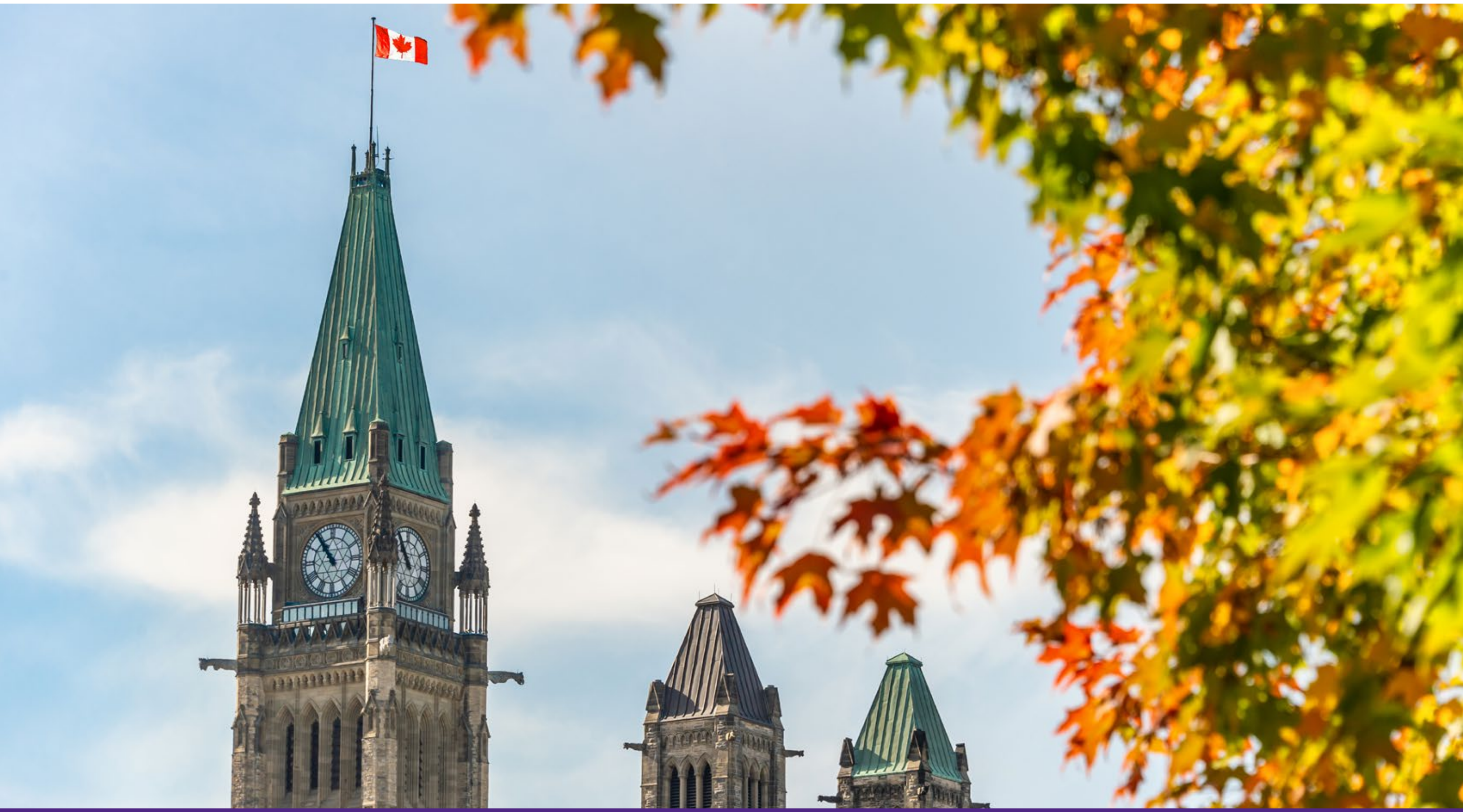

Fall Economic Statement 2022

November 2022

On November 3, 2022, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, tabled the federal government's Fall Economic Statement (FES 2022). Minister Freeland's update comes at a critical time as rising inflation, interest rates, and the cost of living are roiling Canadians' finances. FES 2022 announced targeted support measures meant to help at-risk Canadians and businesses, and to launch what Minister Freeland called "a real, robust industrial policy" to position Canada for future economic growth. The government also introduced several tax measures to respond to the U.S. Inflation Reduction Act— including the share buyback tax that encourages corporations to reinvest their profits into the workforce and our economy, and investment incentives for clean technology and hydrogen production.

Fiscal update

FES 2022 includes two scenarios for numerous economic indicators: a baseline scenario and a downside scenario. The baseline scenario shows the government's official projections and the downside scenario factors in the impacts of lasting inflation.

The following table outlines key economic indicators in both scenarios:

Projected amounts	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Deficit—baseline scenario	($90.2B)	($36.4B)	($30.6B)	($25.4B)	($14.5B)	($3.4B)	$4.5B
Deficit—downside scenario	($90.2B)	($49.1B)	($52.4B)	($42.3B)	($30.4B)	($18.6B)	($8.3B)
Debt as % of GDP—baseline scenario	45.5	42.3	42.2	41.6	40.4	38.9	37.3
Debt as % of GDP—downside scenario	45.5	43.0	44.5	44.1	43.2	42.0	40.6

The projected deficit for 2022-23 is reduced to $36.4 billion in the baseline scenario or $49.1 billion in the downside scenario, in comparison to a deficit of $52.8 million projected for the same period in Budget 2022. The government expects to see a budget surplus by 2027 based on their official projections.

Tax measures

Business tax measures

FES 2022 introduces two tax credits to attract investments in clean technologies, aligning with its previous announcements in Budget 2022.

Investment tax credit for clean technologies
The government proposes a refundable tax credit for investments in certain clean technologies including:

- electricity generation systems, including solar photovoltaic, small modular nuclear reactors, and certain concentrated solar, wind, and eligible water systems
- stationary electricity storage systems that don't run on fossil fuels, such as batteries, flywheels, supercapacitors and systems that store magnetic energy, compressed air, pumped hydro, gravity energy, and thermal energy
- low-carbon heat equipment, like active solar heating and air-source, and ground-source heat pumps
- industrial zero-emission vehicles and related charging or refueling equipment, including hydrogen and electric heavy-duty equipment used in mining or construction

Claimants that meet specified labour conditions (including wage levels and apprenticeship training) may be eligible for a 30 per cent credit, whereas claimants who don't meet these requirements could be eligible for a 20 per cent credit. The Department of Finance (Finance) plans to hold consultations and make further announcements about additional eligible technologies and provide further details on labour condition requirements in Budget 2023.

If enacted, this tax credit will be available for eligible investments made on or after the day Budget 2023 is tabled and will be gradually phased out starting with property that becomes available for use in 2032, until it's fully phased out at the start of 2035.

Investment tax credit for clean hydrogen
Investment in the production of clean hydrogen could lead to a tax credit of at least 40 per cent. The government announced the launch of a consultation on how to best implement its previously announced refundable tax credit for investments in clean hydrogen production. In particular, Finance is seeking input on the carbon intensity-based system most appropriate for Canada and the support level required for different production pathways. As with the clean technologies tax credit, this will be tied to satisfying certain wage and apprenticeship labour conditions. Where these conditions are not met, the maximum tax credit will be reduced by 10 per cent. Details on the maximum tax credit are not yet available.

If enacted, the tax credit for clean hydrogen will be available for eligible investments made on or after the day Budget 2023 is tabled and will be phased out after 2030.

Personal tax measures

Extension of the Residential Property Flipping Rule to Assignment Sales
FES 2022 confirms the government's intention to proceed with implementing the proposed new residential property flipping rule introduced in Budget 2022, and announces the extension of the rule to profits arising from assignment sales.

Under the residential property flipping rule, residential properties held by individuals for less than 12 months are considered "flipped property" and any gain on the sale is deemed to be business income and fully taxable with no principal residence exemption available to reduce the tax. An exclusion may be available where the property is disposed of due to a qualifying life event which generally includes: death, an addition to the household, separation, threats to personal safety, disability or illness, loss of employment, an eligible relocation (e.g., a work relocation where the new house is 40 km closer to the new location), insolvency, or involuntary disposition.

By extending this rule to assignment sales, Finance's intention is that individuals who hold the rights to a pre-construction residential property and sell within 12 months will be subject to the same tax treatment as someone who had owned the property for the same period. The 12-month holding period would reset once ownership of the property transfers to the taxpayer.

If enacted, the residential property flipping rule will apply to residential properties sold on or after January 1, 2023. In situations where this proposed new rule doesn't apply due to a life event or the property being owned for more than 12 months, it remains a question of fact whether an individual's gain on the sale of a residential property is taxed as business income.

Other tax measures

Tax on share buybacks by public corporations
The government intends to introduce a 2 per cent tax at the corporate level on share buybacks by public corporations (i.e., where the company purchases its own stock back from its shareholders). This is similar to the 1 per cent levy on stock buybacks recently introduced in the U.S. If enacted, this new tax will apply to the net value of all share buybacks by public corporations in Canada and will go into effect on January 1, 2024. More details will be provided in Budget 2023.

Additional measures

FES 2022 includes the following additional measures:

- **Automatic advance of Canada Workers Benefit (CWB) payments:** Currently, eligible low-income individuals claiming the refundable CWB on their tax returns have the option to apply to receive up to half of their anticipated CWB entitlement in up to four advance payments, but this option is often overlooked. Effective January 1, 2023, FES 2022 proposes to automatically provide qualifying individuals quarterly advance payments starting in July 2023 for the 2023 taxation year.
- **Eliminating interest on federal student and apprentice loans:** In response to the pandemic, the federal government temporarily waived interest charges on student loans for two years, which will end on March 31, 2023. To provide ongoing support to new graduates, FES 2022 proposes making all Canada Student Loans and Canada Apprentice Loans permanently interest-free, effective April 1, 2023. This new measure is expected to include existing and new loans.
- **Government service improvements:** FES 2022 announced new investments of $400M in 2022-23 and 2023-24 for Canada Revenue Agency call centre operations. Similarly, FES announced $137M for Canada Border Service Agency frontline operations to help relieve border-crossing pressures.

Previously announced tax measures

Finance reaffirms its intention to implement certain previously proposed measures, subject to modification resulting from consultations with stakeholders.

The list is extensive, but some key measures include:

- Substantive Canadian Controlled Private Corporation (CCPC) rules
- Expansion of the eligibility for the Small Business Deduction for CCPCs
- New trust reporting requirements
- Mandatory disclosure rules
- Excessive interest and financing expense limitation rules (known as the "EIFEL" rules)
- Housing affordability measures such as the new Tax-Free First Home Savings Account, First-Time Home Buyer's Tax Credit and Multigenerational Home Renovation Tax Credit
- General Anti-Avoidance Rules (GAAR) reform
- The Digital Services Tax Act mentioned in Budget 2022, which could be imposed as of January 1, 2024, but only if the international OECD/G20 Pillar One framework is not in force by then. FES 2022 notes that international agreement on implementing Pillar One is progressing and may occur within the first half of 2023 and confirms Canada's renewed commitment to working with the OECD/G20 on the Pillar Two initiative regarding a global minimum tax.
- Replacing the current Alternative Minimum Tax rules with a new minimum tax targeting high net worth individuals who claim a large amount of deductions and tax credits

Furthermore, Budget 2022 announced the government's intention to launch a review focused on the challenges posed by the digitalization of money and cryptocurrencies. FES 2022 confirms that consultations on the tax framework for digital currencies are being launched on November 3, 2022.

Have questions? Let's talk. Contact your local advisor or reach out to us here.

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