



Economic and Tax Highlights from the 2022 Federal Budget

"These three pillars – investing in people, investing in green transition, and investing in innovation and productivity – will create jobs and prosperity today and build a stronger economic future for our children."

On April 7, 2022, Canada's Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland delivered her second Federal Budget. The 2022 Federal Budget entitled, "A Plan to Grow Our Economy and Make Life More Affordable" focused primarily on housing, the climate, jobs and growth, and affordability.

Budget 2022 outlined critical steps needed by the government to advance their long-term objectives of building a stronger and more resilient economy, one that generates shared prosperity, while maintaining long-term fiscal sustainability.

Initial thoughts shared by Canadian economists and corporate leaders indicated it was a fiscally responsible budget, and different in tone from past Federal Budgets delivered by this government.

After accounting for Budget 2022 measures and incremental policy actions since the Fall 2021 Economic and Fiscal Update, the budgetary balance is expected to remain below that projected, with a \$113.8 billion deficit for 2021-22, improving to a projected deficit of \$8.4 billion in 2026-27, or about 0.3% of GDP. The federal debt is expected to decline from 46.5% of GDP in 2021-22 to 41.5% of GDP in 2026-27.

Budget 2022 Predictions – which came true?

To the relief of all Canadian taxpayers and contrary to widespread speculation, the government did not increase the capital gains inclusion rate, nor were changes announced to the appropriate use of the principal residence exemption.

"Housing and immigration and skills and childcare. These are social policies, to be sure. But just as importantly, they are economic policies too."

More affordable housing

The budget did introduce measures to make housing more affordable across the country by:

- Doubling housing construction over the next decade;
- Helping Canadians buy their first home and curbing unfair practices that drive up the price of housing;
- Protecting buyers and renters; and

- Fighting homelessness and supporting housing affordability, particularly for the most vulnerable.

Specific measures include the introduction of:

- The Multigenerational Home Renovation Tax Credit – starting in 2023, this refundable tax credit would allow families to claim 15% of up to \$50,000 in eligible renovation and construction costs incurred in order to construct a secondary suite;
- The Tax-Free First Home Savings Account – starting in 2023, this account would give prospective first-time home buyers the ability to save up to \$40,000. Like an RRSP, contributions would be tax-deductible, and withdrawals to purchase a first home would be non-taxable, like a TFSA; and
- A Ban on Foreign Investment in Canadian Housing – restrictions will be proposed that would prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years. Certain listed foreign individuals would be exempt.

Increased defence spending

Budget 2022 recognizes Canada is facing new international democratic challenges – such as combatting more sophisticated illicit financing forces, and the increased need to challenge disinformation and misinformation that threatens public institutions around the world – and proposes new actions to address them.

Responses include adding more than \$8 billion in new funding over five years on top of the planned increases associated with *Strong, Secure, Engaged* - Canada's 2017 defence policy, and outlined intentions for the government to review said defence policy. The aim of this additional funding is to:

- Strengthen Canada's contributions to our core alliances;
- Bolster the capabilities of the Canadian Armed Forces;
- Continue to support culture change, and a safe and healthy working environment in the Canadian Armed Forces; and
- Reinforce Canada's cyber security.

Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime

The government wants to ensure that Canada has the ability to detect these threats through a comprehensive AML/ATF Regime, as well as an equal ability to catch and prosecute these offences, which is vital to protecting Canadians and safeguarding the rule of law in an increasingly complex financial world. To do so, Budget 2022 outlined the government will:

- Work to bring into force new regulations that extend AML/ATF obligations to payment service providers and crowdfunding platforms. This will ensure these businesses are required to monitor and report all instances of suspicious activity that may involve attempted money laundering or terrorist financing;
 - Develop legislative changes to, among other things, strengthen the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, the Criminal Code, and other legislation to enhance the ability of authorities to detect, deter, investigate, and prosecute financial crimes. It will also ensure the government is well placed to manage current and emerging threats outside of the scope of the current AML/ATF Regime; and
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- Conduct a comprehensive review of the AML/ATF Regime. Additional legislative proposals will be brought forward over the coming months to address identified gaps including ensuring that the government has the tools necessary to preserve financial integrity and economic security, as necessary.

Stronger Public Health Care

The government recognizes now, more than ever, we need to strengthen our health care system and ensure that it delivers the care Canadians deserve. Working with the provinces and territories in investing in health care, Budget 2022 outlined the following:

- Increase the number of doctors and nurses in communities that need them the most;
- Immediate steps to reduce backlogs in surgeries and procedures;
- Continuing the government's mandate towards a universal national pharmacare program, and working to have the bill passed by the end of 2023 including a national formulary of essential medicines and bulk purchasing plan;
- Implementing dental care being funded for individuals and families over the 2022-2025 years where they report net incomes less than \$90,000;
- An increase in the baseline transfers to provinces and territories by 4.8% in 2022-2023, along with additional increases in the next five years; and
- Making it easier for Canadians to access the mental health care that they need.

Personal Considerations and Personal Tax Measures

"Budget 2022 proposes additional measures that will make the tax system more fair, and new steps to ensure the federal government is delivering effective programs and services that Canadians deserve."

Personal Income Tax Brackets and Rates

No changes to federal personal income tax rates were announced in Budget 2022.

Minimum Tax for High Earners

28% of personal tax filers who report a gross income in excess of \$400,000 pay an average federal personal tax rate of 15% or less. They achieve such by making significant use of deductions, personal tax credits, and other ways to have large amounts of their income taxed at lower rates.

Budget 2022 announces the government's commitment to examine a new minimum tax regime, which will go further towards ensuring that all wealthy Canadians pay their fair share of income tax.

The government will release details on a proposed approach to implement the minimum tax in the 2022 fall economic and fiscal update.

Bill C-208 Follow-up

The *Income Tax Act* contains a rule that prevents people from converting dividends into lower-taxed capital gains using certain self-dealing transactions – a practice known as "surplus stripping". Private Member's Bill C-208, which

received Royal Assent in June 2021, introduced an exception to this rule in order to facilitate intergenerational business transfers. However, the exception may unintentionally permit surplus stripping without requiring that a genuine intergenerational business transfer takes place.

Budget 2022 announced a consultation process for stakeholders to share their views as to how the existing rules could be strengthened to protect the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers. After the conclusion of the consultation process, a bill may be tabled in the fall of 2022.

Making Property Flippers Pay Their Fair Share

Some people who engage in property flipping may be improperly reporting their profits to pay less tax. Budget 2022 proposes to introduce new rules to ensure profits from flipping properties are taxed fully and fairly. Specifically, any person who sells a property they have held for less than 12 months would be subject to full taxation on their profits as business income. Certain exemptions would be provided. The new rules would apply to residential properties sold on or after January 1, 2023.

Corporate Considerations and Corporate Tax Measures

"We need to make our economy more innovative and more productive, and we need to make it easier for businesses, big and small, to invest, grow, and create jobs in Canada."

Corporate Income Tax Brackets and Rates

No changes to federal corporate income tax rates for Canadian Controlled Private Corporations (CCPCs) were introduced in Budget 2022.

Cutting Taxes for Canada's Growing Small Businesses

Small businesses currently benefit from a reduced federal tax rate of 9% on their first \$500,000 of taxable income, compared to the general federal corporate tax rate of 15%. A business can no longer access this lower rate once its level of capital employed in Canada exceeds \$15 million. To support small to medium businesses in growing and creating jobs, budget 2022 proposes to phase out access to the small business tax rate more gradually, with access to be fully phased out when taxable capital reaches \$50 million, rather than at \$15 million. This measure would apply to taxation years that begin on or after Budget Day.

Introduction of Employee Ownership Trusts

Initially introduced in Budget 2021, Employee Ownership Trusts were broached to assist in facilitating the transition of privately owned businesses to employees. The main barrier to introducing such was the lack of a dedicated trust vehicle tailored to such trust structures. Budget 2022 proposes to create the Employee Ownership Trust – a new, dedicated type of trust under the *Income Tax Act* to support employee ownership.

Requiring Financial Institutions to Help Pay for the Recovery

While the various Federal government COVID-19 support measures worked, they came at a high price – more than \$350 billion for health and safety, and direct support measures.

While many sectors continue to recover, Canada's major financial institutions made significant profits during the pandemic and have recovered faster than other parts of the economy.

Budget 2022 announced two measures to ensure that Canada's major financial institutions support Canada's broader recovery, namely:

- The introduction of a temporary Canada Recovery Dividend under which banking and life insurers' groups (as determined under Part IV of the *Income Tax Act*) will pay a one-time 15% tax on taxable income above \$1 billion for the 2021 tax year. The Canada Recovery Dividend will be paid in equal instalments over five years.
- A permanent increase in the corporate income tax rate by 1.5% on the taxable income of banking and life insurance groups (as determined under Part IV of the *Income Tax Act*) above \$100 million, such that the overall federal corporate income tax rate above this income threshold will increase from 15% to 16.5%.

Implementing a Publicly Accessible Beneficial Ownership Registry

Anonymous Canadian shell companies can be used to conceal the true ownership of assets, including businesses and expensive property. This also makes them vulnerable to misuse for illegal activities, including money laundering, corruption, and tax evasion. These anonymous corporations can also be used to avoid sanctions and the tracing and freezing of financial assets.

To counter this, authorities need access to timely and accurate information about the true ownership of these entities. To this end, the government is accelerating by two years its commitment to amend the Canada Business Corporations Act to implement a public and searchable beneficial ownership registry, which will be accessible before the end of 2023. The registry will cover corporations governed under the aforementioned act and will be scalable to allow access to the beneficial ownership data held by provinces and territories that agree to participate in a national registry. Legislative proposals will be forthcoming as part of the Budget Implementation Act.

As part of its ongoing efforts to improve beneficial ownership transparency, the government intends to work with provincial and territorial partners to advance a national approach to a beneficial ownership registry of real property, similar to other countries, including the United Kingdom.

To ensure that corporate data provided to the registry is accurate and timely, the government will also examine approaches that support the validation and verification of the information in the registry.

The government will engage provincial and territorial governments at the earliest opportunity to advance a national approach to beneficial ownership transparency.

Please note: any proposed changes highlighted above are simply proposals until passed into law by the government.

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