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Federal

Budget 2023

Chrystia Freeland, Deputy Prime Minister and Minister of Finance, delivered Budget 2023 – A Made-in-Canada Plan (Budget 2023) on March 28, 2023. Budget 2023 is influenced by a range of factors, including the need to:

- demonstrate fiscal responsibility after posing massive deficits during the pandemic
- strengthen Canada's public health care system (including dental)
- stay competitive in the transition towards a greener economy
- address the cost-of-living pressures driven by inflation

To respond to these factors, Budget 2023 announces plans to save about $7 billion over five years through cuts to federal travel and reduced outsourcing, reforms to the alternative minimum tax (AMT), an extension of the six-month increase to the GST rebate, and the introduction of a "grocery rebate". Budget 2023 also increases spending in areas like health care and dental care, provides direct support for low-income Canadians, and introduces new programs to boost the clean economy.

Our analysis addresses the following:

Our economy

Growth in Canada's economy has helped its forecasted debt position, shifting the deficit for the 2022-23 fiscal year from a projected $52.8 billion to an actual shortfall of $43 billion. Budget 2023 also forecasts a deficit of $40.1 billion for 2023-24.

Budget 2023 boasts about near record low unemployment rates and the strongest growth in the G7 over the last year. However, it adds that elevated inflation rates are slowing economic growth and increased interest rates are leading to volatility in global financial markets.

To address these challenges, Budget 2023 centres around the following pillars:

People

Budget 2023 announces several measures to support Canadians, including investments in health care—including providing dental care for low-income families, targeted inflation relief, and affordable housing initiatives.

Green economy

Budget 2023 builds on Canada's transition to a green economy through the introduction of various clean-energy programs, partly to align with tax credits and other incentives announced last year in the United States through the Inflation Reduction Act and other policies.

Labour market

Strengthening Canada's labour market, particularly creating "good middle-class careers", is a focus of Budget 2023. It introduces measures to increase employment in the skilled trades, expand training and innovation programs, and support employee ownership trusts (EOT).

In addition, Budget 2023 announces investments to Canada's national defence sector totaling more than $55 billion over 20 years, building upon progress towards Indigenous reconciliation, and measures to help ensure a fair tax system.

Business tax measures

Flow-through shares and the Critical Mineral Exploration Tax Credit

Budget 2023 proposes to expand the definition of a mineral resource for the purposes of the Critical Mineral Exploration Tax Credit (CMETC) to include lithium from brines. The CMETC is a 30% non-refundable tax credit for specified critical mineral exploration expenses.

Certain flow-through share agreements allow investors to deduct renounced Canadian exploration expenses and Canadian development expenses incurred by the flow-through share issue, as well as receive the CMETC.

This measure applies to flow-through share agreements entered after March 28, 2023, and before April 2027.

Tax on share buybacks by public corporations

Budget 2023 provides further details on the proposed new tax that would be imposed on public corporations for equity repurchases (i.e., share buybacks), as announced in the 2022 Fall Economic Statement.

The tax would generally equal 2% of the excess between equity buybacks and issuances for the taxation year; however, it wouldn't apply if buybacks were less than $1 million in a taxation year (this amount would be prorated for a short tax year).

This tax would apply to Canadian-resident corporations whose shares are listed on a designated stock exchange as well as real estate investment trusts, specified investment flow-through (SIFT) trusts, and SIFT partnerships. The tax won't apply to mutual fund corporations.

This measure would apply to transactions that occur beginning January 1, 2024.

General anti-avoidance rule

The general anti-avoidance rule (GAAR) is intended to prevent the misuse or abuse of tax legislation where the object, spirit, and purpose of the legislation has been violated. GAAR was introduced in 1988 and has been the subject of many cases at various levels of the courts. The proposals in Budget 2023 are intended to broaden the scope and improve the clarity of the rule.

Budget 2023 announces significant proposed changes to the GAAR in connection with the government's initiative to modernize the rule. The main changes would include:

1. **Broadening the definition of an avoidance transaction to include a transaction where "one of the main purposes", rather than simply the "primary purpose" of the transaction is to avoid tax.**
2. **Consideration of whether there is a "lack of economic substance" to a transaction at the "misuse or abuse" stage of the GAAR analysis.**
3. **The introduction of a penalty of 25% of the amount of a tax benefit subject to GAAR as well as a reduction to nil of a tax attribute which could save tax in the future (e.g., loss carry forward).**
4. **Extension of the normal reassessment period for the GAAR assessments by three years beyond the normal reassessment period.**

The proposed penalty and extended reassessment period rules aren't applicable when the transaction is disclosed to the Canada Revenue Agency (CRA)—whether because of the proposed mandatory disclosure rules introduced in Budget 2022 or through a new voluntary filing of an information return. Details on the voluntary filing, including information about the prescribed form or what's to be disclosed, were not included in Budget 2023.

The Ministry of Finance (Finance) is offering a consultation period closing May 31, 2023. Finance will publish revised legislation and announce the effective date of the amendments subsequent to this consultation period.

Dividends received by financial institutions

Currently, financial institutions are subject to special rules for taxation of income on market-to-market (MTM) property that they own. MTM property generally includes portfolio shares in which the financial institution has 10% or less of the votes or value of the corporation. For these types of MTM properties, the financial institution must recognize realized and unrealized gains and losses as regular income on an annual basis, but like non-financial institutions, they can deduct dividends received from their income.

Budget 2023 announces the elimination of the deduction available to financial institutions on dividends received on MTM property. This measure will apply to dividends received after 2023.

Definition of a “credit union” for income tax and Goods and Services Tax/Harmonized Sales Tax purposes

Budget 2023 changes the definition of a credit union—for the purposes of income tax and Goods and Services Tax/ Harmonized Sales Tax (GST/HST)—to remove the current exclusion of entities that receive more than 10% of their revenue from non-specified sources. This updated definition is more reflective of the Canadian credit unions which are full-service financial institutions that earn revenue from a broader suite of services than interest and lending activities.

This amendment will apply retroactively to taxation years ending after 2016.

Green tax credits

Investment tax credit for clean hydrogen

Budget 2023 clarifies the clean hydrogen (CH) tax credit introduced in Fall Economic Statement 2022. This incentive provides a refundable tax credit to businesses for purchases and installation of eligible equipment used in the production of hydrogen. The production can be from projects that use electrolysis or certain natural gas applications where emissions are abated using carbon capture, utilization, and storage (CCUS).

The rate of the credit will be 15%, 25%, or 40%, depending on the assessed carbon intensity (CI) of the hydrogen that’s produced (measured in kilograms of carbon dioxide equivalent per kilogram of hydrogen). The expected CI will require government verification, and any shortfall impacting the tax credit rate will be subject to a recovery.

If enacted, this new tax credit applies to property that becomes available for use on or after March 28, 2023. The CH tax credit will be reduced by half in 2034 and will be phased out thereafter.

Investment tax credit for clean technology

Budget 2023 expands the clean technology (CT) tax credit to include new geothermal energy systems, described in Class 43.1 of Schedule II of the Income Tax Regulations, that produce electrical or heat energy exclusively from geothermal sources.

First announced in Fall Economic Statement 2022, the proposed CT tax credit will provide a 30% refund to businesses that invest in eligible clean technology equipment, including piping, pumps, heat exchangers, steam separators, and electrical generating equipment. The equipment must have been acquired new and must be available for use on or after March 28, 2023.

The CT tax credit will be reduced by half in 2034 and will be fully phased out thereafter.

Investment tax credit for clean technology manufacturing

Budget 2023 announces the clean technology manufacturing (CTM) tax credit for businesses that invest in eligible property used for qualified activities in the clean technology manufacturing and critical mineral extraction industries. This will be a refundable tax credit at a rate of 30% of the cost of the eligible property. Eligible activities include:

→ manufacturing of certain renewable energy equipment or nuclear energy equipment, heat pumps, zero-emission vehicles, batteries and fuel cells, and certain other clean technologies and components

→ manufacturing of nuclear energy equipment and fuel rods

→ extraction and certain processing activities related to the critical minerals of lithium, cobalt, nickel, graphite, copper, and rare earth elements

The CTM tax credit applies to property that is acquired and becomes available for use on or after January 1, 2024. It will be gradually phased out for property that’s available for use starting in 2032 and no longer available for property that becomes available for use after 2034.

Investment tax credit for clean electricity

Budget 2023 proposes a new 15% refundable tax credit available to taxable and non-taxable entities engaged in clean electricity generation projects. The new clean electricity (CE) tax credit will apply to eligible investments in new projects and refurbishments of existing facilities in:

- → non-emitting electricity generating systems such as wind, concentrated solar, solar photovoltaic, hydroelectric (including large-scale), wave, tidal, and nuclear
- → abated natural-gas fired electricity generation which would be subject to an emissions intensity threshold compatible with a net-zero grid by 2035
- → stationary electrical storage systems that don't use fossil fuels in operation, such as batteries, pumped hydroelectric storage, and compressed air storage
- → equipment for transmission of electricity between provinces and territories

In addition to taxable businesses, eligible entities will include non-taxable Crown corporations, publicly owned utilities, Indigenous-owned corporations, and pension funds.

The CE tax credit is proposed to be available as of the day of Budget 2024 for projects that haven't begun construction before March 28, 2023, and would be phased out by 2034. In the meantime, Finance will undertake further consultations with the provinces, territories, and other relevant parties to further develop the design and implementation details of this proposed credit.

Investment tax credit for CCUS

Budget 2023 announces various technical design changes to enhance the previously announced CCUS tax credit. The changes include:

- → inclusion of dual use heat and/or power equipment and water use equipment, with proration of the credit based on use of energy or material used in the capture, utilization, or storage process
- → addition of B.C. as an eligible jurisdiction for dedicated geological storage
- → a third-party verification process for concrete storage processes (rather than approval from Environment and Climate Change Canada)
- → inclusion of a recovery calculation in relation to refurbishment property

These measures will apply to eligible expenditures incurred after 2021 and before 2041.

Labour requirements

Budget 2023 extends the benefits of the CT, CH, and CE tax credits for eligible investments, if the business meets certain prevailing wage and apprenticeship requirements. These labour requirements will apply to labourers and tradespeople engaged in elements of eligible projects under those tax credit programs and apply to both employed and contracted workers.

The prevailing wage requirement will require a business to ensure all applicable workers are compensated at a level that meets or exceeds the similar prevailing wage and benefits as specified in an "eligible collective agreement". The requirement can be met through a combination of wage, benefit, and pension contributions.

The apprenticeship eligibility requires that businesses ensure that hours of registered apprentices comprise at least 10% of total labour hours performed by covered workers engaged in subsidized project elements.

Labour requirements will also be applied to the CCUS tax credit, with details to be announced later.

Failure to meet the labour requirements will affect the tax credit programs as follows:

- → CT tax credit – 30 % tax credit rate will be reduced to 20%
- → CH tax Credit – applicable rate tiers of 15%, 25%, and 40% will each reduced by 10%
- → CE tax Credit – 15% tax credit rate will be reduced to 5%

In the phase out years of the CT and CH tax credits, failure to meet the labour requirements will reduce the tax credit rate by 10% to a minimum of zero.

Coordination with other federal tax credits

Businesses can only claim one of the above green tax credits in respect to a particular eligible property; however, multiple tax credits can be claimed for different types of eligible property used in the same project. Additionally, businesses eligible for the existing Atlantic investment tax credit (AITC) can benefit from the CH, CE, or the CTM tax credit without impacting the amount of their AITC.

Tax rate for zero-emission technology manufacturers

Budget 2023 expands the eligible activities for qualifying zero-emission technology manufacturers to include certain nuclear manufacturing and processing activities. Eligible manufacturers will receive the reduced tax rate for taxation years beginning in 2024.

Budget 2023 extends this temporary measure by three years resulting in a phase out for taxation years 2032 through 2034.

Personal tax measures

Intergenerational business transfers

Budget 2023 proposes to modify the rules introduced in Bill C-208 (to facilitate the intergenerational business transfer (IBT) of shares in a small business, family farm, or fishing corporation to a corporation owned by the business owner's child or grandchild) by introducing two separate sets of tests: immediate IBT and gradual IBT. These tests would impose new restrictions not included in Bill C-208 (originally effective, June 29, 2021). These new restrictions introduce new timing requirements for a parent to give up control of the transferred business and for the child to have an active involvement in the business.

Budget 2023 also doubles the maximum number of years that a parent can claim a capital gains reserve (from five to 10 years), where either the immediate or gradual IBT tests have been met. It also expands the definition of 'child' to include grandchildren, great grandchildren, nieces and nephews, and the nieces' and nephews' children. Both immediate and gradual IBTs require the following requirements be met on the disposition of shares of a subject corporation:

- the parent (alone or with their spouse) controlled the corporation being sold (OpCo)
- the parent disposes of their OpCo shares to a company controlled by one or more of their adult children (AcquireCo)
- OpCo is a qualified small business corporation (QSBC) or family farm or fishing corporation at the time of sale
- the parent transfers the majority of OpCo's voting shares at the time of sale and the balance of voting shares within 36 months of sale
    - after the sale, the parent doesn't legally control OpCo or AcquireCo
- the parent transfers at least 50% of the common growth shares of OpCo at the time of sale and the balance of common shares within 36 months of sale
    - after the sale, the parent doesn't own 50% or more of any OpCo shares other than non-voting preferred shares that meet certain tests
- the parent and children file a joint election to have the relevant rules apply

In addition to the above conditions, the immediate IBT test requires that:

- the parent doesn't have economic influence that results in effective control following the sale
- the parent transfers management of the business to their child within 36 months, or longer if it's reasonable
- for the first 36 months after the sale, the child (or group of children) controls OpCo and AcquireCo, at least one of the children is actively involved in the OpCo business, and each relevant business of OpCo is carried on as an active business

Under the gradual IBT test:

- parents can still have factual economic control of OpCo immediately following the sale, so long as they no longer have legal voting control
- the parent must reduce their debt and equity interests in OpCo and Acquireco within 10 years of the sale
    - for a qualified small business corporation, the parent's debt and equity interest cannot exceed 30% of the value at the time of the sale; 50% for farm and fishing corporations
- the parent transfers management of the business to their child within 60 months or a longer time if it's reasonable
- until the later of the business transfer being complete or 60 months after the sale, the child (or group of children) controls OpCo and AcquireCo, at least one of the children is actively involved in the OpCo business and each relevant business of OpCo is carried on as an active business

Changes to Bill C-208 will apply to transactions that occur on or after January 1, 2024, if enacted.

Alternative minimum tax

Budget 2023 announces several changes to the AMT rules, which are intended to impose a minimum tax on high income individuals who claim a large amount of deductions and tax credits. It proposes to raise the exemption before AMT applies to approximately $173,000[1]. Further, Budget 2023 increases the AMT rate (from 15%) to 20.5%. It also increases the AMT base (i.e., the calculation of income subject to AMT) by reducing certain deductions, exemptions, and credits given preferential treatment in the calculation.

Proposed changes to the AMT base are as follows:

- 100% of capital gains must be included
- 50% of capital loss carry-forwards and allowable business investment losses would be disallowed
- 30% of capital gains on donations of publicly listed securities must be included
- 100% of stock option benefits must be included
- 50% of certain expenses will be disallowed, including, but not limited to, moving expenses, employment expenses (other than those to earn commission income), and interest and carrying charges to earn property income

Additionally, only 50% (down from 100%) of non-refundable tax credits will reduce AMT, subject to certain limited exceptions.

Budget 2023 proposes no changes to the refundable nature of the AMT.

The proposed changes mean fewer taxpayers will be subjected to AMT, but taxpayers who are subject to AMT will pay more tax. This measure applies to taxation years that begin after 2023.

[1]The actual exemption would equal to the start of the fourth federal bracket and would be indexed for inflation

Employee Ownership Trusts

Budget 2023 provides additional details on the EOTs which were initially proposed in Budget 2022. An EOT is a trust that owns a qualifying business with the intent of promoting employee ownership and facilitating business succession.

A qualifying business is a corporation controlled by a trust that:

- is a Canadian-controlled private corporation (CCPC) of which more than 90% of the assets (other than partnership interests) are used principally (more than 50%) in an active business carried on primarily (more than 50%) in Canada by itself or a controlled subsidiary
- has less than 40% of its directors consisting of individuals who hold more than a 50% value of shares or indebtedness of the business prior to the trust acquiring control
- deals at arm's length and is not affiliated with any person or partnership that holds more than a 50% value of shares or indebtedness of the business prior to the trust acquiring control

An EOT needs to meet the following criteria:

- must be a Canadian-resident trust (other than deemed resident trusts)
- after beneficiaries
  - must be employees of one or more qualifying business controlled by the trust
  - must not own, directly or indirectly, more than 10% value of any class of shares of a qualifying business controlled, directly or indirectly, by the trust, or more than 50% value of any class of shares together with any related or affiliated person or partnership
  - immediately before transferring a qualifying business to the trust, must not own, directly or indirectly, together with any related or affiliated person or partnership more than a 50% value of shares or indebtedness of the qualifying business
- interest in the trust must be based on the employee's length of service, remuneration, and hours worked (otherwise, all beneficiaries must generally be treated the same)
- the trust must hold shares of qualifying businesses for the employee beneficiaries of the trust but cannot distribute the shares to the beneficiaries

- each trustee must:
  - be a Canadian resident individual or a Canadian corporation that is licensed or authorized to serve as a trustee
  - be elected by beneficiaries over the age of 18 at least once every five years
  - have equal voting rights with regards to the trust's affairs
- individuals who hold more than 50% value of shares or indebtedness of the business prior to the trust acquiring control must not account for more than 40% of the trustees of the trust and 40% of the directors of the board of a corporation serving as a trustee of the trust
- all or more than 90%, of the trust's assets must be shares of qualifying businesses whereby all beneficiaries are employed

An EOT is taxed the same way as other personal trusts but will have the following benefits:

Rule	Existing	Proposed
Capital Gains Reserve on sale of shares to an EOT	Five-year deferral period to recognize capital gain on a sale of capital property	10 year reserve for qualifying business transfer* to an EOT
Shareholder Loan Rule	Deemed income inclusion if the shareholder loan is not repaid within one year	Repayment period extended to 15 years for amounts loaned to EOT from qualifying business to purchase shares in a qualifying business transfer*
21-Year Rule	Deemed disposition of capital property in the trust every 21 years	EOT is exempt from the 21-year rule, which will be reinstated if the trust fails to meet the EOT conditions listed above

*Qualifying business transfer occurs when the shares of qualifying business are sold to a trust that qualifies as an EOT immediately after the sale, or to a CCPC controlled or 100% owned by a trust. The taxpayer must be at arm's length with the trust at the time of the sale and the trust must acquire control of the qualifying business immediately after the transfer.

The EOT rules will come into effect on January 1, 2024.

Grocery Rebate

Budget 2023 proposes a one-time increase, referred to as the "Grocery Rebate", to the GST Credit (GSTC) for low-income individuals for January 2023. The changes are as follows:

Change	Current	Additional "Grocery Rebate" payment (January 2023 only)
Max. GSTC per quarter		
- per adult	$77	$153
- per child	$40	$81
- additional single supplement	$40	$81
GSTC entitlement phase-out rate (Based on 2021 adjusted family net income above $39,826*)	5%	15%
Single supplement phase-in rate (Based on 2021 net income over $9,919*)	2%	6%

*There are no changes to the phase-in and phase-out income thresholds.

Qualifying individuals will receive the additional GSTC payment, equivalent to twice the amount of payment under the current rules, when the legislation receives Royal Assent.

Deduction for tradespeople's tool expenses

Budget 2023 doubles the maximum deduction for tradespeople's tool expenses to $1,000 (from $500), effective for 2023 and subsequent taxation years. A tradesperson can claim the deduction on the cost of eligible tools acquired in the year that is more than the Canada Employment Credit ($1,368 in 2023). The deduction can't exceed the taxpayer's income earned as a tradesperson, including any apprenticeship grants.

Furthermore, Budget 2023 adjusts the apprentice vehicle mechanics' tools deductions for extraordinary tools accordingly. This now equals the greater of the costs in excess of the Canada Employment Credit plus the new deduction for tradespeople's tool expenses of $1,000, or 5% of the taxpayer's income earned as apprentice mechanic.

Registered education and disability savings accounts

Budget 2023 proposes the following changes to the Registered Education Savings Plan (RESP) and Registered Disability Savings Plan (RDSP):

Measure	Current	Proposed	Effective
RESP			
Educational Assistance Payments (EAPs) withdrawal limit	• $5,000 in respect of the first 13 consecutive weeks of enrolment in a 12-month period for full-time programs • $2,500 per 13-week period for part-time programs	• $8,000 in respect of the first 13 consecutive weeks of enrolment for full-time programs • $4,000 per 13-week period for part-time programs	March 28, 2023
Joint RESP requirement	• Only spouses and common-law partners can open joint RESPs • Joint RESPs opened prior to divorce or separation cannot be moved to a different promoter	• Divorced or separated parents can also open joint RESPs for their children • Joint RESPs opened prior to divorce or separation can be moved to another promoter	March 28, 2023
RDSP			
Qualifying family member	• A qualifying member (parent, spouse, or common-law partner) can open an RDSP for an adult who is mentally incapable of entering into a contract, until December 31, 2023	• Budget 2023 extends the temporary measure to December 31, 2026 • Budget 2023 expands the definition of a qualifying family member to include a sibling who is over the age of 18	Date of Royal Assent (TBD)

Refundable tax on fees paid by unfunded retirement compensation arrangements

Currently fees employers pay for a letter of credit or surety bond in an unfunded retirement compensation arrangement (RCA) are subject to a Part XI.3 refundable tax of 50%. However, when retirement benefits are later paid out to the retiree, they're paid directly by the employer. As a result, these benefits don't flow out of the RCA trust and there is no mechanism to recover the refundable tax paid. Budget 2023 proposes to exempt the fees paid by an RCA trust to secure or renew a letter of credit or surety bond by an unfunded RCA from the Part XI.3 tax. Further, employers who previously remitted refundable taxes in respect of such fees or premiums can request a refund of 50% of the retirement benefits paid, up to the amount of the refundable tax previously paid. This proposed change would apply to retirement benefits paid after 2023.

Taxpayer information sharing for the Canadian Dental Care Plan

Budget 2023 authorizes the CRA to share certain taxpayer information with an official of Employment and Social Development Canada or Health Canada for determining eligibility under the Canadian Dental Care Plan, effective upon Royal Assent.

Sales tax measures

GST/HST taxation of payment card clearing services

Budget 2023 proposes to exclude payment card clearing services from the GST/HST definition of financial services. Payment card clearing services rendered by payment card network operators will be subject to the GST/HST, as a result.

Such services were historically treated by most suppliers as taxable services; however, a recent tax court decision found that these services were exempt from GST/HST. Budget 2023 proposes to amend the definition of "financial service" to clarify that such services attract GST/HST.

Payment card clearing services are proposed to be subject to GST/HST where any consideration for the service becomes due, or is paid without becoming due, after March 28, 2023. This measure is also proposed to apply retroactively in certain situations, except where a supplier did not, on or before March 28, 2023, charge, collect, nor remit GST/HST in respect of the supply or any other.

Previously announced GST/HST and other indirect tax measures

Budget 2023 confirms the government's intention to proceed with previously announced GST/HST and other indirect tax measures, including those relating to the treatment of crypto asset mining, residential property assignment sales, joint venture elections, and financial institution information return filing thresholds.

Budget 2023 proposes no changes or clarifications to the Underused Housing Tax. The CRA has separately announced temporary relief from interest and penalties in respect of filings filed after the April 30, 2023 due date, provided they are filed on or before October 31, 2023.

Customs Tariff measures

Budget 2023 proposes to extend and update General Preferential Tariff and Least Developed Country Tariff programs, which are intended to support economic advancement of developing nations through reduced tariff rates and other administrative measures. These programs are currently set to expire in 2024 and are proposed to be extended until 2034, with expanded beneficial treatment for certain import categories.

Budget 2023 also proposes to amend the Customs Tariff to eliminate the 'Most-Favoured-Nation' status of Russia and Belarus, resulting in a 35% tariff applying to goods imported from these countries. This measure was first introduced in March 2022.

Budget 2023 announces the federal government's intention to introduce legislation to eradicate forced labour from Canadian supply chains and strengthen the import ban on goods produced using forced labour by 2024. This measure is designed to ensure importers address their supply chain vulnerabilities and manufactured goods exclude forced labour.

Air Travellers Security Charge increase

Budget 2023 increases the Air Travellers Security Charge (ATSC), which is paid by passengers purchasing flight tickets. The ATSC includes a chargeable flight segment, which will increase by 32.85%, following more than a decade of fixed rates. This charge finances federal security screening programs of air passengers and their baggage.

This measure applies to air transportation services that include a chargeable flight segment on or after May 1, 2024 for which any payment is made on or after that date. While the draft legislative amendments indicate the changes come into effect on May 1, 2023, all other references in the budget commentary, including the proposed rate table below, reference May 1, 2024.

Proposed ATSC Rate ($)*	Current	May 2024 and ongoing
Domestic (one-way)	7.48	9.94
Domestic (round trip)	14.96	19.87
Transborder	12.71	16.89
Other International	25.91	34.42

*Note: The above rates include the GST or the federal portion of the HST, where applicable

Alcohol excise duty rates and inflation relief

In addition to other measures targeting inflation relief for Canadians, Budget 2023 proposes to cap the indexed excise duty rate increases for all alcoholic beverage products at 2% for one year.

Excise duty rates for beer, wine, and spirits normally increase automatically based on the Consumer Price Index inflation rate as of April 1 each year, which would have resulted in a duty rate increase of 6.3%. This measure is proposed to come into force on April 1, 2023.

Cannabis and vaping excise duty filing frequency changes

Budget 2023 expands quarterly filing eligibility to all cannabis licensees. Previously, only smaller licensed cannabis producers were permitted to remit duty on a quarterly basis. The proposed measure also defines quarterly reporting periods to be calendar quarters beginning the first day of January, April, July, or October. Vaping product licensees are proposed to have fiscal months which are calendar months.

These measures are proposed to come into force on April 1, 2023.

Indigenous taxation

Budget 2023 outlines a range of existing and proposed measures supporting self-determination priorities of First Nations, Inuit, and Métis communities, and reiterates the federal government's commitment to negotiate new taxation agreements with interested Indigenous governments.

Potential taxation agreements include the expansion of the First Nations Goods and Services Tax (FNGST) to additional nations' settlement lands and reserves, as well as enabling the implementation of personal income taxes with interested communities. Budget 2023 describes the ongoing development of a voluntary framework for taxation of fuel, alcohol, cannabis, and tobacco (FACT). The FACT framework is being designed in collaboration with Indigenous stakeholders and is intended to provide additional flexibility for Indigenous communities to exercise tax jurisdiction within their lands.

Budget 2023 also highlights the federal government's support for and willingness to facilitate discussions regarding taxation arrangements between Indigenous governments and provincial or territorial governments.

International tax measures

Budget 2023 provides an update on recent developments related to the Organisation for Economic Co-operation and Development (OECD) /Group of 20 two-pillar approach to address Base Erosion and Profit Shifting (BEPS) arising from the digitalization of the economy.

Pillar One

Pillar One reassigns taxing rights over the profits of large and profitable multinational enterprises (MNEs) to market jurisdictions in which customers and users are located. Impacted MNEs are those with global revenues above €20 billion and a profit margin above 10%.

Budget 2023 confirms that the government is working with international partners to develop Pillar One rules and the multilateral convention needed to establish and implement the framework. The OECD released draft model rules for public comment, which were consolidated in two progress reports released in July and October 2022. The intention is for the multilateral convention implementing Pillar One to be released in mid-2023, taking effect in 2024.

The government also plans to release revised draft legislation for the Digital Services Tax (DST). As noted in Budget 2021, the DST will be imposed on revenue earned as of January 1, 2022, and will be payable beginning in 2024 if Pillar One isn't in effect.

Pillar Two – global minimum tax

Pillar Two subjects an MNE, with at least €750 million in revenue, to a minimum 15% effective tax rate in every jurisdiction in which it operates, subject to certain safe harbours. Where "excess profit" earned in each country is taxed at an effective tax rate less than 15%, a top up tax applies. Excess profit is generally adjusted financial accounting income less a substance-based income exclusion (based on a fixed return on net book value of tangible assets and payroll costs). In general terms, the primary rule, known as the income inclusion rule (IIR), levies the top up tax at the ultimate parent entity, unless a relevant operating jurisdiction imposes a qualified domestic minimum top-up tax (QDMTT), in which case the latter has priority. In the absence of an IIR and a QDMTT, an undertaxed profits rule (UTPR) operates as a backstop when implemented by a jurisdiction in which the MNE operates.

Budget 2023 announces the government's intention to release draft legislation to implement the IIR and a QDMTT for public consultation in the coming months. The IIR and QDMTT will be applicable for fiscal years of MNEs beginning on or after December 31, 2023. Draft legislation will be released for the UTPR later, which will be effective for fiscal years of MNEs beginning on or after December 31, 2024. The draft legislation will closely follow the detailed model rules, related commentary, and administrative guidance including the application of safe harbour rules.

Budget 2023 refers to implementation and administrative guidance provided by the OECD. In December 2022, the OECD released an implementation framework to address key issues required to enable the implementation of the Pillar Two framework into domestic laws. The implementation framework provides guidance on transitional and permanent safe harbours and penalty relief, as well as public consultation documents on various items including information reporting, dispute prevention, and dispute resolution. Additionally, Budget 2023 references the OECD guidance released in February 2023, outlining the interaction of Pillar Two with the U.S. Global Intangible Low-Taxed Income (GILTI) regime, announcing GILTI will not be treated as an equivalent to the IIR, but rather as a covered tax considered when determining an MNE's effective tax rate in an operating jurisdiction, allowing Canada and other Pillar Two implementing countries to collect top-up tax under the UTPR where excess profits are not sufficiently taxed after taking into account tax on GILTI. It's expressly noted that this contrasts guidance on the design of a QDMTT, which provides that an MNE's effective tax rate must not include taxes payable under a controlled foreign company regime.

The government also announced that it will share a portion of revenues from the international tax reform with provinces and territories.

Other notable changes

AUTOMATIC TAX FILING

Increasing the number of eligible Canadians for the

File My Return service

which allows individuals with simple tax circumstances and lower or fixed income to file their tax return over the phone. The CRA will also pilot a new automatic tax filing service for vulnerable Canadians. Starting with public consultations, the government will announce more details in 2024.

HEALTH CARE

Providing an additional

$195.8 billion

over ten years for health transfers to provinces and territories and an additional $2 billion over ten years to the Indigenous Health Equity Fund.

DENTAL CARE

Adding

$13 billion

over five years to the Canada Dental Care Plan, to provide dental care coverage for families with less than $90,000 annual income, and to require no co-payments for those with family income under $70,000. There will also be a requirement for employers and employer pension plans to disclose dental benefits offered to their employees and plan members on T4/T4A slips.

TAX-FREE FIRST HOME SAVINGS ACCOUNT

Clarifying that financial institutions may offer Tax-Free First Home Savings Accounts (FHSA) (introduced in Budget 2022), starting April 1, 2023. This will allow eligible Canadian first-time home buyers to save up to

$40,000

tax-free towards their first home, if certain conditions are met.

COVID-19 OVERPAYMENTS

Providing

$53.8 million

to Employment and Social Development Canada to recover overpayments of COVID-19 emergency income support.

STUDENT FINANCIAL ASSISTANCE

Increasing Canada Student Grants by 40% and the interest-free Canada Student Loan weekly limit to

$300 (from $210)

and removing the credit screening requirement for students aged 22 years or older to obtain a student grant or loan for the first time.