ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

2021 FEDERAL BUDGET SUMMARY

April 19, 2021

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INTRODUCTION

On April 19, 2021, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented Budget 2021: *A Recovery Plan for Jobs, Growth, and Resilience*.

The budget proposes to extend business and income support measures through to the fall and provides for investments to create jobs. It also aims to fight climate change and support small and medium-sized businesses through several transformative programs.

Here are the highlights of the 2021 budget.

PERSONAL INCOME TAX MEASURES

Increasing Old Age Security for Canadians 75 and Over

The budget proposes to meet provide a one-time payment of $500 in August 2021 to Old Age Security (OAS) pensioners who will be 75 or over as of June 2022.

The budget then proposes to introduce legislation to increase regular OAS payments for pensioners 75 and over by 10% on an ongoing basis as of July 2022. This would provide additional benefits of $766 to full pensioners in the first year and indexed to inflation going forward.

Disability Tax Credit

To be eligible for the Disability Tax Credit (DTC), an individual must have a certificate confirming that they have a severe and prolonged impairment in physical or mental functions.

Mental Functions Necessary for Everyday Life

To ensure that the eligibility criteria for the DTC better articulate the range of mental functions necessary for everyday life, the budget proposes that, for the purposes of the DTC, mental functions necessary for everyday life include:

> attention;
> concentration;
> memory;
> judgement;
> perception of reality;
> problem-solving;
> goal-setting;
> regulation of behaviour and emotions;
> verbal and non-verbal comprehension; and
> adaptive functioning.

Life-Sustaining Therapy

To better recognize the aspects of therapy for the purposes of calculating time spent on therapy, the budget proposes to:

> allow reasonable time spent determining dietary intake and/or physical exertion to be considered part of the therapy, where this information is essential to, and is undertaken for the purpose of, determining the dosage of medication that must be adjusted on a daily basis;
> clarify that the exclusion of time for medical appointments does not apply to appointments to receive therapy or to determine the daily dosage of medication;
> provide that the exclusion of time for recuperation after therapy does not apply to medically required recuperation; and
> in the case of therapy that requires the daily consumption of a medical food or medical formula to limit intake of a particular compound to levels required for the proper development or functioning of the body, allow reasonable time spent on activities that are directly related to the determination of the amount of the compound that can be safely consumed to be considered part of the therapy.

The budget also proposes that:

> the time reasonably required by another person to assist the individual in performing and supervising the therapy would be allowed to be counted;
> the requirement that therapy be administered at least three times each week be reduced to two times each week. The requirement that therapy be of a duration averaging not less than 14 hours a week would remain unchanged.

These proposed changes would apply to the 2021 and subsequent taxation years, in respect of DTC certificates filed with the Minister of National Revenue on or after Royal Assent.

Canada Workers Benefit

The budget proposes to enhance the Canada Workers Benefit (CWB) starting in 2021. This enhancement would increase:

> the phase-in rate from 26% to 27% for single individuals without dependants as well as families;
> the phase-out thresholds from $13,194 to $22,944 for single individuals without dependants and from $17,522 to $26,177 for families; and
> the phase-out rate from 12% to 15%.

Corresponding changes would be made to the disability supplement's phase-in and reduction rates as well as the reduction threshold.

To improve work incentives for secondary earners in a couple, the budget also proposes to introduce a “secondary earner exemption” to the CWB, a special rule for individuals with an eligible spouse. This would allow the spouse or commonlaw partner with the lower working income to exclude up to $14,000 of their working income in the computation of their adjusted net income, for the purpose of the CWB phase-out.

These measures would apply to the 2021 and subsequent taxation years. Indexation of amounts relating to the CWB would continue to apply after the 2021 taxation year, including the secondary earner exemption.

Northern Residents Deductions

The budget proposes to expand access to the travel component of the Northern Residents Deductions. Under the new approach, subject to the other restrictions noted above, a taxpayer would have the option to claim, in respect of each of the taxpayer and each “eligible family member”, up to:

> the amount of employer-provided travel benefits the taxpayer received in respect of travel by that individual; or
> a $1,200 standard amount that may be allocated across eligible trips taken by that individual.

After application of the 50% factor for residents of the Intermediate Zone, the second limit effectively becomes a $600 standard amount.

For these purposes, an eligible family member would be an individual living in the taxpayer’s household who is:

> the spouse or common-law partner of the taxpayer;
> a child of the taxpayer (including a child of the taxpayer’s spouse or common-law partner) under the age of 18; or
> another individual who is related to the taxpayer and who is wholly dependent on the taxpayer (and/or on the taxpayer’s spouse or common-law partner) for support, and who is, except in the case of a parent or grandparent of the taxpayer, so dependent by reason of mental or physical infirmity.

The budget proposes that across all taxpayers in a given individual’s household, a maximum of two trips taken by that individual would be allowed to be claimed in total for non-medical personal travel in a year. A taxpayer would continue to be able to claim any number of trips for medical purposes.

Claims for a given trip would be limited to the least of:

> the amount of the employer-provided travel benefit received in respect of the trip or the amount allocated to that particular trip by the taxpayer out of the $1,200 standard amount;
> the total travel expenses paid for that trip; and
> the cost of the lowest return airfare to the nearest designated city.

This measure would apply to the 2021 and subsequent taxation years.

Postdoctoral Fellowship Income

The budget proposes to include postdoctoral fellowship income in “earned income” for RRSP purposes.

This measure would apply in respect of postdoctoral fellowship income received in the 2021 and subsequent taxation years. This measure would also apply in respect of postdoctoral fellowship income received in the 2011 to 2020 taxation years, where the taxpayer submits a request in writing to the Canada Revenue Agency for an adjustment to their RRSP room for the relevant years.

Tax Treatment of COVID-19 Benefit Amounts

The budget proposes to allow individuals the option to claim a deduction in respect of the repayment of a COVID-19 benefit amount in computing their income for the year in which the benefit amount was received rather than the year in which the repayment was made. This option would be available for benefit amounts repaid at any time before 2023.

For these purposes, COVID-19 benefits would include:

> Canada Emergency Response Benefits/ Employment Insurance Emergency Response Benefits;
> Canada Emergency Student Benefits;
> Canada Recovery Benefits;
> Canada Recovery Sickness Benefits; and
> Canada Recovery Caregiving Benefits.

An individual who makes a repayment, but who has already filed their income tax return for the year in which the benefit was received, would be able to request an adjustment to the return for that year.

The budget also proposes to ensure that the COVID-19 benefit amounts noted above, and similar provincial or territorial benefit amounts, are included in the taxable income of those individuals who reside in Canada but are considered non-resident persons for income tax purposes. As a result, COVID-19 benefits received by these non-resident persons would be taxable in Canada in a manner generally similar to employment and business income earned in Canada.

Fixing Contribution Errors in Defined Contribution Pension Plans

The budget proposes to provide more flexibility to plan administrators of defined contribution pension plans to correct for both under-contributions and over-contributions.

This measure would apply in respect of additional contributions made, and amounts of over-contributions refunded, in the 2021 and subsequent taxation years.

Registration and Revocation Rules Applicable to Charities

The budget proposes to amend the *Income Tax Act* in order to:

> allow for the immediate revocation of charitable status for organizations listed as a terrorist entity;
> prevent individuals with a known history of supporting terrorism from becoming a director, trustee, or similar official of a registered charity;
> allow for the revocation of charitable status when a charity provides false statements for the purpose of maintaining their registration.

All these amendments would apply on Royal Assent.

Electronic Filing and Certification of Tax and Information Returns

Default Method of Correspondence

Notices of Assessment

The budget proposes to provide the CRA with the ability to send certain notices of assessment electronically without the taxpayer having to authorize the CRA to do so. This proposal would apply in respect of individuals who file their income tax return electronically and those who employ the services of a tax preparer that files their income tax return electronically.

This measure would come into force on Royal Assent of the enacting legislation.

Correspondence with Businesses

The budget proposes to change the default method of correspondence for businesses that use the CRA's My Business Account portal to electronic only. However, businesses could still choose to also receive paper correspondence.

This measure would come into force on Royal Assent of the enacting legislation.

Information Returns

The budget proposes to allow issuers of T4A (Statement of Pension, Retirement, Annuity and Other Income) and T5 (Statement of Investment Income) information returns to provide them electronically without having to also issue a paper copy and without the taxpayer having to authorize the issuer to do so.

This measure would apply in respect of information returns sent after 2021.

Electronic Filing Thresholds

Tax Preparers

The budget proposes to amend the rule that requires professional preparers of income tax returns to file electronically where they prepare more than 10 income tax returns of corporations or 10 income tax returns of individuals (other than trusts) to apply instead where they file more than 5 of either type of return for a calendar year. Furthermore, the exception for trusts would be removed.

These measures would apply in respect of calendar years after 2021.

Filer of Information Returns

The budget proposes that the threshold for mandatory electronic filing of income tax information returns for a calendar year under the *Income Tax Act* be lowered from 50 to 5 returns, in respect of a particular type of information return.

This measure would apply in respect of calendar years after 2021.

Corporations and GST/HST Registrants

The budget proposes to eliminate the mandatory electronic filing thresholds for returns of corporations under the *Income Tax Act*, and of Goods and Services Tax/Harmonized Sales Tax (GST/HST) registrants (other than for charities or Selected Listed Financial Institutions) under the *Excise Tax Act*.

This measure would apply in respect of taxation years that begin after 2021 for the *Income Tax Act* amendments and in respect of reporting periods that begin after 2021 for the *Excise Tax Act*.

Electronic Payments

The budget proposes that electronic payments be required for remittances over $10,000 under the *Income Tax Act* and that the threshold for mandatory remittances to be made at a financial institution under the GST/HST portion of the *Excise Tax Act*, the *Excise Act*, 2001, the *Air Travellers Security Charge Act* and Part 1 of the *Greenhouse Gas Pollution Pricing Act* be lowered from $50,000 to $10,000.

This measure would apply to payments made on or after January 1, 2022.

Handwritten Signatures

The budget proposes to eliminate the requirement that signatures be in writing on certain prescribed forms, as follows:

> T183, Information Return for Electronic Filing of an Individual's Income Tax and Benefit Return;
> T183CORP, Information Return for Corporations Filing Electronically; and
> T2200, Declaration of Conditions of Employment.
> RC71, Statement of Discounting Transaction; and
> RC72, Notice of the Actual Amount of the Refund of Tax.

This measure would come into force on Royal Assent of the enacting legislation.

BUSINESS INCOME TAX MEASURES

Emergency Business Supports

The budget proposes to extend the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Rent Subsidy and the Lockdown Support until September 2021. The subsidy rates would gradually decline over the July-to-September period.

The budget also proposes to provide the government with the legislative authority to add additional qualifying periods for the wage subsidy, the rent subsidy and the Lockdown Support until November 20, 2021, should the economic and public health situation warrant it.

Canada Emergency Wage Subsidy

Support for Active Employees

The budget proposes the wage subsidy rate structures set out in Table 1 in appendix for June 6, 2021 to September 25, 2021.

As illustrated in the table, the subsidy rates would be gradually phased out starting on July 4, 2021. Furthermore, only employers with a decline in revenues of more than 10 % would be eligible for the wage subsidy as of that date.

Requirement to Repay Wage Subsidy

The budget proposes to require a publicly listed corporation to repay wage subsidy amounts received for a qualifying period that begins after June 5, 2021 in the event that its aggregate compensation for specified executives during the 2021 calendar year exceeds its aggregate compensation for specified executives during the 2019 calendar year.

For the purpose of this proposed rule, a publicly listed corporation's specified executives will be its Named Executive Officers whose compensation is required to be disclosed under Canadian securities laws or similar executives in the case of a corporation listed in another jurisdiction.

The amount of the wage subsidy required to be repaid would be equal to the lesser of:

> the total of all wage subsidy amounts received in respect of active employees for qualifying periods that begin after June 5, 2021; and
> the amount by which the corporation's aggregate specified executives' compensation for 2021 exceeds its aggregate specified executives' compensation for 2019.

This requirement to repay would be applied at the group level and would apply to wage subsidy amounts paid to any entity in the group.

Support for Furloughed Employees

To ensure that the wage subsidy for furloughed employees remains aligned with benefits available under employment insurance (EI), the budget proposes that the weekly wage subsidy for a furloughed employee from June 6, 2021 to August 28, 2021 be the lesser of:

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

The wage subsidy for furloughed employees would continue to be available to eligible employers that qualify for the wage subsidy for active employees for the relevant period until August 28, 2021. 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

The budget proposes the reference periods set out in Table 2 in appendix for determining an eligible employer's decline in revenues for the qualifying periods from June 6, 2021 to September 25, 2021.

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

Baseline Remuneration

The budget proposes to allow an eligible employer to elect to use the following alternative baseline remuneration periods:

> March 1 to June 30, 2019 or July 1 to December 31, 2019, for the qualifying period between June 6, 2021 and July 3, 2021; and
> July 1 to December 31, 2019, for qualifying periods beginning after July 3, 2021.

Canada Emergency Rent Subsidy

Rate Structure

The budget proposes the base rent subsidy rate structures set out in Table 3 for June 6, 2021 to September 25, 2021.

As illustrated in the table, the subsidy rates would be gradually phased out starting on July 4, 2021. Furthermore, only organizations with a decline in revenues of more than 10 % would be eligible for the base rent subsidy.

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. Likewise, if an organization elects to use an alternative method for computing its revenue decline under the wage subsidy, it must use that alternative method for the rent subsidy.

Purchase of Business Assets

For the purpose of the rent subsidy, an applicant is required to have a business number with the CRA.

If certain conditions are met, the wage subsidy rules provide that an eligible entity that purchases the assets of a seller will be deemed to meet the payroll account requirement if the seller met the requirement.

The budget proposes to introduce a similar deeming rule that would apply in the context of the rent subsidy, where the seller met the business number requirement. This measure would apply as of the start of the rent subsidy.

Lockdown Support

The budget proposes to extend, for the qualifying periods from June 6, 2021 to September 25, 2021, the current 25% rate for the Lockdown Support.

Canada Recovery Hiring Program

The budget proposes to provide eligible employers with a subsidy of up to 50 % on the incremental remuneration paid to eligible employees between June 6, 2021 and November 20, 2021.

An eligible employer would be permitted to claim either the hiring subsidy or the CEWS for a particular qualifying period, but not both.

Eligible Employers

Employers eligible for the CEWS would generally be eligible for the hiring subsidy. However, a for-profit corporation would be eligible for the hiring subsidy only if it is a Canadian-controlled private corporation (including a cooperative corporation that is eligible for the small business deduction). Other eligible employers would include individuals, non-profit organizations, registered charities, and certain partnerships.

Corporations and trusts that are ineligible for the CEWS because they are public institutions would not be eligible for the hiring subsidy.

Eligible employers (or their payroll service provider) would be required to have had a payroll account open with the CRA on March 15, 2020.

Eligible Employees

An eligible employee must be employed primarily in Canada by an eligible employer throughout a qualifying period (or the portion of the qualifying period throughout which the individual was employed by the eligible employer).

The hiring subsidy would not be available for furloughed employees. An employee would not be considered to be on leave with pay for the purposes of the hiring subsidy if they are on a period of paid absence, such as vacation leave, sick leave, or a sabbatical.

Eligible Remuneration and Incremental Remuneration

The types of remuneration eligible for the CEWS would also be eligible for the hiring subsidy.

Incremental remuneration for a qualifying period means the difference between an employer's total eligible remuneration paid to eligible employees for the qualifying period and its total eligible remuneration paid to eligible employees for the baseline period. In both the qualifying period and the baseline period, eligible remuneration for each eligible employee would be subject to a maximum of $1,129 per week.

The eligible remuneration for a non-arm's length employee for a week could not exceed their baseline remuneration determined for that week.

The applicable dates for the calculation of the incremental remuneration are shown in Table 4 in appendix.

Subsidy Amount

Provided that an eligible employer's decline in revenues exceeds the revenue decline threshold for a qualifying period its subsidy in that qualifying period would be equal to its incremental remuneration multiplied by the applicable hiring subsidy rate for that qualifying period. These hiring subsidy rates are shown in Table 5 in appendix.

Revenue-Decline Threshold

To qualify for a hiring subsidy in a qualifying period, an eligible employer would have to have experienced a decline in revenues sufficient to qualify for the CEWS in that qualifying period.

As such, an eligible employer's decline in revenues would have to be more than:

> 0 %, for the qualifying period between June 6, 2021 and July 3, 2021; and
> 10 %, for qualifying periods between July 4, 2021 and November 20, 2021.

An employer's decline in revenues would be determined in the same manner as under the CEWS.

Employers that had chosen to use the general approach for prior periods of the CEWS would be required to continue to use that approach for the hiring subsidy. Similarly, employers that had chosen to use the alternative approach would be required to continue to use the alternative approach.

The reference periods set out in Table 6 in appendix would be used to determine an eligible employer's decline in revenues for the qualifying periods from June 6, 2021 to November 20, 2021.

An application for the hiring subsidy for a qualifying period would be required to be made no later than 180 days after the end of the qualifying period.

Immediate Expensing

The budget proposes to provide temporary immediate expensing in respect of certain property acquired by a Canadian-Controlled Private Corporation (CCPC). This immediate expensing would be available for "eligible property" acquired by a CCPC on or after April 19, 2021 and that becomes available for use before January 1, 2024, up to a maximum amount of $1.5 million per taxation year. The immediate expensing would only be available for the year in which the property becomes available for use. The $1.5 million limit would be shared among associated members of a group of CCPCs. The limit would be prorated for taxation years that are shorter than 365 days. The half-year rule would be suspended for property for which this measure is used. For those CCPCs with less than $1.5 million of eligible capital costs, no carry-forward of excess capacity would be allowed.

Eligible Property

Eligible property under this new measure would be capital property that is subject to the CCA rules, other than property included in CCA classes 1 to 6, 14.1, 17, 47, 49 and 51, which are generally long-lived assets.

Interactions of the Immediate Expensing with Other Provisions

CCPCs with capital costs of eligible property in a taxation year that exceed $1.5 million would be allowed to decide to which CCA class the immediate expensing would be attributed and any excess capital cost would be subject to the normal CCA rules.

The availability of other enhanced deductions under existing rules – such as the full expensing for manufacturing and processing machinery and equipment and for clean energy equipment would not reduce the maximum amount available under this new measure.

Immediate expensing under this new rule would not change the total amount that can be deducted over the life of a property – the larger deduction taken in the first year in respect of a property would eventually be offset by a smaller deduction, if any, in respect of the property in future years.

Restrictions

In certain circumstances, rules can restrict a CCA deduction, or a loss in respect of such a deduction, that would otherwise be available. These integrity rules would continue to apply.

Property that has been used, or acquired for use, for any purpose before it was acquired by the taxpayer would be eligible for the immediate expensing only if both of the following conditions are met:

> neither the taxpayer nor a non-arm's length person previously owned the property; and
> the property has not been transferred to the taxpayer on a tax-deferred "rollover" basis.

Coming Into Force

This measure would apply for eligible property that is acquired on or after April 19, 2021 and that becomes available for use before 2024.

Rate Reduction for Zero-Emission Technology Manufacturers

The budget proposes a temporary measure to reduce corporate income tax rates for qualifying zero-emission technology manufacturers. Specifically, taxpayers would be able to apply reduced tax rates on eligible zero-emission technology manufacturing and processing income of:

> 7.5 %, where that income would otherwise be taxed at the 15 % general corporate tax rate; and
> 4.5 %, where that income would otherwise be taxed at the 9 % small business tax rate.

Eligible Zero-Emission Technology Manufacturing or Processing Activities

This measure would apply in respect of income from zero-emission technology manufacturing or processing activities, specifically:

- Manufacturing of wind turbines, solar panels, and equipment used in hydroelectric facilities.
- Manufacturing of geothermal energy systems.
- Manufacturing of electric cars, busses, trucks, and other vehicles.
- Manufacturing of batteries and fuel cells for electric vehicles.
- Production of biofuels from waste materials.
- Production of green hydrogen.
- Manufacturing of electric vehicle charging systems.
- Manufacturing of certain energy storage equipment.

Eligible activities would exclude all activities that do not qualify as manufacturing or processing for the purposes of the capital cost allowance rules.

Calculation of Eligible Income

It is proposed that a taxpayer's eligible income generally be equal to its "adjusted business income" multiplied by the proportion of its total labour and capital costs that are used in eligible activities. The definition of "adjusted business income" as well as the method used to determine labour and capital costs would be substantially based on those used in calculating manufacturing and processing profits under current tax rules.

All of a taxpayer's labour and capital costs would be deemed to be labour and capital costs that are used in eligible activities if all or substantially all of its labour and capital costs are related to eligible activities.

Minimum Proportion of Eligible Activities

A taxpayer would qualify for the reduced tax rates on its eligible income only if at least 10 % of its gross revenue from all active businesses carried on in Canada is derived from eligible activities.

Reduced Rate for Small Businesses

For taxpayers with income subject to both the general and the small business corporate tax rates, taxpayers would be able to choose to have their eligible income taxed at either the reduced rate of 4.5 % for small businesses or the general reduced rate of 7.5 %. The amount of income taxed at the 4.5 % rate plus the amount of income taxed at the small business rate of 9 % would not be allowed to exceed the business limit.

Treatment of Dividends

Given the targeted application, temporary nature, and gradual phase-out of the proposed measure, no changes to the dividend tax credit rates or the allocation of corporate income for the purpose of dividend distributions are proposed.

Application and Phase-Out

The reduced tax rates would apply to taxation years that begin after 2021. The reduced rates would be gradually phased out starting in taxation years that begin in 2029 and fully phased out for taxation years that begin after 2031 (see Table 7 in appendix).

Capital Cost Allowance for Clean Energy Equipment

To support investment in clean technologies, the budget proposes to expand Classes 43.1 and 43.2.

Accelerated CCA would be available in respect of these types of property only if, at the time the property becomes available for use, the requirements of all Canadian environmental laws, by-laws and regulations applicable in respect of the property have been met.

To ensure the incentive provided by Classes 43.1 and 43.2 is consistent with the government's current environmental objectives, the budget proposes changes in the eligibility criteria for certain types of equipment.

Timing of Changes

The expansion of Classes 43.1 and 43.2 would apply in respect of property that is acquired and that becomes available for use on or after April 19, 2021, where it has not been used or acquired for use for any purpose before April 19, 2021.

The removal of certain property from eligibility for Classes 43.1 and 43.2 would apply in respect of property that becomes available for use after 2024.

Film or Video Production Tax Credits

The budget proposes to temporarily extend certain timelines for the Canadian Film or Video Production Tax Credit (CPTC) and the Film or Video Production Services Tax Credit (PSTC).

These measures would be available in respect of productions for which eligible expenditures were incurred by taxpayers in their taxation years ending in 2020 or 2021.

Mandatory Disclosure Rules

The government is consulting on proposals to enhance Canada's mandatory disclosure rules. This consultation will address:

> changes to the *Income Tax Act*'s reportable transaction rules;
> a new requirement to report notifiable transactions;
> a new requirement for specified corporations to report uncertain tax treatments; and
> related rules providing for, in certain circumstances, the extension of the applicable reassessment period and the introduction of penalties.

It is proposed that, to the extent the proposed measure applies to taxation years, amendments made as a result of this consultation would apply to taxation years that begin after 2021. To the extent the proposed measure applies to transactions, the amendments would apply to transactions entered into on or after January 1, 2022. However, the penalties would not apply to transactions that occur before the date on which the enacting legislation receives Royal Assent.

Avoidance of Tax Debts

The *Income Tax Act* has an anti-avoidance rule (the "tax debt avoidance rule") that is intended to prevent taxpayers from avoiding their tax liabilities by transferring their assets to non-arm's length persons for insufficient consideration. In these circumstances, the rule causes the transferee to be jointly and severally liable with the transferor for tax debts of the transferor for the current or any prior taxation year, to the extent that the value of the property transferred exceeds the amount of consideration given for the property.

Deferral of Tax Debts

An anti-avoidance rule would be introduced that would provide that, for the purposes of the tax debt avoidance rule, a tax debt would be deemed to have arisen before the end of the taxation year in which a transfer of property occurs if it is reasonable to conclude that:

> the transferor (or a person that does not deal at arm's length with the transferor) had knowledge (or would have knowledge if they had made reasonable inquiries) that there would be a tax amount owing by the transferor (or there would be a tax amount owing if not for additional tax planning done as part of the series of transactions that includes the transfer) that would arise after the end of the taxation year; and
> one of the purposes for the transfer of property was to avoid the payment of the future tax debt.

Avoidance of Non-Arm's Length Status

The budget proposes an anti-avoidance rule that would provide that, for the purposes of the tax debt avoidance rule, a transferor and transferee that, at the time of a transfer of property, would otherwise be considered to be dealing with each other at arm's length, would be deemed to have not been dealing with each other at arm's length at that time if:

> at any time within a series of transactions or events that includes the transfer, the transferor and transferee do not deal at arm's length; and
> it is reasonable to conclude that one of the purposes of a transaction or event (or a series of transactions or events) within that series was to cause the transferor and transferee to deal at arm's length at the time of transfer.

Valuations

A rule would be introduced such that, for transfers of property that are part of a series of transactions or events, the overall result of the series would be considered in determining the values of the property transferred and the consideration given for the property, rather than simply using those values at the time of the transfer.

Penalty

A penalty would also be introduced for planners and promoters of tax debt avoidance schemes. The penalty would be equal to the lesser of:

- 50% of the tax that is attempted to be avoided; and
- $100,000 plus the promoter's or planner's compensation for the scheme.

Application

The rules would apply in respect of transfers of property that occur on or after April 19, 2021.

Similar amendments would be made to comparable provisions in other federal statutes.

Audit Authorities

The budget proposes amendments that would confirm that CRA officials have the authority to require persons to answer all proper questions, and to provide all reasonable assistance, for any purpose related to the administration or enforcement of the relevant statute. They would also provide that CRA officials have the authority to require persons to respond to questions orally or in writing, including in any form specified by the relevant CRA official. These amendments would allow the CRA to undertake audit and other compliance activities in the same manner as it did prior to the decision.

These measures would come into force on Royal Assent.

INTERNATIONAL TAXATION

Base Erosion and Profit Shifting

The budget is proposing to implement the best practices recommended by the Base Erosion and Profit Shifting (BEPS) Action Plan on interest deductibility and hybrid mismatch arrangements.

Interest Deductibility Limits

The budget proposes that, starting in 2023, the amount of interest that certain businesses can deduct be limited to 40 per cent of their earnings in the first year of the measure and 30 per cent thereafter. Relief will be provided for small businesses and for other situations that do not represent significant tax base erosion risks.

The government expects to release draft legislation this summer and will seek stakeholder input on the new rules.

Hybrid Mismatch Arrangements

Hybrid mismatch arrangements are cross-border tax schemes, used primarily by multinational enterprises, that exploit differences between Canadian and foreign income tax laws to avoid paying their fair share of tax. Under the current rules, a multinational company can exploit the different treatment of certain business entities and financial instruments in Canada and another country to earn income that is not taxed in any country.

The budget proposes to eliminate the tax benefits of hybrid mismatch arrangements. These proposals would be implemented in stages starting July 1, 2022.

The proposed rules to address hybrid arrangements would be implemented in two separate legislative packages. The first legislative package would be released for stakeholder comment later in 2021, and those rules would apply as of July 1, 2022.The second legislative package would be released for stakeholder comment after 2021, and those rules would apply no earlier than 2023.

SALES AND EXCISE TAX MEASURES

Application of the GST/HST to E-commerce

Proposed Amendments

Safe Harbour Rules

The budget proposes additional rules that would:

- impose joint and several, or solidary, liability on a platform operator and a third-party supplier for the collection and remittance of tax, if the third-party supplier provides false information to the platform operator; and
- limit the liability of a platform operator for failure to collect and remit tax, if the platform operator reasonably relied on the information provided by a third-party supplier.

Under the proposed rules, the platform operator would be relieved from liability to the extent that it did not collect and remit tax (i.e., where it partially collected tax, it would remain liable for those amounts) and the third-party supplier that provided false information would be liable for any amounts not collected.

Eligible Deductions

The budget proposes an amendment to clarify that suppliers registered for the GST/HST under the simplified framework are eligible to deduct amounts for bad debts and certain provincial HST point-of-sale rebates to purchasers (e.g., in respect of audio books) from the tax that they are required to remit, and that public libraries and similar institutions are eligible to claim a rebate for the GST paid on audio books acquired from those suppliers.

Threshold Amount Determination

A non-resident vendor or distribution platform operator with sales to consumers in Canada that exceed, or are expected to exceed, $30,000 over a 12-month period is required to register for the GST/HST under the simplified framework and charge the GST/HST on their sales. The budget proposes to clarify that supplies of digital products or services that are GST/HST-free (i.e., zero-rated) are not included in the calculation of the threshold amount for determining if a person is required to be registered for the GST/HST under the simplified framework.

Platform Operator Information Return

The budget proposes to clarify that the requirement to file an annual information return applies only to platform operators that are registered or are required to be registered for the GST/HST.

Authority for the Minister of National Revenue to Register a Person

The budget proposes to provide the Minister of National Revenue the authority to register a person that the Minister believes should be registered under the simplified framework.

Administration and Compliance Approach

Where the affected businesses and platform operators show that they have taken reasonable measures but are unable to meet their new obligations for operational reasons, the CRA will take a practical approach to compliance and exercise discretion in administering these measures during a 12-month transition period, starting from the July 1, 2021 coming into force date.

Input Tax Credit Information Requirements

Information Requirements to Support ITC Claims

Businesses must obtain and retain certain information in order to support their ITC claims.

Progressively more information is required when the amount paid or payable in respect of a supply equals or exceeds thresholds of $30 or $150.

To simplify tax compliance for businesses, the budget proposes to increase the current ITC information thresholds to $100 (from $30) and $500 (from $150), and to allow billing agents to be treated as intermediaries for purposes of the ITC information rules.

These measures would come into force on April 20, 2021.

GST New Housing Rebate Conditions

The budget proposes to remove the condition that where two or more individuals buy a new home together, each of them must be acquiring the home for use as their primary place of residence or the primary place of residence of a relation. Instead, the GST New Housing Rebate would be available as long as the new home is acquired for use as the primary place of residence of any one of the purchasers or a relation of any one of the purchasers.

In addition to new homes purchased from a builder, the GST New Housing Rebate is available in respect of owner-built homes, co-op housing shares and homes constructed on leased land. The proposed change to the rebate conditions would also be applicable in these circumstances. The proposed change would also apply to new housing rebates in respect of the provincial component of the HST.

This measure would apply to a supply made under an agreement of purchase and sale entered into after April 19, 2021. However, in the case of a rebate for owner-built homes, the measure would apply where construction or substantial renovation of the residential complex is substantially completed after April 19, 2021.

Rebate of Excise Tax for Goods Purchased by Provinces

Provinces are provided relief from the federal excise tax embedded in the price of motive fuels, air conditioners in automobiles, and fuel inefficient vehicles, which they purchase or import for the province's own use. In particular, when these goods are sold to a province, for the province's own use, either the province or the vendor is entitled to a rebate equal to the amount of the embedded tax (the "provincial-use rebate").

To clarify which party is eligible to claim the provincial-use rebate, the budget proposes to create a joint election mechanism to specify that the vendor alone would be eligible to apply for the rebate only if it jointly elects with the province to be the eligible party. If no joint election were made, then only the province would be eligible to apply for the rebate.

This measure would apply in relation to these goods purchased or imported by a province on or after January 1, 2022.

Excise Duty on Tobacco

The budget proposes to increase the tobacco excise duty rate by $4 per carton of 200 cigarettes, along with corresponding increases to the excise duty rates for other tobacco products.

This measure would come into force on April 20, 2021.

Excise Duty on Vaping Products

The budget proposes to implement a tax on vaping products in 2022 through the introduction of a new excise duty framework.

The government invites input from industry and stakeholders on these proposals.

Tax on Select Luxury Goods

The budget proposes to introduce a tax on the retail sale of new luxury cars and personal aircraft priced over $100,000, and boats priced over $250,000, effective as of January 1, 2022.

Tax Base

Luxury Vehicles

It is proposed that all new passenger vehicles typically suitable for personal use be included in the base, including coupes, sedans, station wagons, sports cars, passenger vans and minivans equipped to accommodate less than 10 passengers, SUVs, and passenger pick-up trucks.

It is proposed that the following vehicles typically purchased for personal use be excluded from the base:

- Motorcycles and certain off-road vehicles, such as all-terrain vehicles and snowmobiles;
- Racing cars (i.e., vehicles that are not street legal and are owned solely for on-track or off-road racing); and
- Motor homes (commonly known as recreational vehicles, or RVs) that are designed to provide temporary living, sleeping, or eating accommodation for travel, vacation, seasonal camping, or recreational use.

For greater certainty, off-road, construction, and farm vehicles would fall outside the scope of the tax. Similarly, certain commercial (e.g., heavy-duty vehicles such as some trucks and cargo vans) and public sector (such as buses, police cars and ambulances) vehicles, as well as hearses, would not be subject to the tax.

Aircraft

It is proposed that the tax apply to all new aircraft typically suitable for personal use, including airplanes, helicopters and gliders. As a general rule, it is proposed that large aircraft typically used in commercial activities, such as those equipped for the carriage of passengers and having a certified maximum carrying capacity of more than 39 passengers, be excluded from the base. Smaller aircraft used in certain commercial (such as public transportation) and public sector (police, military and rescue aircraft, air ambulances) activities would also be excluded from the base.

Boats

It is proposed that the tax apply to new boats such as yachts, recreational motorboats and sailboats, typically suitable for personal use.

Smaller personal watercraft (e.g., water scooters) would be excluded from the base. For greater certainty, floating homes, commercial fishing vessels, ferries, and cruise ships would fall outside the scope of the tax.

Tax Rate

For vehicles and aircraft priced over $100,000, the amount of the tax would be the lesser of 10% of the full value of the vehicle or the aircraft, or 20% of the value above $100,000.

For boats priced over $250,000, the amount of the tax would be the lesser of 10% of the full value of the boat or 20% of the value above $250,000.

Point of Imposition

The tax would generally apply at the final point of purchase of new luxury vehicles, aircraft and boats in Canada. In the case of imports, application would generally be either at the time of importation (in cases where there will not be a further sale of the goods in Canada) or at the time of the final point of purchase in Canada following importation.

Upon purchase or lease, the seller or lessor would be responsible for remitting the full amount of the federal tax owing, regardless of whether the good was purchased outright, financed, or leased over a period of time.

Treatment under the GST/HST

The GST/HST would apply to the final sale price, inclusive of the proposed tax.

Next Steps

Further details will be announced in the coming months.

OTHER MEASURES

Digital Services Tax

The budget proposes to implement a Digital Services Tax (DST) at a rate of 3 percent on revenue from digital services that rely on data and content contributions from Canadian users. The tax would apply to large businesses with gross revenue of 750 million euros or more. It would apply as of January 1, 2022, until an acceptable multilateral approach comes into effect.

The government welcomes feedback from stakeholders on the proposed approach to implementing the DST.

Tax on Unproductive Use of Canadian Housing by Foreign Non-resident Owners

The budget proposes to introduce a new national 1% tax on the value of non-resident, non-Canadian owned residential real estate considered to be vacant or underused. This tax would be levied annually beginning in 2022.

The tax will require all owners, other than Canadian citizens or permanent residents of Canada, to file a declaration as to the current use of the property, with significant penalties for failure to file.

In the coming months, the government will release a backgrounder to provide stakeholders with an opportunity to comment.

APPENDIX

Table 1

Canada Emergency Wage Subsidy Base and Top-up Rate Structure, Periods 17 to 20
(June 6, 2021 to September 25, 2021)

	Period 17 **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**
Maximum weekly benefit per employee*	$847	$677	$452	$226
Revenue decline:				
70% and over	75% (i.e., Base: 40% + Top-up: 35%)	60% (i.e., Base: 35% + Top-up: 25%)	40% (i.e., Base: 25% + Top-up: 15%)	20% (i.e., Base: 10% + Top-up: 10%)
50 to 69%	Base: 40% + Top-up: (revenue decline - 50%) x 1.75 (e.g., 40% + (60% revenue decline - 50%) x 1.75 = 57.5% subsidy rate)	Base: 35% + Top-up: (revenue decline - 50%) x 1.25 (e.g., 35% + (60% revenue decline - 50%) x 1.25 = 47.5% subsidy rate)	Base: 25% + Top-up: (revenue decline - 50%) x 0.75 (e.g., 25% + (60% revenue decline - 50%) x 0.75 = 32.5% subsidy rate)	Base: 10% + Top-up: (revenue decline - 50%) x 0.5 (e.g., 10% + (60% revenue decline - 50%) x 0.5 = 15% subsidy rate)
>10-50%	Base: revenue decline x 0.8 (e.g., 30% revenue decline x 0.8 = 24% subsidy rate)	Base: (revenue decline - 10%) x 0.875 (e.g., (30% revenue decline - 10%) x 0.875 = 17.5% subsidy rate)	Base: (revenue decline - 10%) x 0.625 (e.g., (30% revenue decline - 10%) x 0.625 = 12.5% subsidy rate)	Base: (revenue decline - 10%) x 0.25 (e.g., (30% revenue decline - 10%) x 0.25 = 5% subsidy rate)
0-10%	Base: revenue decline x 0.8 (e.g., 5% revenue decline x 0.8 = 4% subsidy rate)	0%	0%	0%

* The maximum weekly benefit per employee is equal to the maximum combined base subsidy and top-up wage subsidy for the qualifying period applied to the amount of eligible remuneration paid to the employee for the qualifying period, on remuneration of up to $1,129 per week.

Table 2

Canada Emergency Wage Subsidy Reference Periods, Periods 17 to 20
(June 6, 2021 to September 25, 2021)

Timing	**Period 17** **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**
General approach	June 2021 over June 2019 or May 2021 over May 2019	July 2021 over July 2019 or June 2021 over June 2019	August 2021 over August 2019 or July 2021 over July 2019	September 2021 over September 2019 or August 2021 over August 2019
Alternative approach	June 2021 or May 2021 over average of January and February 2020	July 2021 or June 2021 over average of January and February 2020	August 2021 or July 2021 over average of January and February 2020	September 2021 or August 2021 over average of January and February 2020

Table 3

Canada Emergency Rent Subsidy Base Rate Structure*, Periods 17 to 20**
(June 6, 2021 to September 25, 2021)

	Period 17 **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**
Revenue decline:				
70% and over	65%	60%	40%	20%
50 to 69%	40% + (revenue decline - 50%) x 1.25 (e.g., 40% + (60% revenue decline - 50%) x 1.25 = 52.5% subsidy rate)	35% + (revenue decline - 50%) x 1.25 (e.g., 35% + (60% revenue decline - 50%) x 1.25 = 47.5% subsidy rate)	25% + (revenue decline - 50%) x 0.75 (e.g., 25% + (60% revenue decline - 50%) x 0.75 = 32.5% subsidy rate)	10% + (revenue decline - 50%) x 0.5 (e.g., 10% + (60% revenue decline - 50%) x 0.5 = 15% subsidy rate)
>10-50%	Revenue decline x 0.8 (e.g., 30% revenue decline x 0.8 = 24% subsidy rate)	(Revenue decline - 10%) x 0.875 (e.g., (30% revenue decline - 10%) x 0.875 = 17.5% subsidy rate)	(Revenue decline - 10%) x 0.625 (e.g., (30% revenue decline - 10%) x 0.625 = 12.5% subsidy rate)	(Revenue decline - 10%) x 0.25 (e.g., (30% revenue decline - 10%) x 0.25 = 5% subsidy rate)
0-10%	Revenue decline x 0.8 (e.g., 5% revenue decline x 0.8 = 4% subsidy rate)	0%	0%	0%

* Expenses for each qualifying period are capped at $75,000 per location and are subject to an overall cap of $300,000 that is shared among affiliated entities.

** Period 17 of the Canada Emergency Wage Subsidy would be the tenth period of the Canada Emergency Rent Subsidy. Period identifiers have been aligned for ease of reference.

Table 4

Canada Recovery Hiring Program Dates Used to Calculate Incremental Remuneration, Periods 17* to 22
(June 6, 2021 to November 20, 2021)

Qualifying period	**Period 17** **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**	**Period 21** **September 26 to October 23**	**Period 22** **October 24 to November 20**
Baseline period	March 14 to April 10, 2021					

* Period 17 of the Canada Emergency Wage Subsidy would be the first period of the Canada Recovery Hiring Program. Period identifiers have been aligned for ease of reference.

Table 5

Canada Recovery Hiring Program Rates, Periods 17* to 22
(June 6, 2021 to November 20, 2021)

	Period 17 **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**	**Period 21** **September 26 to October 23**	**Period 22** **October 24 to November 20**
Hiring subsidy rate	50%	50%	50%	40%	30%	20%

* Period 17 of the Canada Emergency Wage Subsidy would be the first period of the Canada Recovery Hiring Program. Period identifiers have been aligned for ease of reference.

Table 6

Canada Recovery Hiring Program Reference Periods, Periods 17* to 22
(June 6, 2021 to November 20, 2021)

Timing	**Period 17** **June 6 to July 3**	**Period 18** **July 4 to July 31**	**Period 19** **August 1 to August 28**	**Period 20** **August 29 to September 25**	**Period 21** **September 26 to October 23**	**Period 22** **October 24 to November 20**
General approach	June 2021 over June 2019 or May 2021 over May 2019	July 2021 over July 2019 or June 2021 over June 2019	August 2021 over August 2019 or July 2021 over July 2019	September 2021 over September 2019 or August 2021 over August 2019	October 2021 over October 2019 or September 2021 over September 2019	November 2021 over November 2019 or October 2021 over October 2019
Alternative approach	June 2021 or May 2021 over average of January and February 2020	July 2021 or June 2021 over average of January and February 2020	August 2021 or July 2021 over average of January and February 2020	September 2021 or August 2021 over average of January and February 2020	October 2021 or September 2021 over average of January and February 2020	November 2021 or October 2021 over average of January and February 2020

* Period 17 of the Canada Emergency Wage Subsidy would be the first period of the Canada Recovery Hiring Program. Period identifiers have been aligned for ease of reference.

Table 7

Schedule of Reduced Tax Rates					
Taxation years that begin in:	**2022 to 2028**	**2029**	**2030**	**2031**	**2032 or later**
Reduced Tax Rate on Income Eligible for the Small Business Deduction	4.5%	5.625%	6.75%	7.875%	9%
Reduced Tax Rate on Other Eligible Income	7.5%	9.375%	11.25%	13.125%	15%

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The Ordre wishes to gratefully acknowledge the contribution of Francis Belzile, M. Fisc, FCPA, FCA, teacher and director of the accounting sciences module at UQAR – Lévis campus, Catherine Giroux, LL. M. fisc., CPA, CA, Senior Advisor, Taxation, and Pascale Chevrefils, CPA, CA, Director, Professional Practice, Taxation.