

Federal Budget 2022

“A Plan to Grow Our Economy and Make Life More Affordable”

On Thursday April 7, 2022, Finance Minister Chrystia Freeland tabled the Liberal government’s 2022-23 Budget in Parliament. Note that the Budget is a statement of the government’s intention, and until passed into law its content is to be considered in the nature of a proposal.

This summary highlights provisions relevant to the savings, investment and financial planning decisions of individuals, families and small businesses. We begin with a summary of current tax rates, then turn to the Budget’s headline theme – **housing affordability**.

- | | |
|--|-----------------------------------|
| 1. Federal Income Tax Brackets & Rates | 5. Help for Families |
| 2. New Home Buyers | 6. Targeted Employment Measures |
| 3. Integrity of the Housing Market | 7. Electric Vehicles |
| 4. Supporting Our Seniors | 8. Tax Planning and Tax Avoidance |

1. Federal Income Tax Brackets & Rates

Individual Bracket Indexing 2021 to 2022

There were no changes to personal income tax rates, other than normal annual indexing. Personal brackets were indexed by 2.4% over their 2021 levels. The basic personal amount/credit is \$14,398.

2021 from	Tax rate	2022 from
\$13,808	15.0%	\$14,398
\$49,020	20.5%	\$50,197
\$98,040	26.0%	\$100,392
\$151,978	29.0%	\$155,625
\$216,511	33.0%	\$221,708

Corporations – Small Business Rate

The small business tax rate for corporations remains at 9% on their first \$500,000 of taxable income. That rate is phased-out once a corporation’s taxable capital exceeds \$10 million, and is no longer available once taxable capital reaches \$15 million. Budget 2022 proposes to phase out access to the small business tax rate more gradually, with access to be fully phased out when taxable capital reaches \$50 million.

Corporations – General Rate

The general corporate tax rate remains 15%.

Financial Institutions

While the COVID-19 pandemic has presented many economic challenges, the Budget notes that major financial institutions have recovered faster than other parts of our economy. Against that backdrop, Budget 2022 proposes a one-time 15% tax on taxable income of banking and life insurers’ groups above \$1 billion for the 2021 tax year.

The Budget also proposes to permanently increase the corporate income tax rate by 1.5% on the taxable income of banking and life insurers’ groups above \$100 million, raising the overall federal rate from 15% to 16.5%.

2. New Home Buyers

FHSA – Tax-Free First Home Savings Account

From last year's Liberal party election platform, a new Tax-Free First Home Savings Account (FHSA) is proposed:

- Canadian residents 18 or older would be eligible, as long as they have not lived in a home that they owned either in the year the account is opened or in the preceding four years.
- The lifetime limit on contributions would be \$40,000, subject to an annual contribution limit of \$8,000. The full annual contribution limit would be available starting in 2023.
- Unused annual contribution room could not be carried forward, meaning an individual contributing less than \$8,000 in a given year would still face an annual limit of \$8,000 in subsequent years.
- Like an RRSP, contributions would be tax-deductible. An individual may even transfer RRSP funds to an FHSA on a tax-free basis, but such transfers will not restore RRSP contribution room.
- Withdrawals to purchase a first home, including investment income, would be non-taxable, like a TFSA. However, withdrawals for other purposes would be taxable.
- Individuals could hold more than one FHSA, subject to the annual and lifetime limits across all accounts.
- Tax-free withdrawals would be limited to one property purchase in the individual's lifetime.
- If the FHSA is not used for a purchase within 15 years of opening, it must be closed. Funds would be taxable or could be transferred tax-free to a RRSP or RRIF, without affecting the individual's RRSP room.

The government intends to work with financial institutions to ensure that a Tax-Free First Home Savings Account could be opened, and contributed to, in 2023.

RRSP Home Buyers' Plan

The Home Buyers' Plan allows up to \$35,000 to be drawn from an individual's RRSP for a first-time home purchase. The HBP will continue to be available as under existing rules, but an individual will not be permitted to make both an FHSA withdrawal and an HBP withdrawal for the same home purchase.

Doubling the First-Time Home Buyers' Tax Credit

Budget 2022 proposes to double the First-Time Home Buyers' Tax Credit amount to \$10,000. The enhanced credit would provide up to \$1,500 in direct support to home buyers. This measure would apply to homes purchased on or after January 1, 2022.

An Extended and More Flexible First-Time Home Buyer Incentive

Budget 2022 extends the First-Time Home Buyer Incentive to March 31, 2025, with the government exploring options to make the program more flexible and responsive to the needs of first-time home buyers, including single-led households. No further details or timelines were provided.

Home Buyers' Bill of Rights

Budget 2022 announces that the Minister of Housing and Diversity and Inclusion will engage with provinces and territories over the next year to develop and implement a Home Buyers' Bill of Rights. Among other things, the Home Buyers Bill of Rights could include:

- A national plan to end blind bidding;
- Ensuring a legal right to a home inspection; and,
- Ensuring transparency on the history of sales prices on title searches.

To support these efforts, Budget 2022 proposes to provide \$5 million over two years, starting in 2022-23, to the Canada Mortgage and Housing Corporation.

3. Integrity of the Housing Market

Scrutiny on “Renovictions”

The Budget notes the concentration of corporate ownership in residential housing. Of particular concern is the apparent rise in “renovictions”, when a landlord pressures and persuades tenants to leave, or is formally permitted to evict them to make extensive renovations in order to raise rents.

Budget 2022 announces a federal review of housing as an asset class, 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

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.

Making Property Flippers Pay Their Fair Share

Budget 2022 proposes to introduce new rules to ensure profits from flipping properties are taxed fully and fairly. Specifically, any person who sells a property 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. Exemptions would apply for Canadians who sell their home due to certain life circumstances, such as a death, disability, the birth of a child, a new job, or a divorce. The measure would apply to residential properties sold on or after January 1, 2023.

Taxing Assignment Sales

Speculative trading in the Canadian housing market contributes to higher prices for Canadians. Speculative trading can include the resale of housing before it has even been constructed or lived in. This is called an “assignment sale.” To address these issues, 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.

Protecting Canadians From Money Laundering in the Mortgage Lending Sector

In recent years, there has been a growth in mortgages issued by lending businesses not regulated under the national anti-money laundering and anti-terrorist financing rules that apply to major financial institutions. To address this issue, the government intends on extending these requirements to all businesses conducting mortgage lending in Canada within the next year.

4. Supporting Our Seniors

Aging at Home

Budget 2022 proposes the creation of an expert panel to study the idea of an Aging at Home Benefit, and provide a report to the Minister of Seniors and the Minister of Health. More details will be provided in the coming months.

Doubling the Home Accessibility Tax Credit

Budget 2022 proposes to double the qualifying expense limit of the Home Accessibility Tax Credit to \$20,000 for the 2022 and subsequent tax years. This will mean a tax credit of up to \$3,000—an increase from the previous tax credit of up to \$1,500—for important accessibility renovations or alterations.

Multigenerational Home Renovation Tax Credit

Many Canadians have traditions of living together in multigenerational homes, with grandparents, parents, and children under one roof. Having different generations living together—an elderly grandparent with their daughter’s family or a son with a disability with their parents—can be an important way for them to care for each other.

To support these families, Budget 2022 proposes a Multigenerational Home Renovation Tax Credit, which would provide up to \$7,500 in support for constructing a secondary suite for a senior or an adult with a disability. Starting in 2023, this refundable credit would allow families to claim 15 per cent of up to \$50,000 in eligible renovation and construction costs incurred in order to construct a secondary suite.

5. Help for Families

Dental Care for Canadians

Seeing a dentist is important for our health, but can be expensive. 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.

Supporting Early Learning and Child Care

Since Budget 2021, the federal government has reached agreements with all 13 provinces and territories. By the end of 2022, child care fees across the country will be reduced by an average of 50%. By 2025-26, it will mean an average child care fee of \$10/day for all regulated child care spaces across Canada.

Budget 2022 proposes to provide \$625 million over four years, beginning in 2023-24, to enable provinces and territories to make additional child care investments, including the building of new facilities.

6. Targeted Employment Measures

Labour Mobility Deduction for Tradespeople

Workers in the construction trades often travel to take on temporary jobs— frequently in rural and remote communities—but their associated expenses do not always qualify for existing tax relief.

Budget 2022 proposes to introduce a Labour Mobility Deduction, which would provide tax recognition on up to \$4,000 per year in eligible travel and temporary relocation expenses to eligible tradespersons and apprentices. This measure would apply to the 2022 and subsequent taxation years.

An Employment Strategy for Persons With Disabilities

Despite being ready and willing to work, the employment rate of persons with disabilities is much lower than other Canadians—59% versus 80%, according to the 2017 Canadian Survey on Disability.

Budget 2022 proposes to provide \$272.6 million over five years to Employment and Social Development Canada to support the implementation of an employment strategy for persons with disabilities through the Opportunities Fund. Of this funding, \$20 million will be allocated to the Ready, Willing and Able program to help persons with Autism Spectrum Disorder or intellectual disabilities find employment.

Extending Temporary Support for Seasonal Workers

In certain regions of the country, seasonal industries—including fishing and tourism in Atlantic Canada and British Columbia—are the lifeblood of local economies. The Employment Insurance (EI) system is critical to ensuring that the workers these industries count on have the support they need between work seasons.

Since 2018, a pilot project in 13 regions of the country extends EI to a maximum of 45 weeks for eligible seasonal workers. Budget 2022 proposes to continue these rules until October 2023 as the government considers a long-term solution that best targets the needs of seasonal workers. The cost of this measure is estimated at \$110.4 million over three years, starting in 2022-23.

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.

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

7. Electric vehicles

Making the Switch to Zero-Emission Vehicles (ZEVs) More Affordable

To make ZEVs more affordable, the government has given purchase incentives up to \$5,000 for eligible vehicles since 2019. This has helped in the purchase or lease of over 136,000 new ZEVs. To continue this momentum, Budget 2022 proposes another \$1.7 billion over five years, to extend the Incentives for Zero-Emission Vehicles (iZEV) program until March 2025. Further details will be announced by Transport Canada in the coming weeks.

Building a National Network of Electric Vehicle Charging Stations

Since 2015, the federal government has helped build almost 1,500 charging stations across the country. The government's commitment is to add 50,000 new ZEV chargers and hydrogen stations across Canada.

Budget 2022 announces a \$500 million investment in large-scale urban and commercial ZEV charging and refuelling infrastructure, and \$400 million to fund the deployment of ZEV charging infrastructure in sub-urban and remote communities through the Zero-Emission Vehicle Infrastructure Program (ZEVIP).

Phasing Out Flow-Through Shares for Oil, Gas, and Coal Activities

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.

8. Tax Planning and Tax Avoidance

Bill C-208 Follow-up

Private Member's Bill C-208, received Royal Assent on June 29, 2021. It introduced an exception to the "surplus stripping" rule, in order to facilitate intergenerational business transfers. However, the exception may unintentionally permit surplus stripping without there being a genuine intergenerational business transfer.

Budget 2022 announces a consultation process for stakeholders to share their views as to how the existing rules could be strengthened. 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.

Next Steps Towards a Minimum Tax for High Earners

The Budget notes that 28% of tax filers with gross income above \$400,000 pay an average federal personal income tax rate of 15% or less. Much of this is due to significant use of deductions and tax credits, which is what the Alternative Minimum Tax (AMT) was designed to counter. However, the AMT has not been substantially updated since its introduction in 1986.

Budget 2022 announces the government's commitment to examine a new minimum tax regime. The government will release details on a proposed approach in the 2022 fall economic and fiscal update.

Strengthening the General Anti-Avoidance Rule

The government intends to release in the near future a broader consultation paper on modernizing the GAAR, with a consultation period running through the summer of 2022, and with legislative proposals to be tabled by the end of 2022.

For more information, please consult your financial advisor and tax professional.

Mutual funds are offered through Credential Asset Management Inc. and Qtrade Asset Management (a tradename of Credential Asset Management Inc). Mutual funds and other securities are offered through Qtrade Advisor and Credential Securities, a division of Credential Qtrade Securities Inc. Credential Securities is a registered mark owned by Aviso Wealth Inc.

Aviso Wealth Inc. ('Aviso') is a wholly owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited. The following entities are subsidiaries of Aviso: Credential Qtrade Securities Inc. (including Credential Securities, Qtrade Direct Investing, Qtrade Advisor, VirtualWealth and Aviso Correspondent Partners), Credential Asset Management Inc., Credential Insurance Services Inc., Credential Financial Strategies Inc., and Northwest & Ethical Investments L.P.

The information contained in this article was obtained from sources believed to be reliable; however, we cannot guarantee that it is accurate or complete. This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. This document is published by CQSI and CAM and unless indicated otherwise, all views expressed in this document are those of CQSI and CAM. The views expressed herein are subject to change without notice as markets change over time.