years to launch a new purchase incentive program for medium and heavy-duty ZEVs.

Building a National Network of Electric Vehicle Charging Stations

$900,000,000 to fund the deployment of ZEV charging infrastructure across the country. It represents an important step toward the global objective of adding 50,000 chargers.

7. Housing for Canadians

Housing should be for Canadians to use as homes, not for Big Corporations

However, in recent years, the significant increase in housing prices has led to large investors acquiring a larger portfolio of residential housing. There is a concern that this concentration of ownership in residential housing can drive up rents and house prices, and undercut the important role that small, independent landlords play. Many believe that this trend has also led to a rise in “renovictions,” when a landlord pressures and persuades their tenants to leave, or is formally permitted to evict them to make extensive renovations in order to raise rents.
To address these concerns:

Budget 2022 announces a federal review of housing as an asset class, in order to better understand the role of large corporate players in the market and the impact on Canadian renters and homeowners. This will include the examination of a number of options and tools, including potential changes to the tax treatment of large corporate players that invest in residential real estate. Further details on the review will be released later this year, with potential early actions to be announced before the end of the year.

A Ban on Foreign Investment in Canadian Housing

To make sure that housing is owned by Canadians instead of foreign investors, Budget 2022 announces the government’s intention to propose restrictions that would prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years.

Refugees and people who have been authorized to come to Canada under emergency travel while fleeing international crises would be exempt. International students on the path to permanent residency would also be exempt in certain circumstances, as would individuals on work permits who are residing in Canada.

The government will continue to monitor the impact that foreign money is having on housing costs across Canada and may come forward with additional measures to strengthen the enforcement of the proposed ban, if necessary. Non-resident, non-Canadians who own homes that are being underused or left vacant would be subject to the Underused Housing Tax once it is in effect.

8. Toward A Better Employment Insurance System

Over the last two years, millions of Canadians' livelihoods have been interrupted by lockdowns, illness, or the need to care for loved ones. At the start of the pandemic, the government responded by introducing emergency income support that ensured workers and their families could continue to make ends meet, even as the pandemic prevented them from working.

As Canada's economy continues to recover from the pandemic and emergency programs wind down, the Minister of Employment, Workforce Development and Disability Inclusion is consulting with Canadians on what needs to be done to build an Employment Insurance (EI) system that better meets the current and future needs of workers and employers. This includes simpler and fairer rules for workers, new ways to support experienced workers transitioning to a new career, and coverage for self-employed and gig workers.

The government will release its long-term plan for the future of EI after the consultations conclude.

9. Canada Recovery Dividend and Additional Tax on Banks and Life Insurers

Budget 2022 proposes to introduce a temporary Canada Recovery Dividend, under which banking and life insurers' groups (as determined under Part VI of the Income Tax Act) will pay a one-time 15 per cent tax on taxable income above $1 billion for the 2021 tax year. The Canada Recovery Dividend will be paid in equal installments over five years.

Budget 2022 also proposes to permanently increase the corporate income tax rate by 1.5 percentage points on the taxable income of banking and life insurance groups (as determined under Part VI of the Income Tax Act) above $100 million, such that the overall federal corporate income tax rate above this income threshold will increase from 15 per cent to 16.5 per cent.

10. Legislative Changes to Canada Pension Plan

In Budget 2022, the government proposes to make technical changes to the Canada Pension Plan legislation to ensure the correct calculation of eligibility and benefits for a small number of individuals qualifying for the Post-Retirement Disability Benefit, and the child-rearing and disability drop-ins. These changes will ensure that the eligibility and calculation of these benefits are consistently applied for all individuals.