Wealth Management

A SPECIAL REPORT FROM RBC WEALTH MANAGEMENT SERVICES

Cory D'Eon, BBA, MBA
Senior Investment & Wealth Advisor
Tel: 902-749-4441
cory.deon@rbc.com

Sarah Wier
Associate
Tel: 902-424-1023
sarah.wier@rbc.com

Natalie Bullerwell
Associate
Tel: 902-749-4443
natalie.bullerwell@rbc.com

C. d'Eon Group
of RBC Dominion Securities
296 Main Street
Yarmouth, NS B5A 1E4
Toll free: 1 888-440-0447
www.corydeon.com

2021 Federal Budget April 19, 2021

A summary of the key measures that may have a direct impact on you

Deputy Prime Minister and Minister of Finance Chrystia Freeland released the long-awaited federal budget on April 19, 2021, more than two years after their last full budget. The budget featured an unprecedented $101 billion of stimulus aimed at spending Canada's way to growth.

There were few revenue increases in the form of new or increased taxes. Many had speculated leading up to the budget that the government could increase the capital gains inclusion rate, address housing policy by reviewing the principal residence exemption, introduce a wealth tax, or close other "loopholes" that are perceived to benefit wealthy individuals. None of these are proposed, nor are there other major tax changes included in the budget. Additionally, both federal personal and corporate income tax rates remain unchanged.

The budget's massive spending is spread over several themes. The biggest area of spending is aimed at a child care social infrastructure program that aims to improve the "she-cession". The budget earmarks $30 billion towards early learning and child care with the goal of reaching an average $10 a day childcare by 2026. Some pandemic-related government measures such as the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) and Lockdown Support have been extended, in addition to introducing a new Canada Recovery Hiring Program. Other spending themes are aimed towards young people, low-wage workers, digital transformation and green economy transition.

Notable spending initiatives that were not included in the budget are a national pharmacare program, or an expansion of paid sick leave.

The following is a summary of some of the most significant measures announced in the budget.

Pandemic relief

Canada Recovery Hiring Program

The budget proposes to introduce the new Canada Recovery Hiring Program which will run from June to November 2021 making it easier for businesses to hire back laid-off workers or to bring on new ones and allowing businesses to shift from the CEWS to this new support. The hiring subsidy will 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. Eligible employers would be permitted to claim either the hiring subsidy or the CEWS for a particular qualifying period, but not both.

To qualify for a hiring subsidy 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 (i.e. a decline in revenues sufficient to qualify for the CEWS); and
- 10%, for qualifying periods between July 4, 2021 and November 20, 2021, where the CEWS is no longer in effect.

Eligible employers include, employers eligible for the CEWS who are Canadian-controlled private corporations (CCPCs), individuals, non-profit organizations, registered charities, and certain partnerships. It does not include corporations or trusts that are public institutions such as municipalities and local government, public universities, colleges, schools and hospitals.

Eligible employees include those 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). It does not apply to an employee who is on leave with pay and are therefore remunerated by the eligible employer while not actually performing any work for the employer. Leave with pay does not include periods of paid absence, such as vacation leave, sick leave, or sabbatical.

Incremental remuneration for a qualifying period means the difference between an employer's total eligible remuneration (e.g. salary, wages, but not severance pay, stock option benefits or personal use of corporate vehicle) paid to eligible employees for the qualifying period and its total eligible remuneration paid to eligible employees for the baseline period.

For more details regarding the calculation of the subsidy please consult with a qualified tax advisor.

CEWS

In response to the COVID-19 pandemic, the government introduced the CEWS to provide eligible employers that have experienced a decline in revenues with a base subsidy for eligible remuneration paid to their employees. In addition, the wage subsidy provides a top-up subsidy to employers that have experienced a decline in revenues of at least 50%. The maximum combined base and top-up subsidy rate is 75%, on up to $1,129 of remuneration per week for each employee, through the qualifying period ending on June 5, 2021.

The government proposes to extend the wage subsidy to September 25, 2021. The subsidy rate will be gradually phased out starting July 4, 2021 and only employers with a decline in revenues of more than 10% would be eligible for the wage subsidy as of that date.

A separate wage subsidy rate structure applies to furloughed employees. The wage subsidy for furloughed employees is aligned with the benefits provided through Employment Insurance (EI) until June 5, 2021. The government proposes that the wage subsidy for furloughed employees will remained aligned with EI and be available to eligible employers until August 28, 2021.

The government proposes to require publicly listed corporations to repay wage subsidy amounts received for a 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 its specified executives during the 2019 calendar year. Specified executives will be its named executive officers whose compensation is required to be disclosed under Canadian securities laws.

CERS

The government previously introduced the CERS to provide qualifying organizations that have experienced a decline in revenue due to the COVID-19 pandemic with direct and easy access to rent support. The CERS provides qualifying organizations with a subsidy on qualifying expenses. The maximum base rent subsidy rate is set at 65% of eligible expenses until June 5, 2021. The budget proposes the base rent subsidy rate structures for June 6, 2021 to September 25, 2021. The budget proposes to gradually decrease the rate of the rent subsidy beginning on July 4, 2021, to ensure an orderly phase out of this program. As well, only organizations with a decline in revenue of more than 10% will be eligible for the base rent subsidy beginning July 4, 2021.

The budget also proposes to extend the current 25% rate Lockdown Support under the CERS that provides additional help to locations that must cease operations or significantly limit their activities under a public health order. The budget proposes to extend the Lockdown Support for the qualifying periods from June 6, 2021 to September 25, 2021.

The government will seek the legislative authority to extend the program further through regulations until November 20, 2021 should the economic and public health situation require further support beyond September 2021.

Extending recovery benefits

The government recognized that certain workers who did not qualify for EI regular benefits needed support during the pandemic and created a suite of new temporary benefits: the Canada Recovery Benefit (CRB), the Canada Recovery Caregiving Benefit (CRCB), and the Canada Recovery Sickness Benefit (CRSB).

The government proposes to provide up to 12 additional weeks of income support for those who will start exhausting their 38 weeks of CRB on June 19, 2021, for a maximum of 50 weeks of support. The first four of these additional 12 weeks will be paid at $500 per week and the remaining 8 weeks will be paid at a lower amount of $300 per week. All new CRB claimants after July 17, 2021 would also receive the lower rate of $300 per week.

The government also proposes to provide an additional 4 weeks, up to a maximum of 42 weeks, for the CRCB at $500 per week.

The government will seek legislative authorities to make further extensions, as necessary, past September 25, 2021 and until no later than November 20, 2021, for these recovery benefits. Corresponding amendments to the Canada Labour Code are also proposed.

Tax treatment of COVID-19 benefit amounts

Generally, if a COVID-19 benefit amount is repaid, you would only be able to claim a deduction in the year the repayment was made. Therefore, if a repayment does not occur in the same year as the receipt of the benefit, you may owe tax in respect of the benefit in one year and would be able to claim a deduction for the repayment in a later year.

The budget proposes to allow you the option to request an adjustment to your tax return for the year that the COVID-19 benefit was received so that you can claim a deduction for the benefit repayment in the year in which the benefit amount was received. The COVID-19 benefits include: Canada Emergency Response Benefits / Employment Insurance Emergency Response Benefits; Canada Emergency Student Benefits; CRBs; CRSBs; and CRCBs. This option will be available for benefit amounts repaid at any time before 2023.

The budget also proposes that any COVID-19 benefits paid to an individual who resides in Canada but are considered non-residents of Canada for tax purposes will be taxable in Canada in a manner similar to employment and business income earned in Canada.

Supporting working parents

Establishing a Canada-wide early learning and child care system

The government proposes to build alongside provincial, territorial and Indigenous partners a Canada-wide, community-based system of quality child care. The government is aiming to:

- Reduce average fees by 50% for regulated early learning and child care in all provinces outside Quebec, before or by the end of 2022;
- Bring fees down to an average of $10 a day by 2025-26 for all regulated child care spaces in Canada;
- Create ongoing annual growth of affordable child care spaces across the country;
- Improve and expand before- and after-school care;
- Support primarily not-for-profit sector child care providers and ensure families in all licensed spaces benefit from more affordable child care; and
- Ensure that early childhood educators have the training and development opportunities needed to support their growth and the growth of a quality system of child care.

Protecting and supporting seniors

Old age security (OAS) for pensioners age 75 or older

For OAS pensioners who will be age 75 or older as of June 2022, the budget proposes to provide a one-time payment of $500 in August 2021. The budget also proposes an increase to regular OAS benefits by 10% on an ongoing basis for pensioners age 75 or older starting in July 2022. Therefore, if you are currently entitled to the maximum OAS benefit, your benefits will increase by an estimate of $766 in the first year. This amount will rise over the years, as OAS benefits are indexed to inflation.

Protecting seniors

In order to protect and support seniors throughout the pandemic and for years to come, the government proposes to strengthen long-term care and supportive care as well as provide support for seniors to stay in their homes for longer. In order to do this, the budget proposes to provide:

- $3 billion over five years, starting in 2022-23, to Health Canada to support provinces and territories ensure that standards for long-term care are applied so that seniors can live in safe and dignified conditions; and

- $90 million over three years to launch the Age Well at Home initiative. This initiative would assist community-based organizations in providing support to help low-income and otherwise vulnerable seniors age in place. This could include matching seniors with volunteers to help with meal preparations, home maintenance, daily errands, yard work and transportation.

Supporting Canadian workers

Canada Workers Benefit (CWB)

The budget includes certain measures designed to improve working wages and address income inequality.

The CWB is a refundable tax credit that is designed to help working individuals and families earning a low income, by providing them with tax refund – up to almost $1,400 for single individuals without children and $2,400 for families. The CWB is an income-tested benefit. The budget proposes to make enhancements to the CWB starting in 2021, including raising the income level at which the benefit starts being reduced from $13,194 to $22,944 for single individuals without dependants and from $17,522 to $26,177 for families.

The CWB also includes a disability supplement. Corresponding changes would be made to this as well.

The government recognizes that benefits targeted on the basis of family income can deter secondary earners in couples from going back to work. To further boost workforce participation, the budget proposes to allow secondary earners to exclude up to $14,000 of their working income when income-testing the CWB.

The government also announced its intention to introduce legislation that will establish a federal minimum wage of $15 per hour, rising with inflation. Provisions will be included to ensure that where provincial or territorial minimum wages are higher, that wage will prevail.

Enhancing employment insurance (EI) sickness benefits

There is currently 15 weeks of sickness benefits available under EI. The budget proposes to enhance sickness benefits from 15 weeks to 26 weeks, effective summer 2022. There will also be legislative changes made to ensure job protection for those who are receiving EI sickness benefits that work in federally regulated industries.

Supporting students

Waiving interest on student loans for an additional year

To ensure that the cost of post-secondary education in Canada remains predictable and affordable for everyone during the economic recovery, the government proposes to extend the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023.

Enhancing repayment assistance

The government provides repayment assistance to borrowers with low incomes. Currently, the threshold for this support is earning $25,000 per year or less, for a single borrower. To ensure that no federal student loan borrower ever has to make a payment they cannot afford, the budget proposes to increase the threshold for repayment assistance to $40,000 for borrowers living alone, so that nobody earning $40,000 per year or less will need to make any payments on their student loans.

To ensure that the eligibility for repayment assistance keeps pace with the cost of living, the new income cut-offs will be indexed to inflation.

Doubling the Canada Student Grants for two additional years

To ensure students from low-income households remain supported throughout COVID-19 and continue to have access to this opportunity as the economy recovers, the government is announcing its intention to extend the doubling of the Canada Student Grants until the end of July 2023.

Expanding access to supports for students and borrowers with disabilities

The government proposes to extend disability supports under the Canada Student Loans Program to recipients whose disabilities are persistent or prolonged, but not necessarily permanent.

Personal tax changes

Improving access to the disability tax credit (DTC)

To help more families and people with disabilities access the DTC and other related support measures like the registered disability savings plan and the child disability benefit, the budget proposes to update the list of mental functions of everyday life that is used for assessment for the DTC. This will allow for easier assessments, improved access to benefits and reduce delays.

The budget also proposes to recognize more activities in determining time spent on life-sustaining therapy and to reduce the minimum required frequency of therapy to qualify for the DTC. To ensure these changes enable applicants to have a fair and proper assessment of their eligibility for the DTC, the government will undertake a review of these changes in 2023.

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.

Northern Residents Deduction

Currently, the Northern Residents Deduction only provides tax relief to those who already receive travel benefits through work. The budget proposes to expand the travel component of the Northern Residents Deduction to northerners without employer-provided travel benefits. You would be allowed to claim up to $1,200 in eligible travel expenses. This measure would take effect starting with the 2021 tax year.

Postdoctoral fellowship income

An amount awarded to a postdoctoral fellow for postdoctoral work generally does not qualify for the scholarship exemption and is taxable similar to employment income. However, this fellowship income does not create registered retirement savings plan (RRSP) contribution room. The budget proposes to include postdoctoral fellowship income received in 2021 and subsequent taxation years in “earned income” for purposes of determining your RRSP contribution limit. In addition, you will be able to request in writing to the Canada Revenue Agency (CRA) for an adjustment to your RRSP room for postdoctoral fellowship income you received in the 2011 to 2020 taxation years.

Correcting contribution errors in defined contribution (DC) pension plans

The budget proposes to permit DC pension plan administrators to correct:

- Under-contribution errors made in any of the five preceding years via additional contributions to an employee's account, subject to a dollar limit; and
- Over-contribution errors made in any of the five preceding years where the excess amount is refunded to the employee or employer who made the contribution.

Additional contributions or refunds of over-contributions would affect the employee's RRSP contribution room accordingly.

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

Business tax changes

Digital services tax (DST)

The government is committed to ensuring that corporations in all sectors, including digital corporations, pay their fair share of tax on the money they earn by doing business in Canada. In the 2020 Fall Economic Statement, the government announced that it would be moving ahead to implement a tax on corporations providing digital services.

Although the government has a strong preference for a multilateral approach to this issue, the budget proposes to implement a DST at a rate of 3% 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 proposed tax is intended to ensure that revenue earned by large businesses – foreign or domestic – from engagement with online users in Canada, including through the collection, processing and monetizing of data and content contributions from those users, is subject to Canadian tax.

The DST would apply to revenue from online business models in which the participation of users, including by the provision of data and content contributions, is a key value driver. Specifically, it would apply to revenue from online marketplaces, social media, online advertising and user data.

The government did not release draft legislation in the budget, but discussed their proposed approach. They plan to engage with the provinces and territories to discuss the implications of the DST. In addition, the government welcomes feedback, by June 18, 2021, from stakeholders on the proposed approach to implementing the DST. The government anticipates that draft legislation for a new statute implementing the DST would be released for public comment during summer 2021, taking into account the feedback received.

Immediate expensing

The capital cost allowance (CCA) system determines the deductions that a business may claim each year for income tax purposes in respect of the capital cost of its depreciable property. The budget proposes to provide temporary immediate expensing in respect of certain property acquired by a CCPC. “Eligible property” that is entitled to this immediate expensing must be acquired by a CCPC on or after April 19, 2021 and become available for use before January 1, 2024. The immediate expensing would only be available for the year in which the property becomes available for use. The maximum amount that can be expensed is $1.5 million per taxation year and this amount would be shared among associated members of a group of CCPCs. For CCPCs with less than $1.5 million of eligible capital costs, no carryforward of excess capacity would be allowed.

A CCPC may expense up to $1.5 million in addition to all other CCA claims under existing provisions of the Income Tax Act (ITA), provided the total CCA deduction does not exceed the capital cost of the property.

Interest deductibility limits

Many companies borrow in order to fund their operations. Generally, the interest charges on those borrowings are considered a cost of doing business and, therefore, are deductible from income for tax purposes.

Excessive interest deductions claimed by some companies, typically multinationals such as large oil and gas companies can reduce or erode the Canadian tax base. Therefore, the budget proposes to limit the amount of interest that certain businesses can deduct to 40% of their earnings for taxation years beginning on or after January 1, 2023 and to further limit the deduction to 30% of their earnings for taxation years beginning on or after January 1, 2024.

Relief will be provided for small businesses and other situations that do not represent significant tax base erosion risks. For example, exemptions from the new rule would be available for:

- CCPCs that, together with any associated corporations, have taxable capital employed in Canada of less than $15 million; and
- Groups of corporations and trusts whose aggregate net interest expense among their Canadian members is $250,000 or less.

The government expects to release draft legislation for comment this summer.

Other measures

Luxury tax

Starting on January 1, 2022, the budget proposes a tax on the purchase of new personal-use luxury cars, aircraft and boats. The tax will apply to luxury cars and personal aircrafts with a retail price over $100,000 and to boats with a price over $250,000.

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.

Tax on unproductive use of Canadian housing by foreign non-resident owners

The government intends to implement a national, annual 1% tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused, effective January 1, 2022. There may be an exemption of the tax where the property is leased to one or more qualified tenants for a minimum period in a calendar year.

All owners who are not Canadian citizens or permanent residents of Canada will need to file a declaration as to the current use of the property. There will be significant penalties for non-compliance.

In the coming months, the government will release more information regarding this measure and provide stakeholders with an opportunity to comment.

Building green homes and communities

Where Canadians seek to replace items in their home to make it more energy efficient or improve insulation, these retrofits will help reduce emissions. To support this, the budget proposes to help home owners with retrofits by providing interest-free loans of up to $40,000 through the Canada Mortgage and Housing Corporation. Loans will be made to eligible homeowners and landlords who make improvements laid out through an authorized EnerGuide energy assessment.

Improving tax compliance

The government is proposing changes to improve tax compliance and making significant investments to strengthen the CRA's ability to curtail tax evasion and aggressive tax avoidance. Some initiatives include:

- A public consultation on proposals to enhance Canada's income tax mandatory disclosure rules. This consultation will address changes to the ITA's reportable transaction rules, a new requirement to report notifiable transactions, and a new requirement for specified corporations to report uncertain tax treatments;
- Proposed measures to address planning initiated by high net worth taxpayers to avoid the collection of tax debt by transferring assets to a non-arm's length person, such as a corporation owned by the same person, in a manner

that leaves them without assets necessary to pay tax debts. The budget also introduces a penalty for those who devise and promote such a scheme;

- Provide funding to support the implementation of a publicly accessible corporate beneficial ownership registry by 2025;
- Strengthen and modernize Canada's general anti-avoidance rule (GAAR);
- Providing funding for the CRA to improve its ability to collect outstanding taxes; and
- Providing funding to allow the CRA to fund new initiatives and extend existing programs such as:
  - Increasing GST/HST audits of large businesses where risk assessment models have found the greatest risk of non-compliance; and
  - Enhancing capacity to identify tax evasion involving trusts and provide better service to executors and trustees.

Electronic filing and certification of tax and information returns

The budget proposes various amendments to improve the CRA's ability to operate digitally, including the following measures:

- Sending certain notice of assessments electronically, without the taxpayer having to authorize the CRA to do so. This measure is effective upon Royal Assent of the enacting legislation;
- Issuers of some information returns sent after 2021, can issue them electronically without prior consent or having to also issue a paper copy; and
- Eliminate the requirement that signatures be in writing on certain prescribed forms. This measure is effective upon Royal Assent of the enacting legislation.

Previously announced measures

The budget confirms the government's intention to proceed with a number of previously announced tax and related measures including:

- The income tax measure announced on November 30, 2020 in the Fall Economic Statement in respect of employee stock options;
- The income tax measure announced on December 9, 2019 to increase the basic personal amount to $15,000 by 2023;
- The income tax measures first introduced in Budget 2019 such as:
  - permitting additional types of annuities (advanced life deferred annuities and variable payment life annuities) under registered plans;
  - pensionable service under an individual pension plan; and
  - the allocation to redeemers methodology for mutual funds; and
- The income tax measures announced in Budget 2018 to implement enhanced reporting requirements for certain trusts to provide additional information on an annual basis.

Prior to implementing any strategies, individuals should consult with a qualified tax advisor, legal professional or other applicable professional.

While it has been the long-standing practice of the CRA to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that the CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.