ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

# 2020 FALL ECONOMIC UPDATE SUMMARY – CANADA

November 30, 2020

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## INTRODUCTION

On November 30, 2020, Deputy Prime Minister and Federal Minister of Finance, Chrystia Freeland, presented the Fall 2020 Economic Update. This update proposes new measures aimed at achieving a fair tax system and specifies the terms associated with the emergency business support. In addition, the government is proposing to simplify the deduction of home office expenses and provide temporary support to families with young children.

Here are the highlights of the update.

## INCOME TAX MEASURES

### Immediate Support for Families with Young Children

The Government proposes to amend the *Income Tax Act* to provide, in 2021, four payments of:

> $300 per child under the age of six to families entitled to the CCB with family net income equal to or less than $120,000, and
> $150 per child under the age of six to families entitled to the CCB with family net income above $120,000.

The first of these amounts would be payable after the enabling legislation is passed, with subsequent amounts payable in the first month of each remaining quarter (i.e., at the end of April, July and October 2021). These amounts would be payable to the individual who receives a CCB amount for a particular month, i.e., the primary caregiver of the child.

For the amounts that would be payable in the first quarter of 2021 and April, a family's adjusted net income is based on the family's net income in 2019. For the months of July and October, a family's adjusted net income is based on the family's net income in 2020.

An amount would be payable in respect of a child for January, April, July or October if the child is under the age of six at the beginning of that month.

#### Retroactive Payments

Currently, an individual can apply to receive retroactive payments of the CCB in respect of a month on or before the day that is 10 years after the beginning of that month. In order to qualify for the additional quarterly amounts, however, an individual must be determined to be entitled to the CCB by the end of 2023.

### Simplifying the Home Office Expense Deduction

To simplify the process for both taxpayers and businesses, the CRA will allow employees working from home in 2020 due to COVID-19 with modest expenses to claim up to $400, based on the amount of time working from home, without the need to track detailed expenses, and will generally not request that people provide a signed form from their employers. This measure will help taxpayers access deductions they are entitled to receive and simplify the tax filing process.

Further detail will be communicated by the CRA in the coming weeks.

### Registered Disability Savings Plan – Cessation of Eligibility for the Disability Tax Credit

Budget 2019 proposed changes to the Registered Disability Savings Plan (RDSP) regime for beneficiaries with episodic disabilities. These proposed changes include removing the time limitation on the period for which an RDSP may remain open after a beneficiary becomes ineligible for the disability tax credit (DTC) and further, modifying repayment obligations. Budget 2019 proposed that these changes would apply as of January 1, 2021. It also proposed that until the coming-into-force date of the measure, RDSP issuers would not be required to close an RDSP solely because the beneficiary is no longer eligible for the DTC.

The Government proposes to maintain the implementation timeline for this measure. Any excess repayments of Canada Disability Savings Grants and Canada Disability Savings Bonds in respect of withdrawals made after 2020 and before the measure is enacted would be returned to a beneficiary's RDSP following enactment.

#### Modification to Improve Fairness

To ensure more equitable treatment, the Government proposes an additional modification to the formula put forward in Budget 2019 for determining the amount of grants and bonds held back from a withdrawal.

### Employee Stock Options

Budget 2019 announced the government's intention to move forward with changes to limit the benefit of the employee stock option deduction for high-income individuals employed at large, long-established, mature firms.

The government is proposing to introduce a $200,000 annual limit which will apply to employee stock option grants that can qualify for the employee stock option deduction. This limit will be based on the fair market value of the shares underlying the options, at the time the options are granted.

### New Tax Rules

#### Employee Tax Treatment

Where an employee exercises an employee stock option that is in excess of the $200,000 limit, the difference between the fair market value of the share at the time the option is exercised and the amount paid by the employee to acquire the share would be treated as a taxable employment benefit. The full amount of the employment benefit would be included in the income of the employee for the year the option is exercised, consistent with the treatment of other forms of employment income. The employee would not be entitled to the stock option deduction in respect of this employment benefit.

#### Charitable Donations

If an employee donates a publicly listed share acquired under a stock option that is in excess of the $200,000 limit, the employee could be eligible for the charitable donation tax credit but would not be eligible for any deduction on any associated employee stock option benefit. Any capital gain that has accrued since the share was acquired under the stock option agreement would continue to be eligible for the full exemption from capital gains tax, subject to the existing rules.

#### Employer Tax Treatment

For employee stock options in excess of the $200,000 limit, the employer would be entitled to an income tax deduction in respect of the stock option benefit included in the employee's income. The deduction may be claimed in the taxation year of the employer that includes the day on which the employee exercised the stock option.

Employers subject to the new rules would be able to choose whether to grant employee stock options under the existing tax treatment, up to the $200,000 limit per employee, or whether to grant employee stock options under the new tax treatment (i.e., ineligible for the employee stock option deduction, and instead eligible for a deduction for corporate income tax purposes).

### Employers Subject to the New Tax Rules

Employee stock options granted by Canadian-controlled private corporations (CCPCs) will not be subject to the new limit. This responds to the government's previously stated objective that start-ups will not be impacted by this change.

In recognition of the fact that some non-CCPCs could be start-ups, emerging or scale-up companies, non-CCPC employers with annual gross revenues of $500 million or less will also not be subject to the new limit.

### Coming into Force

The new tax rules would apply to employee stock options granted after June 2021. The existing rules would continue to apply to options granted before July 2021 (including qualifying options granted after June 2021 that replace options granted before July 2021).

## Agricultural Cooperatives: Patronage Dividends Paid in Shares

Budget 2015 extended the tax deferral that applies to patronage dividends paid by an eligible agricultural cooperative to its members in the form of eligible shares issued before 2021.

Absent this deferral, a patronage dividend paid in shares would be taxable to the member in the year received. The cooperative paying the dividend would also be required to withhold an amount from the dividend and remit it to the Canada Revenue Agency on account of the recipient's tax liability. Prior to the introduction of the deferral, a portion of the dividend was typically paid in cash in order to fund the member's tax liability. This cash portion could represent a significant outlay of capital for the agricultural cooperative.

The Government proposes to extend this measure to apply in respect of eligible shares issued before 2026.

## Emergency Business Supports

### Canada Emergency Wage Subsidy Extension

#### Support for active employees

The wage subsidy 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 per cent for the current qualifying period, which ends on December 19, 2020.

The Government proposes to increase the maximum wage subsidy to 75 per cent 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 per cent and the maximum top-up wage subsidy rate would increase to 35 per cent, as set out in Table 1.

**Table 1**

**Canada Emergency Wage Subsidy Rate Structure, Periods 11 to 13 (December 20, 2020 to March 13, 2021)**

| Revenue decline | Base subsidy | Top-up wage subsidy |
|---|---|---|
| **70% and over** | 40% | 35% |
| **50 to 69%** | 40% | (Revenue decline - 50%) x 1.75 |
| **1 to 49%** | Revenue decline x 0.8 | 0% |

### Support for furloughed employees

A separate wage subsidy rate structure applies for furloughed employees. To ensure that the wage subsidy for furloughed employees remains aligned with benefits available under EI, the Government proposes that the weekly wage subsidy for a furloughed employee from December 20, 2020 to March 13, 2021 be the lesser of:

> the amount of eligible remuneration paid in respect of the week; and
> the greater of:
  - $500, and
  - 55 per cent of pre-crisis remuneration for the employee, up to a maximum subsidy amount of $595.

Employers will also continue to be entitled to claim under the wage subsidy their portion of contributions in respect of the Canada Pension Plan, EI, the Quebec Pension Plan and the Quebec Parental Insurance Plan in respect of furloughed employees.

### Reference periods

For the purposes of the wage subsidy (and the rent subsidy, as discussed below), an employer’s decline in revenues is generally determined by comparing the change in the employer's monthly revenues, year-over-year. An employer may also elect to use an alternative approach, which compares the change in the employer's monthly revenues relative to the average of its January 2020 and February 2020 revenues. A deeming rule provides that an employer’s decline in revenues for any particular qualifying period is the greater of its decline in revenues for the particular qualifying period and the immediately preceding qualifying period.

Table 2 in appendix outlines the proposed reference periods for determining an eligible employer’s decline in revenues from December 20, 2020 to March 13, 2021.

Employers that had chosen to use the general approach for prior periods would continue to use that approach. Similarly, employers that had chosen to use the alternative approach would continue to use the alternative approach.

All the other parameters of the program would remain unchanged. Details for the wage subsidy for any periods beyond March 13, 2021 will be proposed at a later date.

## Canada Emergency Rent Subsidy Extension

### Rate structure

The Government proposes to extend, until March 13, 2021, the current rate structure for the base rent subsidy (which applies until December 19, 2020), as shown in Table 3.

**Table 3**

**Canada Emergency Rent Subsidy Rate Structure, Periods 11* to 13 (December 20, 2020 to March 13, 2021)**

| Revenue decline | Base subsidy |
|---|---|
| **70% and more** | 65% |
| **50 to 69%** | 40% + (Revenue decline - 50%) x 1.25 |
| **1 to 49%** | Revenue decline x 0.8 |

* Period 11 of the Canada Emergency Wage Subsidy is the fourth period of the Canada Emergency Rent Subsidy. Period identifiers have been aligned for simplicity.

#### Revenue decline calculation

Both the rent subsidy and the wage subsidy use the same calculation to determine an organization's revenue decline. As a result, the same reference periods are used to calculate an organization's decline in revenues for the wage subsidy and the rent subsidy.

Details for the rent subsidy for any period beyond March 13, 2021 will be proposed at a later date.

#### Lockdown Support Extension

For locations that must cease operations or significantly limit their activities under a public health order, the Government introduced the Lockdown Support through the Canada Emergency Rent Subsidy program to provide additional help. In order to qualify for the Lockdown Support, an applicant must qualify for the base rent subsidy.

The Government proposes to extend, until March 13, 2021, the current 25-per-cent rate for the Lockdown Support.

Details for the Lockdown Support for any period beyond March 13, 2021 will be proposed at a later date.

### Digital services tax

The government proposes to implement a tax on corporations providing digital services, with effect from January 1, 2022, which would apply until such time as an acceptable common approach (OECD) comes into effect.

Further details will be announced in Budget 2021.

## SALES TAX MEASURES

### GST/HST Relief on Face Masks and Face Shields

In order to support public health during the COVID-19 pandemic, the Government proposes to temporarily relieve (i.e., zero rate) supplies of certain face masks and face shields from the Goods and Services Tax/Harmonized Sales Tax (GST/HST).

The zero-rating of the GST/HST would apply to face masks (medical and non-medical) and face shields designed for human use that meet certain specifications.

This measure would apply to supplies of these items made after December 6, 2020. It is also proposed that this measure only be in effect until their use is no longer broadly recommended by public health officials for the COVID-19 pandemic.

### Application of the GST/HST in Relation to the Digital Economy

#### GST/HST on Cross-Border Digital Products and Cross-Border Services

The Government proposes that non-resident vendors supplying digital products or services (including traditional services) to consumers in Canada be required to register for the GST/HST and to collect and remit the tax to the CRA on their taxable supplies to Canadian consumers.

It is also proposed that distribution platform operators be generally required to register for the GST/HST and to collect and remit the tax on the supplies that these platforms facilitate of digital products or services of non-resident vendors to Canadians.

To facilitate compliance with these requirements a simplified GST/HST registration and remittance framework would be available to non-resident vendors and non-resident distribution platform operators that are not carrying on business in Canada (e.g., have no permanent establishment in Canada).

The proposed new simplified system would include the following key features.

- Simplified online registration and remittances
- Business-to-consumer supplies **only**
- General rule – tax based on consumer's residence (subject to exceptions)
- No input tax credits:
- $30,000 registration threshold:

#### Purchases by GST/HST Registered Businesses

A GST/HST registered business will continue to be required to self-assess and remit the GST/HST on its purchases of digital products and services from non-resident vendors and non-resident distribution platform operators, unless the purchase is for use exclusively in the business's commercial activities.

To help protect the integrity of the proposed simplified GST/HST framework, a penalty would apply if a person provides a GST/HST registration number to a non-resident vendor or non-resident distribution platform operator to evade, or attempt to evade, tax on the purchase of digital products or services acquired for personal consumption.

Where a GST/HST registered business provides its GST/HST registration number and is nevertheless charged the GST/HST, the business would be able to request a refund from the non-resident vendor or non-resident distribution platform operator. Any GST/HST paid by the registered business in such cases would not be recoverable by claiming an input tax credit or by filing a tax paid in error claim.

## GST/HST on Goods Supplied through Fulfillment Warehouses

The Government proposes to:

> require distribution platform operators to register under the normal GST/HST rules and to collect and remit the GST/HST in respect of sales of goods that are located in fulfillment warehouses in Canada (or shipped from a place in Canada to a purchaser in Canada), when those sales are made by non-registered vendors through distribution platforms;

> require non-resident vendors to register under the normal GST/HST rules and to collect and remit the GST/HST in respect of sales of goods that are located in fulfillment warehouses in Canada (or shipped from a place in Canada to a purchaser in Canada), when those sales are made by the non-resident vendors on their own (i.e., they are not made through a distribution platform); and

> require fulfillment businesses in Canada to notify the CRA that they are carrying on a fulfillment business and to maintain records regarding their non-resident clients and the goods they store on behalf of their non-resident clients.

## GST/HST on Platform-based Short-Term Accommodation

The Government proposes to apply the GST/HST on all supplies of short-term accommodation in Canada facilitated through a digital platform (hereinafter referred to as an "accommodation platform"). Under the proposal, the GST/HST would be required to be collected and remitted on short-term accommodations supplied in Canada through an accommodation platform by either the property owner or the accommodation platform operator as follows:

> The property owner (or person responsible for providing the accommodation – responsible person), where the owner (or responsible person) is registered for the GST/HST.

> The accommodation platform operator, where the property owner (or responsible person) is not registered for the GST/HST. In these circumstances, the accommodation platform operator would be deemed to be the supplier of the short-term accommodation.

### Purchases by GST/HST Registered Businesses

A GST/HST registered business will continue to be required to self-assess and remit the GST/HST on its purchases of short-term accommodation facilitated by a non-resident accommodation platform operator that is registered under the simplified GST/HST registration/remittance system, unless the purchase is for use exclusively in the business's commercial activities.

A penalty would apply if a person provides a GST/HST registration number to a non-resident accommodation platform operator to evade, or attempt to evade, tax on the purchase of short-term accommodation in Canada acquired for personal consumption.

Where a GST/HST registered business provides its GST/HST registration number to such a non-resident accommodation platform operator and is nevertheless charged the GST/HST on the supply of short-term accommodation, the business would be able to request a refund of the tax from the non-resident accommodation platform operator. Any GST/HST paid by the registered business in such cases would not be recoverable by claiming an input tax credit or by filing a tax paid in error claim.

### Coming into Force of these Changes

These changes are proposed to be effective July 1, 2021, which will provide time for the government to consult stakeholders on the proposed changes and for stakeholders to comply with these proposals.

## OTHER MEASURES

### Home Energy Retrofits

The government proposes grants of up to $5,000 to help homeowners make energy-efficient improvements to their homes,

Additional information on home energy efficiency grants will be provided in a future announcement, and eligibility for these grants will be retroactive to December 1, 2020.

### Strengthening Tax Compliance

The government proposes to allow the CRA to fund new initiatives and extend existing programs targeting international tax evasion and aggressive tax avoidance. Specifically, the CRA will hire additional offshore-focused auditors to focus on individuals who avoid taxes by hiding income and assets offshore, enhance the audit function targeting higher-risk tax filings, including those of high-net worth individuals, and strengthen its ability to fight tax crimes such as money laundering and terrorist financing by upgrading tools and increasing international cooperation.

### Modernizing Anti-Avoidance Rules

The government will launch consultations on the modernization of Canada’s anti-avoidance rules, in particular the General Anti-Avoidance Rule.

## APPENDIX

### Table 2

**Canada Emergency Wage Subsidy Reference Periods, Periods 11 to 13 (December 20, 2020 to March 13, 2021)**

| Timing | Period 11<br>December 20, 2020 – January 16, 2021 | Period 12<br>January 17, 2021 – February 13, 2021 | Period 13<br>February 14, 2021 – March 13, 2021 |
|---|---|---|---|
| General approach | December 2020 over December 2019 **or** November 2020 over November 2019 | January 2021 over January 2020 **or** December 2020 over December 2019 | February 2021 over February 2020 **or** January 2021 over January 2020 |
| Alternative approach | December 2020 **or** November 2020 over average of January and February 2020 | January 2021 **or** December 2020 over average of January and February 2020 | February 2021 **or** January 2021 over average of January and February 2020 |

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