Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Tax and support measures announced in the 2020 Fall Economic Statement

Please contact us for more information about the topics discussed in this article.

The federal government tabled a Fall Economic Statement on November 30, 2020. Although there were a handful of tax measures announced, what is perhaps more notable is the absence of tax measures that have been speculated in recent weeks and months. There were no changes announced to federal personal or corporate income tax rates, the capital gains inclusion rate or the principal residence exemption. Further, there were no new announcements to create a new "wealth tax" as proposed by the NDP in their 2019 election campaign platform. It's expected the federal government will release a full federal budget in Spring 2021.

The following is a summary of the tax related measures announced in the 2020 Fall Economic Statement, followed by a summary of government support measures.

Tax related measures

Simplifying the home office deduction

Employees who either regularly work from home or who unexpectedly started working from home due to the COVID-19 pandemic may be able to deduct certain home office expenses on their personal income tax return. The rules around the deduction are complex and they generally require that the Canada Revenue Agency (CRA) Form T2200, Declaration of Conditions of Employment, be completed and signed by your employer.

To simplify the tax filing process for both employees and employers, the CRA will allow employees working from home in 2020 due to COVID-19 to claim up to $400 of home office expenses using a simplified flat rate, based on the amount of time working from home. The CRA will generally not require employees to track detailed expenses or provide a signed T2200 from their employers. The CRA will provide further details in the coming weeks.

Limiting the employee stock option deduction

Employee stock options provide employees with the right to acquire shares of their employer at a designated price. The difference between the fair market value of the shares when the options are exercised and the amount that is paid for the shares is considered to be a stock option benefit that is taxable as employment income. In certain circumstances, you may be able to claim a stock option deduction, equal to 50% of your stock option benefit. In the 2019 federal budget, the government announced its intention to limit the benefit of the employee stock option deduction for individuals employed at large, mature firms. This includes applying a $200,000 annual limit on employee stock option grants that can qualify for the stock option benefit. The new tax rules would apply to employee stock options granted after June 2021.

For more details regarding the proposed changes, please ask your RBC advisor for a copy of the article titled, "Liberal government launches consultations on employee stock options".

Sales tax changes for the digital economy

The government proposes the application of GST/HST to certain e-commerce supplies. Currently, non-resident persons that are not carrying on a business in Canada do not need to register and remit GST/HST. This can create a loss in Canadian tax revenue relating to online purchases and transactions from non-resident vendors. To remedy this, the government proposes to make changes in the following categories:

- Cross-border digital service and product vendors providing digital services and products to consumers in Canada;
- Purchases made by HST/GST registered businesses from non-resident vendors;
- Goods supplied through fulfillment warehouse vendors to Canadian purchasers; and
- Supplies of short-term accommodation (generally rentals of less than one month) in Canada booked through an online platform or a property owner.

Impacted non-resident vendors may be required to register for GST/HST and collect and remit these taxes to the CRA. This proposal would apply on or after July 1, 2021. As GST/HST is a complex area of taxation, a qualified tax specialist should be consulted to understand where these measures may apply.

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Announcing future areas of focus to improve fairness and strengthen compliance

- **Modernizing Anti-Avoidance Rules** – The government will launch consultations in the coming months on the modernization of Canada's anti-avoidance rules, in particular the General Anti-Avoidance Rule (GAAR), in order for tax authorities and courts to address sophisticated and aggressive tax planning.
- **Taxing Unproductive Use of Canadian Housing by Foreign Non-resident Owners** – To help make the housing market more secure and affordable for Canadians, the government will implement, over the coming year, a national, tax-based measure targeting the unproductive use of domestic housing that is owned by non-resident, non-Canadians.

Government support measures

Increasing the Canada Emergency Wage Subsidy

The Canada Emergency Wage Subsidy (CEWS) for active employees includes a base subsidy for all employers that have experienced a decline in revenues, as well as a top-up wage subsidy available to employers most adversely impacted by the pandemic. The maximum combined base subsidy and top-up wage subsidy rate is set at 65% for the current qualifying period, which ends on December 19, 2020.

The Government proposes to increase the maximum wage subsidy to 75% for the eleventh to thirteenth qualifying periods, which run from December 20, 2020 to January 16, 2021, from January 17, 2021 to February 13, 2021 and from February 14, 2021 to March 13, 2021, respectively. The maximum base subsidy would remain at 40% and the maximum top-up wage subsidy rate would increase to 35% from 25% for a total of 75%.

A separate wage subsidy rate structure applies for furloughed employees. The Government proposes that the weekly wage subsidy for a furloughed employee from December 20, 2020 to March 13, 2021 be based on a revised formula.

Extending the Canada Emergency Rent Subsidy

The government is proposing to extend the current subsidy rates of the Canada Emergency Rent Subsidy (CERS). This means a base subsidy rate of up to 65% will be available on eligible expenses until March 13, 2021 (currently December 19, 2020). Under the previously announced Lockdown Support program, organizations that are subject to a lockdown and must shut their doors or significantly restrict their activities under a public health order are eligible for an additional 25% top-up, in addition to the CERS base. The government is proposing to extend the rate of 25% for the Lockdown Support until March 13, 2021 (currently December 19, 2020). Details for the rent subsidy and lockdown support for any period beyond March 13, 2021 will be proposed at a later date.

Enhancing the Canada Child Benefit

The government has proposed a temporary support increase to the Canada Child Benefit (CCB) for families with children under age 6. Families earning up to $120,000 can get up to 4 tax-free payments of $300 per child. Families earning over $120,000 and receiving CCB can get up to 4 tax-free payments of $150 per child. The first payment will be made shortly after the time the legislation is passed and subsequent payments will be made in April, July and October 2021, provided the child is under age 6 at the beginning of the month of the payment.

New Highly Affected Sectors Credit Availability Program

The government proposes to work with financial institutions in the near term to create a Highly Affected Sectors Credit Availability Program (HASCAP). This new program will offer loans on more generous terms to the hardest hit sectors such as tourism and hospitality, hotels, arts and entertainment, to help ensure they remain viable and able to drive future economic growth. This program will offer 100% government-guaranteed financing and provide low-interest loans of up to $1 million over extended terms, up to ten years. Rates will be lower than those offered in Business Credit Availability Program and beneath typical market rates. The government will provide details on the HASCAP soon.

Expanding the First-Time Home Buyer Incentive

The government is proposing to expand the First-Time Home Buyer Incentive to enhance eligibility in the higher priced markets of Toronto, Vancouver and Victoria. This will help to make home ownership more affordable for Canadians who are buying their first home in these cities. The expansion will be available to eligible buyers to purchase a home up to 4.5 times their household income, an increase from the current limit of 4 times household income. Additionally, the eligible buyer's income threshold is being raised from $120,000 to $150,000 for Toronto, Vancouver and Victoria. These changes will come into effect in Spring 2021. With a minimum down payment, this targeted expansion will raise the maximum house price for eligible first-time home buyers in these cities from about $505,000 – the current program parameters – to about $722,000.

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Interest payment relief for students with Canada Student and Apprentice Loans

The government proposes to ease the burden of student debt by eliminating interest on repayment of the federal portion of Canada Student Loans and Canada Apprentice Loans for 2021-22.

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 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 proposed change is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that 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 proposed changes as they relate to you.