Wealth Management

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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

2021 Economic and Fiscal Update – December 14, 2021

A summary of tax and support measures announced by the federal government

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

Deputy Prime Minister and Minister of Finance Chrystia Freeland released an Economic and Fiscal update on December 14, 2021. The update focuses on finishing the fight against COVID-19 with strong public health policy and extending economic supports. The government notably did not introduce any significant new tax measures. Rather, they provided an update on several of their Budget 2021 measures and promised to address others in their upcoming spring 2022 budget.

The following is a summary of some of the tax and support measures announced in this Economic and Fiscal Update.

SUPPORT MEASURES

COVID-19 financial support measures for individuals

The government is continuing to provide financial support to Canadians impacted by COVID-19. The government has introduced legislation to:

- Extend the Canada Recovery Caregiving Benefit (CRCB) and the Canada Recovery Sickness Benefit (CRSB) until May 7, 2022 and increase the maximum duration of the benefits by two weeks.
- Create a new Canada Worker Lockdown Benefit that will provide income support at a rate of $300 per week to workers who are unable to work as a result of a specific government-imposed public health lockdown. This benefit would be available until May 7, 2022 with a retroactive application to October 24, 2021.

The government is also proposing to:

- Provide up to $742.4 million for one-time payments to alleviate the financial hardship of Guaranteed Income Supplement (GIS) and Allowance recipients who received Canada Emergency Response Benefit (CERB) or the Canada Recovery Benefit (CRB) payments in 2020.
- Provide debt relief to students who incorrectly received CERB but

were eligible for the Canada Emergency Student Benefit (CESB) by allowing their CERB-related debt to be offset by the amount they would have received from CESB during the same benefit period.

- Extend the simplified rules for deducting home office expenses and increase the temporary flat rate to $500 annually for the 2021 and 2022 tax years.

COVID-19 financial support measures for businesses

Extending credit support for businesses

- The Highly Affected Sectors Credit Availability Program (HASCAP) has been providing government-guaranteed, low-interest loans of up to $1 million to organizations that have seen significant revenue losses as a result of the pandemic.
- The government is extending the HASCAP to March 31, 2022. This program was set to expire on December 31, 2021.

Extending the Canada Recovery Hiring Program

- In Budget 2021, the government created the Canada Recovery Hiring Program (CRHP) to support the creation of jobs. On November 24, 2021, the government introduced legislation to extend the CRHP until May 7, 2022, for eligible employers with current revenue losses above 10%, and to increase the subsidy rate to 50%.

Targeting supports for businesses affected by the pandemic

- The government has introduced legislation to adapt pandemic support programs and target them to organizations that have been deeply affected by the pandemic, including tourism and hospitality businesses, hard-hit businesses in all sectors and businesses facing pandemic lockdowns. These programs would be available until May 7, 2022, with the proposed subsidy rates available until March 12, 2022. From March 13 to May 7, 2022, the support would decrease by half.

Paid sick leave for workers

Following the proposed amendments to the *Canada Labour Code* to require 10 days of paid sick leave per year for federally regulated private sector employees, the government has announced a consultation with federally regulated employers and employees on the implementation of the proposed legislation. The government further intends to convene provinces, territories, and other interested stakeholders to develop a national plan to legislate paid sick leave for employees across the country, while respecting provincial-territorial jurisdiction and recognizing the needs of small business owners.

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Early learning and childcare

The government provided an update on proposed measures introduced in Budget 2021 to build a Canada-wide, community based early learning and child care system. This includes a plan to provide $10-a-day regulated child care spaces for children under six years old. To date there are agreements in place with most Canadian provinces and territories with the exception of Ontario, New Brunswick, Northwest Territories and Nunavut.

PERSONAL TAX CHANGES

Enhanced support for teachers

Currently, teachers can claim a 15 percent refundable tax credit on eligible supplies, up to $1,000, purchased for use in a school or regulated child care facility. The government proposes to:

- Expand the list of eligible supplies to include certain electronic devices;
- Increase the credit to 25 percent; and
- Broaden the locations where teaching supplies can be used by removing the requirement that teaching supplies must be used in a school or regulated child care facility.

These changes would apply to 2021 and subsequent taxation years.

BUSINESS TAX CHANGES

Digital services tax

The government is committed to ensuring that corporations in all sectors, including digital corporations, pay their fair share of tax on the money they earn by doing business in Canada. Budget 2021 proposed to implement a digital services tax (DST). The DST would apply at a rate of 3% on revenue earned by large businesses from certain digital services that rely on data and content contributions from Canadian users.

Since that time, the government has been working with its international partners to bring a multilateral plan for international tax reform into effect. To ensure that Canadians' interests are protected in the meantime, on October 8, 2021, the government announced that it would move ahead with legislation to enact the DST. The DST would be imposed as of January 1, 2024 but only if the treaty implementing the new multilateral tax regime has not come into force by that time. In that event, the DST would be payable as of 2024 in respect of revenues earned as of January 1, 2022. The government hopes the timely implementation of the new international system will make this unnecessary.

Tax incentive for carbon capture, utilization, and storage

The government proposed in Budget 2021 an investment tax credit for capital invested in carbon capture, utilization, and storage (CCUS) projects with the goal of substantially reducing emissions. This new investment tax credit would be available for a broad range of CCUS applications across different industrial subsectors. The government has engaged in consultations with various stakeholders to provide input on the design of the investment tax credit for CCUS and will outline the final design of the proposed investment tax credit in the 2022 budget.

Small businesses air quality improvement tax credit

The government intends to encourage small businesses to invest in better ventilation and air filtration by proposing to introduce a refundable tax credit. This credit will be available to eligible entities in respect of qualifying expenses attributable to air quality improvements in qualifying locations incurred between September 1, 2021 and December 31, 2022.

- The tax credit will be refundable at a rate of 25% on eligible qualifying expenses. Eligible entities can claim up to $10,000 in qualifying expenses per qualifying location up to a maximum of $50,000 across qualifying locations. These credits have to be shared among affiliated businesses. The credit amounts will be included in the taxable income of the business in the year the credit is claimed.

- An eligible entity includes unincorporated sole proprietors and Canadian-controlled private corporations with taxable capital employed in Canada of less than $15 million in the tax year immediately preceding the taxation year in which the qualifying expense occurs. The tax credit may also be available to qualifying members of a partnership where qualified expenses are incurred by the partnership.

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- Qualifying expenses include those which are directly attributable to the purchase, installation, upgrade or conversion of mechanical heating, ventilation and air conditioning (HVAC) systems, as well as devices designed to filter air using high efficiency particulate air (HEPA) filters, where certain criteria are met.

- Qualifying locations include properties used by an eligible entity primarily in the course of its ordinary commercial activities in Canada (including rental activities), excluding self-contained domestic establishments.

Returning fuel charge proceeds directly to farming businesses

Similar to Climate Action Incentive payments that are made directly to the provinces that don't meet federal requirements (currently, Ontario, Manitoba, Saskatchewan and Alberta), the government is proposing to return fuel charge proceeds directly to farming businesses in these jurisdictions via a refundable tax credit, starting for the 2021-2022 fuel charge year. This is to recognize that many farmers use natural gas and propane in their operations.

The return of fuel charge proceeds would be available to corporations, individuals and trusts that are actively engaged in either the management or day-to-day activities of earning income from farming and incur total farming expenses of $25,000 or more, all or a portion of which are attributable to the earlier mentioned jurisdictions. This would include where they carry on business through a partnership.

The credit amount is determined by multiplying a payment rate that is specified every year to the eligible farming expenses. Those eligible can claim this refundable tax credit through their tax returns that include the 2021 and 2022 calendar years.

OTHER MEASURES

Luxury tax

Budget 2021 proposed to introduce a tax on the sales, for personal use, of luxury cars and personal aircraft with a retail sales price over $100,000, and boats, for personal use, over $250,000. The tax would be calculated at the lesser of 20% of the value above the threshold ($100,000 for cars and personal aircraft, $250,000 for boats) or 10% of the full value of the luxury car, boat, or personal aircraft. The Department of Finance has undertaken consultations with respect to the design of this measure and is working to incorporate the results of this consultation into the proposed tax framework. Draft legislation, including details on coming-into-force, will be released in early 2022.

Underused housing tax

Budget 2021 announced the government's intention to implement a national, annual 1% tax on the value of non-resident, non-Canadian owned residential real estate in Canada that is considered to be vacant or underused (the "Underused Housing Tax"). Certain exemptions apply.

It is proposed that the tax be effective for the 2022 calendar year. The initial Underused Housing Tax returns, for the 2022 calendar year, will be required to be filed with the Canada Revenue Agency (CRA) on or before April 30, 2023 and any tax payable would be required to be remitted on or before that date.

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 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 professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific proposals as they relate to you.

Wealth Management

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