

Mackenzie Tax & Estate Planning:

The 2021 Federal Budget

Bulletin

2021 Federal Budget analysis

The 2021 Federal Budget tabled by Finance Minister Chrystia Freeland on Monday, April 19, 2021, contained several proposals that will impact the financial, tax and estate plans of Canadians. The following is a summary of the most relevant budget proposals that may impact financial advisors and their clients.

Measures for individuals

Extension of COVID-19 Recovery Benefits and Employment Insurance General Benefits

Under COVID-19 government support measures for individuals, namely:

- Canada Emergency Response Benefit (CERB)
- Canada Recovery Benefit (CRB)
- Canada Recovery Caregiving Benefit (CRCB)
- Canada Recovery Sickness Benefit (CRSB)

which were launched in March 2020, there have been extensions of qualified benefits. In February 2021 the number of weeks available for benefits was extended by 12 weeks to a total of 38 weeks for the CRB and CRCB. The CRSB was extended from 2 weeks to 4, and the number of regular Employment Insurance Benefits were extended from 24 weeks to a maximum of 50.

Budget 2021 proposes to extend CRB benefits by an additional 12 weeks to 50 from 38. The first 4 weeks will provide a benefit of \$500 per week. The remaining 8 weeks will provide a lower benefit of \$300 per week. All new CRB claimants after July 17, 2021 will receive \$300 per week until September 25, 2021.

Budget 2021 also proposes to extend the CRCB an additional 4 weeks to a maximum of 42 weeks. The benefit will remain at \$500 per week. In addition, Budget 2021 proposes legislative amendments to provide extensions to these benefit programs and to regular EI benefits until no later than November 20, 2021, if they are required.

Student Grants and Interest-Free Loans

Budget 2021 proposes to extend the increased student grant for students (\$3,000 to \$6,000 for full-time students; \$1,800 to \$3,600 for part-time students; and \$2,000 to \$4,000 for students with disabilities, among others) for another two years, to 2023.

In addition, Budget 2021 proposes to increase the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023. The repayment assistance thresholds, where students living alone do not have to make payments on their loans, is proposed to rise from students earning \$25,000 in income to \$40,000.

COVID Benefit Repayments

Budget 2021 proposes to allow an election for individuals who received COVID-19 benefits but were not qualified and repay the benefits before 2023 can either backdate the repayment as a deduction from income in the year they received the benefit, by using a T1-Adjustment, or deduct the repayment in the year repaid, whichever is in their best interests. In addition, for non-resident recipients of COVID-19 benefits who were residing in Canada at the time of receiving benefits, Budget 2021 proposes to amend the Income Tax Act to have these benefits taxable in Canada and not as part of their non-resident income tax.

Increase to Old Age Security Benefits

Budget 2021 proposes a one-time payment of \$500 in August 2021 for seniors age 75 and older as of June 2022. In addition, Budget 2021 proposes to introduce legislation to increase regular Old Age Security Benefits for pensioners age 75 and older by 10% on an ongoing basis, beginning July 2022. This is expected to provide additional benefits of \$766 annually to full OAS pensioners in the first year and be indexed to inflation thereafter.

Disability Tax Credit (Mental Functions and Life-Sustaining Therapy)

Budget 2021 proposes a broadening of qualifications for the Disability Tax Credit, starting in 2021 and in subsequent taxation years once the Budget receives Royal Assent. Qualifications will widen the qualifications defining mental functions, as well as life-sustaining therapy. This will allow an increased number of Canadians to qualify for the Disability Tax Credit.

Enhancements to the Canada Workers Benefit

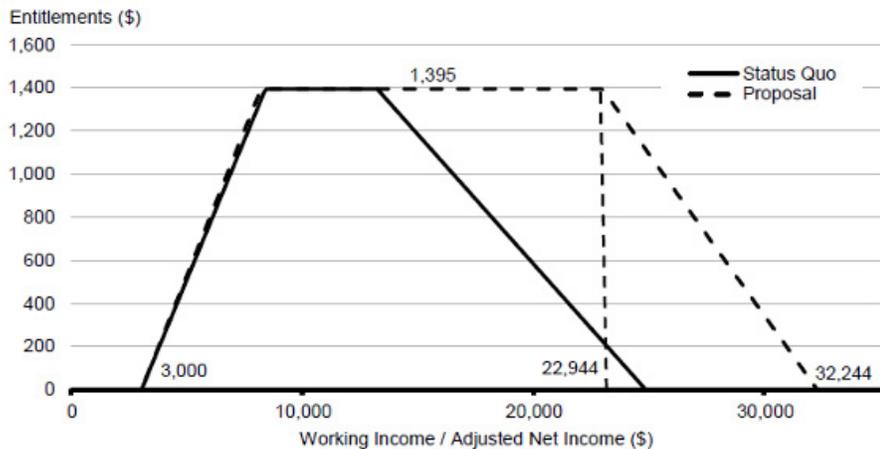
The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit that supplements the earnings of low- and modest-income workers and improves their work incentives. Currently for 2021, the CWB grows by 26 cents for every dollar of “working income” (generally employment and business income) in excess of \$3,000, up to a maximum entitlement of \$1,395 for single individuals without dependents, or \$2,403 for families (couples and single parents). The benefit is then reduced by 12 per cent of adjusted net income more than \$13,194 for single individuals without dependents, or \$17,522 for families.

Budget 2021 proposes to enhance the CWB starting in 2021. This enhancement would increase:

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

Below is a chart of the proposed CWB enhancement for a single individual without dependents.

Chart 1 | Enhanced Canada Workers Benefit 2021
(Single Individuals without Dependents)



Note: It is assumed that adjusted net income is equal to working income.

Source: 2021 Federal Budget Document: “A Recovery Plan for Jobs, Growth & Resiliency” (page 590)

The CWB also features a supplement that is available to individuals who are eligible for the Disability Tax Credit. Corresponding changes will also be made to the supplement. In addition, Budget 2021 also proposed a “secondary earner exemption”. This is a special rule for individuals with an eligible spouse that would allow the spouse or common-law partner with the lower working income to exclude up to \$14,000 of working income from the calculation.

Postdoctoral Fellowship Income qualify as Earned Income

Currently, postdoctoral fellowship income does not qualify as “earned income” for purposes of calculating RRSP contribution room. Budget 2021 proposes to include postdoctoral fellowship income in “earned income” for RRSP purposes. This measure applies to postdoctoral fellowship income received in the 2021 and afterwards. Taxpayers may also apply to CRA in writing for an adjustment to RRSP contribution room with respect to postdoctoral fellowship income received from 2011 to 2020.

Northern Residents Deduction

Individuals who live in prescribed northern areas of Canada for at least six consecutive months in a year may claim the Northern Residents Deduction if the taxpayer is receiving travel benefits from their employer. The tax deduction is based on several factors, including the prescribed Northern zoning as outlined by the tax rules.

Budget 2021 proposes to expand access to the travel component of the Northern Residents Deductions. Under the new approach, a taxpayer would have the option to claim (subject to some restrictions) amounts for themselves as certain family members 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

Further restrictions apply to residents of other Zones.

Budget 2021 also proposes a maximum of two trips for non-medical personal travel in a year and unlimited trips for medical purposes for all taxpayers in each household.

This measure applies 2021 and future years.

Electronic Filings & Certification of Tax & Information Returns

Budget 2021 proposes to improve the administration of, and compliance with the tax system by operating more digitally to provide Canadians with faster and more convenient services. Some of the notable changes include:

- Certain Notice of Assessments (NOA) will be sent electronically without taxpayer authorization if their tax returns have been filed electronically
- Businesses that use CRA's My Business Account will have communication electronically as the default option
- Issuers of T4A & T5s may submit information returns electronically without taxpayer authorization
- Tax preparers are required to file electronically if they submit 5 or more tax, individual or corporate returns (reduced from 10)
- Tax preparers can only submit a maximum of 5 paper returns, individual or corporate (reduced from 10)
- Handwritten signatures would no longer be required for T183's (individual and corporate), T2200, and other prescribed CRA forms

Measures for Corporations

Emergency Support Measures for Businesses

The Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS) and the related Lockdown Support for businesses that are subject to a lockdown or significant restrictions under a public health order is currently set to expire in June 2021. The government has proposed for these measures to be extended until September 25, 2021, (with further extension possible to November 20, 2021). Under the proposed extension, the support available through these measures will be gradually phased out starting July 4, 2021.

The government has also proposed a requirement for corporations to repay the CEWS received for periods beginning after June 5, 2021, where the aggregate compensation for specified executives during 2021 calendar year exceeds the compensation during the 2019 calendar year.

New Canada Recovery Hiring Program

The budget proposes to introduce a new Canada Recovery Hiring Program to provide certain eligible employers with a subsidy of up to 50% on incremental remuneration paid to eligible employees between June 6, 2021 to November 20, 2021. This subsidy would not be available if the employer has claimed CEWS for the same qualifying period.

Employers that are eligible for CEWS (such as individuals, non-profit organizations, certain partnerships) would generally also be eligible for this hiring subsidy. For-profit corporations would only qualify if they are a Canadian-controlled private corporation (CCPC). The employer must have experienced a decline in revenues to qualify for this subsidy.

This subsidy would not be available for furloughed employees (employees that are on leave with pay but not performing any work for the employer) other than employees that are on vacation leave, sick leave, or a sabbatical. To be eligible, the employee must be employed primarily in Canada during the qualifying period.

Eligible remuneration that would qualify for this subsidy includes salary, wages and other amounts paid to employees that are subject to income tax withholdings by the employer and paid during the qualification period subject to a maximum of \$1,129 per week for each eligible employee. Amounts paid for severance pay, stock option benefits or benefits relating to personal use of a corporate vehicle would not be eligible for this subsidy.

The subsidy amount will be calculated based on the incremental remuneration which is the difference between the total eligible remuneration paid in the qualifying period and total eligible remuneration paid for the baseline period of March 14 to April 10, 2021.

Immediate Expensing of Capital Cost Expenses

The budget proposes a temporary immediate expensing of eligible property acquired by CCPC on or after April 19, 2021 that becomes available for use before January 1, 2024. The eligible property includes depreciable property other than property included in CCA classes 1 to 6, 14.1, 17, 47, 49, and 51.

The immediate expensing will be limited to \$1.5 million per taxation year (prorated for short taxation years) and available for the year in which the property becomes available for use. The limit will be shared among associated corporations and no carry-forward will be allowed for CCPCs with less than \$1.5 million of eligible capital costs.

Rate Reduction for Zero-Emission Technology Manufacturers

The budget proposes a reduction in corporate tax rate on eligible zero-emission technology manufacturing and process income. Under this proposal, the federal portion of the general corporate tax rate would be reduced to 7.5% and the small business tax rate would be reduced to 4.5% for businesses that generate income from activities such as manufacturing of solar, wind, or water energy conversion equipment, and manufacturing of zero-emission vehicles.

To qualify for the reduced tax rates the income from eligible activities must comprise at least 10% of the gross revenue from all active businesses carried on in Canada. The reduced rates would be available for taxation years beginning after 2021 and will be phased out in 2029 through to 2031, returning to unreduced amounts for taxation years beginning in 2032 or later.

Other Measures of Note

Luxury Tax on Certain Cars, Boats and Personal Aircraft

The introduction of a tax on the retail sale of luxury cars, personal aircraft and boats was proposed. The tax on luxury cars and aircraft priced over \$100,000 would be the lesser of 10% of the full value of the car or aircraft or 20% of the value above \$100,000. The tax on boats priced over \$250,000, the tax would be the lesser of 10% of the full value of the boat or 20% of the value above \$250,000.

Luxury cars include coupe, sedans, station wagons, sports cars, passenger vans and mini vans (that accommodate 10 passengers), SUVs as well as passenger pick-up trucks.

The following vehicles are excluded from the proposed tax:

- Motorcycles, ATVs, and snowmobiles
- Racing cars (as opposed to vehicles that are “street legal”); and
- Motorhomes and recreational vehicles

Aircraft include aeroplanes, helicopters, and gliders.

The following are excluded:

- Large commercial aircraft that can carry more than 39 passengers
- Smaller commercial aircraft
- Public sector aircraft

Boats include yachts, recreational motorboats, and sailboats.

The following are excluded:

Smaller personal watercraft (like water scooters), Floating homes, Commercial fishing vessels, ferries, and cruise ships.

Employee Ownership Trusts

With the view to assist employees and ownership to transition privately owned businesses to employees, the government announced a proposal to engage with stakeholders to review the merits of employee ownership trusts and how this type of trust can benefit Canadian private businesses.

Home Retrofit Interest Free Loan of \$40,000

Starting in 2021/2022, the federal government will provide interest free loans of up to \$40,000 through Canada Mortgage Housing Corporation (CMHC) to assist homeowners and landlords in undertaking energy efficient retrofits, including:

- Replacing oil furnaces with high efficiency furnaces
- Better wall or basement insulation
- Installing high efficiency water heater
- Replacing drafty windows and doors

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

Beginning in 2022, Budget 2021 proposes the introduction of a brand new national 1% tax on the fair market value of non-resident, non-Canadian owned residential real property that is considered vacant or underused.

Starting in 2023, owners of residential property in Canada (except for Canadian citizens and Permanent residents of Canada) will also be required to file an annual declaration with the CRA for each residential property owned in the prior calendar year.

The content of the declaration will include:

- Property address
- Property value
- Owner's interest in the property
- Exemption claims (if the property was leased to qualified tenants in a minimum period)

Failure to file the annual declaration will result in penalties and interest.

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