Wealth Management

A SPECIAL REPORT FROM RBC FAMILY OFFICE SERVICES


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# 2024 Federal Budget — April 16, 2024

A summary of the key measures that may have a direct impact on you

**Deputy Prime Minister and Minister of Finance Chrystia Freeland released the federal budget on April 16, 2024, against a backdrop of Canadians facing the significant challenge of elevated costs of living. In light of the continued economic uncertainty, measures in the budget are targeted with the stated goal of building more affordable homes, making life cost less and growing the economy.**

**Although there are no proposed changes to the personal tax brackets, the budget proposes an increase to the capital gain inclusion rate. The budget also suggests several amendments to the alternative minimum tax (AMT) proposals, that include reducing the negative impact on the tax treatment of charitable donations.**

**The following is a summary of the most significant tax and wealth planning measures announced in the budget.**

## Capital gains inclusion rate

The budget proposes to increase the capital gains inclusion rate from 50% to 66.67% for corporations and trusts, and from 50% to 66.67% on the portion of capital gains realized in the year that exceed $250,000 for individuals, for capital gains realized on or after June 25, 2024. The $250,000 threshold would effectively apply to capital gains realized by an individual, either directly or indirectly via a partnership or trust, net of any: current-year capital losses; capital losses of other years applied to reduce current-year capital gains; and capital gains in respect of which the LCGE, the proposed employee ownership trust (EOT) exemption or the proposed Canadian Entrepreneurs' Incentive is claimed.

Claimants of the employee stock option deduction would be provided a 33.33% deduction of the taxable benefit (reduced from 50%) to reflect the new capital gains inclusion rate but would be entitled to a deduction of 50% of the taxable benefit, up to a combined limit of $250,000 for both employee stock options and capital gains.

Net capital losses of prior years would continue to be deductible against taxable capital gains in the current year by adjusting their value to reflect the inclusion rate of the capital gains being offset. This means a capital loss realized prior to the rate change would fully offset an equivalent capital gain realized after the rate change.

For tax years that begin before and end on or after June 25, 2024, two different inclusion rates would apply. As a result, transitional rules would be required to separately identify capital gains and losses realized before the effective date (Period 1) and those realized on or after the effective date (Period 2). For example, taxpayers would be subject to the higher inclusion rate in respect of the portion of their net gains arising in Period 2 that exceed the $250,000 threshold, to the extent that these net gains are not offset by a net loss incurred in Period 1 or any other taxation years.

The annual $250,000 threshold for individuals would be fully available in 2024 (i.e., it would not be prorated) and would apply only in respect of net capital gains realized in Period 2. Other consequential amendments would also be made to reflect the new inclusion rate. Additional design details will be released in the coming months.

## Personal tax measures

### Lifetime capital gains exemption (LCGE)

An individual is provided with a lifetime tax exemption for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. The budget proposes to increase the LCGE from the current amount of $1,016,836 to $1.25 million. This increase would apply to dispositions that occur on or after June 25, 2024. The LCGE will resume indexation to inflation in 2026.

### Canadian Entrepreneurs' Incentive

The budget proposes to introduce the Canadian Entrepreneurs' Incentive. This incentive would reduce the tax rate on capital gains on the disposition of qualifying shares by an eligible individual. Specifically, this incentive would provide for a capital gains inclusion rate that is 50% the prevailing inclusion rate (i.e., 33.33%), on up to $2 million in capital gains per individual over their lifetime. The lifetime limit would be phased in by increments of $200,000 per year, beginning on January 1, 2025, before ultimately reaching a value of $2 million by January 1, 2034.

Under the 66.67% capital gains inclusion rate proposed in the budget, this measure would result in an inclusion rate of 33.33% for qualifying dispositions. This measure would apply in addition to any available capital gains exemption.

A share of a corporation would be a qualifying share if certain conditions are met, including all the following conditions:

- At the time of sale, it was a share of the capital stock of a small business corporation (for the purposes of the Income Tax Act (ITA)) owned directly by the claimant.
- Throughout the 24-month period immediately before the disposition of the share, it was a share of a Canadian-Controlled Private Corporation (CCPC) and more than 50% of the fair market value (FMV) of the assets of the corporation were: (1) used principally in an active business carried on primarily in Canada by the CCPC, or by a related corporation, (2) certain shares or debts of connected corporations, or (3) a combination of these two types of assets.
- The claimant was a founding investor at the time the corporation was initially capitalized and held the share for a minimum of five years prior to disposition.
- At all times since the initial share subscription until the time that is immediately before the sale of the shares, the claimant directly owned shares amounting to more than 10% of the FMV of the issued and outstanding capital stock of the corporation and giving the individual more than 10% of the votes that could be cast at an annual meeting of the shareholders of the corporation.
- Throughout the five-year period immediately before the disposition of the share, the claimant must have been actively engaged on a regular, continuous and substantial basis in the activities of the business.
- The share does not represent a direct or indirect interest in a professional corporation, a corporation whose principal asset is the reputation or skill of one or more employees, or a corporation that carries on certain types of businesses (including a business operating in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment sector or providing consulting or personal care services).
- The share must have been obtained for FMV consideration.

This measure would apply to dispositions that occur on or after January 1, 2025.

### Further amendments to alternative minimum tax (AMT)

AMT is a parallel tax calculation that prevents high-income earners and certain trusts from paying little or no tax as a result of certain tax incentives, such as claiming certain tax deductions and credits. You pay the AMT or regular tax, whichever is highest. Further to the amendments announced in the 2023 budget, the government proposes changes, including:

- Allowing individuals to claim 80% (instead of the previously proposed 50%) of the charitable donation tax credit when calculating AMT.
- Allowing deductions for the Guaranteed Income Supplement (GIS), social assistance, and workers' compensation payments.
- Allowing individuals to fully claim the federal logging tax credit under the AMT.
- Exempting EOTs from the AMT. And,
- Allowing certain disallowed credits under the AMT to be eligible for the AMT carry-forward (i.e., the federal political contribution tax credit, investment tax credits, and labour-sponsored funds tax credit).

These amendments would apply to taxation years that begin on or after January 1, 2024 (i.e., the same day as the broader AMT amendments).

### Home buyers' plan (HBP)

The HBP helps eligible home buyers save for a downpayment by allowing them to withdraw up to $35,000 from a registered retirement savings plan (RRSP) to purchase or build their first home, or a home for a specified disabled individual, without having to pay tax on the withdrawal.

To provide eligible home buyers with greater access to their RRSPs, the budget proposes to increase the HBP withdrawal limit from $35,000 to $60,000. This increase would also apply to withdrawals made for the benefit of a disabled individual. Couples purchasing a home jointly may therefore be able to withdraw up to $120,000 from their RRSPs to purchase a first home. While this measure applies to the 2024 and subsequent calendar years in respect of withdrawals made after April 16, 2024, be sure to check with your financial institution whether the increase in the withdrawal limit will be implemented prior to this measure receiving royal assent.

Amounts withdrawn under the HBP must be repaid to an RRSP over a period not exceeding 15 years, starting the second year following the year in which a first withdrawal was made. The budget proposes to temporarily defer the start of the 15-year repayment period by an additional three years for participants making a first withdrawal between January 1, 2022, and December 31, 2025. Accordingly, the 15-year repayment period would start the fifth year following the year in which a first withdrawal was made. For a couple who withdrew the maximum in 2023, extending the grace period could allow them to defer annual repayments as large as $4,667 by an additional three years.

### Personal tax credit and deduction changes

- **Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit** – The government proposes to double this credit to $6,000. This would increase the maximum tax relief to $900. This enhancement would apply to the 2024 and subsequent taxation years.
- **Mineral Exploration Tax Credit** – The government proposes to extend eligibility for this credit for one year, to flow-through share agreements entered into on or before March 31, 2025.
- **Disability Supports Deduction** – This deduction allows individuals who have an impairment in physical or mental functions to deduct certain expenses that enable them to earn business or employment income or to attend school. The budget proposes to expand the list of expenses recognized under the Disability Supports Deduction, subject to the specified conditions. This measure would apply to the 2024 and subsequent taxation years.

### Qualified investments for registered plans

Registered plans can only invest in qualified investments, including mutual funds, publicly traded securities, government and corporate bonds, and guaranteed investment certificates. The qualified investment rules can be inconsistent or difficult to understand in some cases. As such, the budget invites stakeholders to provide suggestions on how the qualified investment rules could be modernized on a prospective basis to improve the clarity and coherence. Stakeholders are invited to submit comments to QI-consultation-PA@fin.gc.ca by July 15, 2024.

## Business tax measures

### Employee ownership trust (EOT) tax exemption

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

The budget provides further details on the capital gains exemption announced in the 2023 Fall Economic Statement available to business owners who sell their business to an EOT. The exemption, worth $10 million, will be available to individuals (other than trusts) on the sale of shares to an EOT if certain conditions are met. The total exemption that can be claimed for any qualifying business transfer to an EOT cannot exceed $10 million. Therefore, if multiple individuals dispose of the shares to an EOT as part of a qualifying business transfer, and each individual qualifies for the exemption, the individuals would be required to agree on how to allocate the exemption.

The exemption will no longer be available if a disqualifying event occurs within 36 months of sale. If the exemption was already claimed, it would be retroactively denied. Disqualifying events include the EOT losing its status as an EOT or if less than 50% of the FMV of the qualifying business' shares is attributable to assets used principally in an active business at the beginning of two consecutive taxation years of the corporation. If a disqualifying event occurs after 36 months following the sale, the EOT will be deemed to realize a capital gain equal to the total amount of exempt capital gains.

Capital gains exempted through this measure would be subject to an inclusion rate of 30% for the purposes of the AMT.

The budget proposes to expand qualifying business transfers to include the sale of shares to a worker cooperative corporation that meets the definition under the Canada Cooperatives Act. The government will release further details on the application of the exemption in a sale to a worker cooperative.

This measure would apply to qualifying dispositions of shares that occur between January 1, 2024, and December 31, 2026.

## Purpose-built rental housing

### Accelerated capital cost allowance (CCA)

The CCA system determines the deductions that a business may claim each year for income tax purposes in respect of the capital cost of its depreciable property. Currently, purpose-built rental buildings are eligible for a CCA rate of 4% under Class 1. The budget proposes a temporary accelerated CCA of 10% for new eligible purpose-built rental projects that begin construction on or after April 16, 2024, and are available for residents to move in before January 1, 2036. Accelerating CCA will increase after-tax returns on investments for builders, allowing them to recover more of their costs faster, enabling further investment of their money back into new housing projects.

Investments eligible for this measure would continue to benefit from the Accelerated Investment Incentive, which currently suspends the half-year rule, providing a CCA deduction at the full rate for eligible property put in use before 2028. After 2027, the half-year rule would apply, limiting the CCA allowance in the year an asset is acquired to half of the full CCA deduction.

### Interest deductibility limits

Budget 2021 announced an earnings stripping measure that limits the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income. Legislative proposals to implement these excessive interest and financing expenses limitation (EIFEL) rules are currently before Parliament in Bill C-59.

The EIFEL rules provide an exemption for interest and financing expenses incurred in respect of arm's length financing for certain public-private partnership infrastructure projects. The budget proposes expanding this exemption to also include an elective exemption for certain interest and financing expenses incurred before January 1, 2036, in respect of arm's length financing used to build or acquire eligible purpose-built rental housing in Canada.

This change would apply to taxation years that begin on or after October 1, 2023, which is consistent with the broader EIFEL amendments.

## Accelerated CCA for productivity-enhancing assets

Currently, assets included in Class 44 (patents or the rights to use patented information for a limited or unlimited period), Class 46 (data network infrastructure equipment and related systems software), and Class 50 (general-purpose electronic data-processing equipment and systems software) are prescribed CCA rates of 25%, 30% and 55%, respectively. The budget proposes to provide immediate expensing for new additions of property in respect of these three classes, if the property is acquired on or after April 16, 2024, and becomes available for use before January 1, 2027. The enhanced allowance would provide a 100% first-year deduction and would be available only for the year in which the property becomes available for use. When the taxation year is less than 12 months, the accelerated CCA that can be claimed must be prorated.

## Mutual fund corporations

The budget proposes amendments to the ITA to address situations where a corporate group is using a mutual fund corporation to benefit from the special rules available to these corporations in an unintended manner. This measure is meant to address specific cases, and not, for example, widely held corporate class mutual funds or other widely held pooled investment vehicles.

## Clean energy tax measures for businesses

- **Clean Electricity investment tax credit** – Budget 2023 announced the refundable Clean Electricity investment tax credit equal to 15% of the capital cost of eligible property, with some additional changes announced in the 2023 Fall Economic Statement. The budget provides the design and implementation details of the tax credit.

- **Polymetallic extraction and processing** – Budget 2023 proposed the Clean Technology Manufacturing investment tax credit, which would provide a refundable tax credit equal to 30% of the cost of investments in eligible property used all or substantially all for eligible activities. Recognizing that the production of qualifying materials may occur at polymetallic projects (i.e., projects engaged in the production of multiple metals), the government proposes adjustments to this credit to provide greater support and clarity to businesses engaged in these activities. These changes will apply for property that is acquired and becomes available for use on or after January 1, 2024.
- **Canada Carbon Rebate for small businesses** – In respect of the government's commitment to small and medium-sized businesses, the government proposes to return a portion of fuel charge proceeds from a province via the new Canada Carbon Rebate for small businesses, an automatic, refundable tax credit directly for eligible businesses, sized in proportion to the number of persons they employ in the province. The Minister of Finance will specify payment rates for the 2019–2020 to 2023–2024 fuel charge years once sufficient information is available from the 2023 taxation year.
- **Electric Vehicle Supply Chain investment tax credit** – The government intends to introduce a new 10% tax credit on the cost of buildings used in key segments of the electric vehicle supply chain, for businesses that invest in Canada across three supply chain segments: electric vehicle assembly, electric vehicle battery production and cathode active material production. This credit will apply to property that is acquired and becomes available for use on or after January 1, 2024. The credit would be reduced to 5% for 2033 and 2034, and it would no longer be in effect after 2034.

## Other measures

### Canada Pension Plan (CPP) enhancements

The budget announces that the federal government, in coordination with provincial partners, proposes to make technical amendments to the CPP legislation. These amendments would:

- Provide a top-up to the Death Benefit for certain contributors.
- Introduce a partial children's benefit for part-time students.
- Extend eligibility for the disabled contributors children's benefit when a parent reaches age 65. And,
- End eligibility for a survivor pension to people who are legally separated after a division of pensionable earnings.

### Canada Disability Benefit

The government has drafted new legislation, the Canada Disability Benefit Act (CDDA), which creates a new benefit directed to low-income working-age persons with disabilities. The intention is to bridge the gap in the federal social safety net between the Canada Child Benefit (CCB) and Old Age Security (OAS) and is intended to supplement existing provincial and territorial income support measures.

The government intends for the CDDA to come into force in June 2024 with payments beginning in July 2025. The proposed maximum benefit amount is $2,400 per year for low-income persons with a valid Disability Tax Credit certificate between the ages of 18 and 64. The government intends to consult with persons with disabilities on key elements of the benefit's design, including the maximum income threshold and phase-out rates.

### Canada Child Benefit (CCB)

The CCB is an income-tested benefit that is paid monthly and provides support for eligible families with children under the age of 18. A CCB recipient becomes ineligible for the CCB in respect of a child the month following the child's death. The budget proposes to amend the ITA to extend eligibility for the CCB in respect of a child for six months after the child's death (the "extended period"), if the individual would have otherwise been eligible for the CCB in respect of that particular child. A CCB recipient would still be required to notify the Canada Revenue Agency (CRA) of their child's death before the end of the month following the month of their child's death. The extended period would also apply to the Child Disability Benefit, which is paid with the CCB in respect of a child eligible for the Disability Tax Credit. This measure would be effective for deaths that occur after 2024.

### Avoidance of tax debts

The ITA includes anti-avoidance rules that make a transferee jointly and severely liable with the transferor for the transferor's tax debts in cases where property was transferred to avoid paying tax liabilities. Although there are existing rules to combat this type of planning, the budget proposes to deem certain transactions to have been completed for the purpose of tax debt avoidance. This deeming rule will apply in situations where property has been transferred from a tax debtor to a person and, as part of the same transaction or series, property has been received by a non-arm's length person.

The ITA imposes penalties for tax debt avoidance on those who engage in, participate in, assent to or acquiesce in planning activity that they know, or would reasonably be expected to know, is tax debt avoidance planning. The penalty is equal to the lesser of: (1) 50% of the tax that is avoided; and (2) $100,000 plus any amount the person, or a related person, is entitled to receive or obtain in respect of the planning activity.

Previously, the courts have held that a taxpayer who engages in tax debt avoidance planning is normally not jointly and severally liable for the portion of the tax debt that has effectively been retained by the planner as a fee. The budget proposes that taxpayers who participate in tax debt avoidance planning be jointly and severally liable for the full amount of the avoided tax debt including the fee paid to advisors for tax debt avoidance planning.

Similar amendments will be made to other comparable provisions in other federal statutes including Select Luxury Items Tax Act and Underused Housing Tax Act. These measures would apply to transactions or series of transactions that occur on or after April 16, 2024.

### Charities and qualified donees

The budget proposes to improve the operation of the rules related to registered charities and other qualified donees, including the following measures.

#### Foreign charities registered as qualified donees

The budget proposes to extend the period for which qualifying foreign charities are granted status as a qualified donee from 24 months to 36 months. This measure would apply to foreign charities registered after April 16, 2024.

#### Donation receipts

The budget proposes a number of changes to simplify the issuance of official donation receipts and to align the process for issuing receipts with modern practices of charities. For example, the budget proposes to remove the requirement that official donation receipts contain the place of issuance of the receipt; the name and address of the appraiser (if an appraisal of the donated property has been done); and the middle initial of the donor.

The budget also proposes to expressly permit charities to issue official donation receipts electronically, provided they contain all required information, they are issued in a secure and non-editable format, and the charity maintains an electronic copy of the receipts.

The measures relating to modernizing service and donation receipts would apply upon royal assent.

### Non-compliance with information requests

The budget proposes several amendments to the information gathering provisions of the ITA with the intention of enhancing the efficiency and effectiveness of tax audits and to facilitate the collection of tax revenues on a timelier basis.

The budget proposes to allow the CRA to issue a new notice, the "notice of non-compliance," to a taxpayer who has not complied with a requirement or notice to provide assistance or information issued by the CRA. Where a notice of non-compliance has been issued, the normal reassessment period for any taxation year of the taxpayer to which the notice relates would be extended by the period of time the notice is outstanding. A penalty will be imposed on the taxpayer of $50 each day the notice is outstanding, to a maximum of $25,000.

The budget proposes to allow the CRA to include a requirement or notice that any required information or documents be provided under oath.

The budget proposes to impose a penalty when the CRA obtains a compliance order against a taxpayer and to allow the CRA to seek a compliance order when a person has failed to comply with a requirement to provide foreign-based information or documents. The proposed penalty would be equal to 10% of the aggregate tax payable by the taxpayer in respect of the taxation year or years to which the compliance order relates, and will only be applied if the tax owing in respect of one of the taxation years to which the compliance order relates exceeds $50,000.

The budget proposes to expand the applications of the rules that extend the reassessment period (also known as "stop the clock" rules) to cases where a taxpayer, or a person who does not deal at arm's length with the taxpayer, seeks judicial review of any requirement or notice issued to the taxpayer by the CRA in relation to the audit and enforcement process or during a period of an outstanding notice of non-compliance.

These proposed changes would apply to all statutes administered by the CRA. These amendments would come into force on royal assent of the enacting legislation.

## Previously announced tax measures

The budget confirms the government's intention to proceed with a number of previously announced legislative proposals, including (not an exhaustive list):

- Underused Housing Tax
- Strengthening the Intergenerational Business Transfer Framework
- Modernizing the General Anti-Avoidance Rule (GAAR)
- Substantive CCPCs

*Prior to implementing any strategies, individuals should consult with a qualified tax advisor, legal professional or other applicable professional.*

While it has been the long-standing practice of the CRA to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that the CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a qualified tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.