Grant Thornton

Audit | Tax | Advisory

Budget 2021

Making sense of what's next.

April 19, 2021

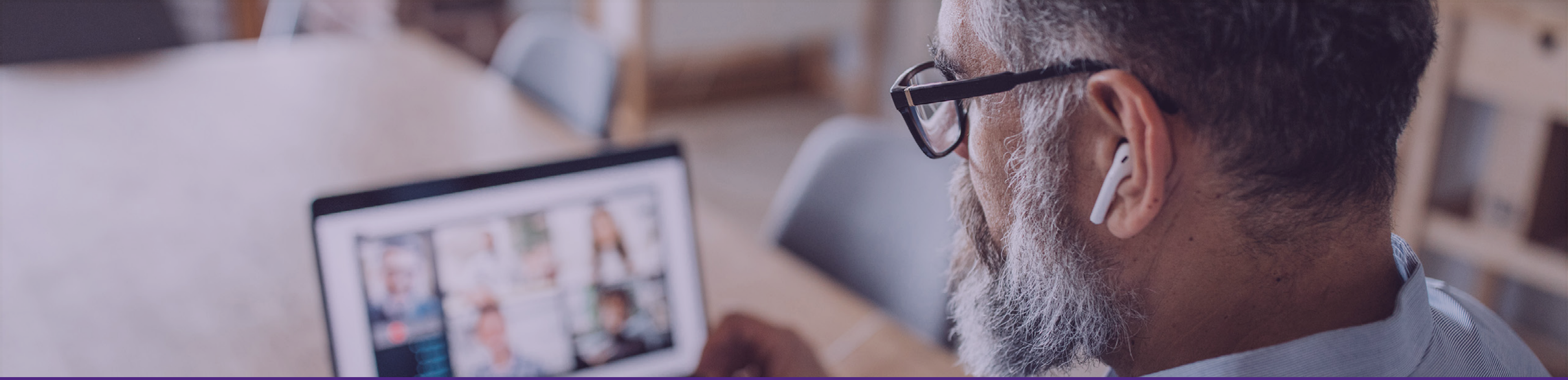
About the budget

In an unprecedented time, the federal government has delivered an unprecedented budget. At almost 800 pages, the federal government's 2021 budget (Budget 2021) is massive in size and spending.

This is a budget of firsts—the first budget since 2019, the first budget by Deputy Prime Minister and Finance Minister, Chrystia Freeland, and the first budget delivered by a woman.

Budget 2021 introduces record levels of spending, largely driven by the support programs that have been provided to Canadians and Canadian businesses since the beginning of the pandemic. The deficit for the fiscal year 2020-21 was $354.2 billion and next year's deficit is expected to be $154.7 billion. By the end of that second fiscal year, the federal debt is expected to climb to over $1.2 trillion.

Budget 2021 continues last year's trend of continued spending on support programs, including extensions to existing programs and new programs to assist individuals and businesses. Significant spending on assistance programs appears to be winding down, and the government appears to be shifting gears from providing economic supports to providing economic stimulus.



Business measures

Extension of emergency business supports

Budget 2021 proposes to extend the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy and Lockdown Support (CERS) until September 25, 2021, with an option to further extend these programs until November 20, 2021. Proposed changes include a gradual reduction of the subsidies in each of the four months from June to September, as well as eliminating the CEWS and CERS for eligible employers with a revenue decline of 10% or less. Budget 2021 also proposes to introduce a new Canada Recovery Hiring Program (CRHP) which can be claimed only in periods where the CEWS is not claimed.

Revenue reduction comparative periods

Currently enacted CEWS and CERS legislation provides for specific comparative periods where an eligible employer compares their current reference period month revenues against prior reference period revenues.

Period	Current reference period	Prior reference period
17: June 6 – July 3, 2021	June 2021	June 2019
18: July 4 – July 31, 2021	July 2021	July 2019
19: Aug 1 – Aug 28, 2021	August 2021	August 2019
20: Aug 29 – Sept 25, 2021	September 2021	September 2019

There is an alternative approach in the currently enacted legislation where an employer could elect to use the average of January and February 2020 revenues as its PRP. This election continues to be available and must be applied on a consistent basis for every period from July 5, 2020 to September 25, 2021.

Upcoming changes applicable to new CEWS periods

The proposed extension leaves the subsidy rate for period 17, covering wages in the period June 6 to July 3, 2021, the same as the existing rates for periods up to June 5, 2021. This means a maximum subsidy of $847 per week for businesses, being a CEWS rate of 75% of the maximum $1,129 per week of remuneration eligible for the CEWS, where the employer experiences a revenue decline of 70% or more. For periods 18 through 20, however, the proposed maximum subsidy available will be reduced to 60% in period 18, 40% in period 19 and 20% in period 20.

Canada Emergency Wage Subsidy base and top-up rate structure, periods 17 to 20 (June 6, 2021 to September 25, 2021)

	Period 17: June 6 – July 3	Period 18: July 4 – July 31	Period 19: Aug 1 –Aug 28	Period 20:Aug 29 –Sept 25
Max. weekly benefit per employee*	$847	$677	$452	$226
Revenue decline:				
70% and over	75% *(i.e., Base: 40% +Top-up: 35%)*	60% *(i.e., Base: 35% +Top-up: 25%)*	40% *(i.e., Base: 25% +Top-up: 15%)*	20% *(i.e., Base: 10% +Top-up: 10%)*
50-69%	Base: 40% + Top-up: (revenue decline - 50%) x 1.75 *(e.g., 40% + (60% revenue decline - 50%) x 1.75 = 57.5% subsidy rate)*	Base: 35% + Top-up: (revenue decline - 50%) x 1.25 *(e.g., 35% +(60% revenue decline - 50%) x 1.25 = 47.5% subsidy rate)*	Base: 25% + Top-up: (revenue decline - 50%) x 0.75 *(e.g., 25% +(60% revenue decline - 50%) x 0.75 = 2.5% subsidy rate)*	Base: 10% + Top-up: (revenue decline - 50%) x 0.5 *(e.g., 10% +(60% revenue decline - 50%) x 0.5 = 15% subsidy rate)*
>10-50%	Base: revenue decline x 0.8 *(e.g., 30% revenue decline x 0.8 = 24% subsidy rate)*	Base: (revenue decline - 10%) x 0.875 *(e.g., (30% revenue decline - 10%) x 0.875 = 17.5% subsidy rate)*	Base: (revenue decline - 10%) x 0.625 *(e.g., (30% revenue decline - 10%) x 0.625 = 12.5% subsidy rate)*	Base: (revenue decline - 10%) x 0.25 *(e.g., (30% revenue decline - 10%) x 0.25 =5% subsidy rate)*
0-10%	Base: revenue decline x 0.8 *(e.g., 5% revenue decline x 0.8 = 4% subsidy rate)*	0%	0%	0%

* The maximum weekly benefit per employee is equal to the maximum combined base subsidy and top-up wage subsidy for the qualifying period applied to the amount of eligible remuneration paid to the employee for the qualifying period, on remuneration of up to $1,129 per week.

Note: Table taken from "A Recovery Plan for Jobs, Growth, and Resilience," by Federal Government of Canada, 2021.

Canada Emergency Rent Subsidy Base Rate Structure*, Periods 17 to 20**
(June 6, 2021 to September 25, 2021)

	Period 17: June 6 – July 3	Period 18: July 4 – July 31	Period 19: Aug 1 –Aug 28	Period 20: Aug 29 –Sept 25
Revenue decline:				
70% and over	65%	60%	40%	20%
50-69%	40% + (revenue decline - 50%) x 1.25 *(e.g., 40% +(60% revenue decline - 50%) x 1.25 = 52.5% subsidy rate)*	35% + (revenue decline - 50%) x 1.25 *(e.g., 35% +(60% revenue decline - 50%) x 1.25 = 47.5% subsidy rate)*	25% + (revenue decline - 50%) x 0.75 *(e.g., 25% + (60% revenue decline - 50%) x 0.75 = 32.5% subsidy rate)*	10% + (revenue decline - 50%) x 0.5 *(e.g., 10% + (60% revenue decline - 50%) x 0.5 = 15% subsidy rate)*
>10-50%	Revenue decline x 0.8 *(e.g., 30% revenue decline x 0.8 = 24% subsidy rate)*	(Revenue decline - 10%) x 0.875 *(e.g., (30% revenue decline - 10%) x 0.875 = 17.5% subsidy rate)*	(Revenue decline - 10%) x 0.625 *(e.g., (30% revenue decline - 10%) x 0.625 = 12.5% subsidy rate)*	(Revenue decline - 10%) x 0.25 *(e.g., (30% revenue decline - 10%) x 0.25 = 5% subsidy rate)*
0-10%	Revenue decline x 0.8 *(e.g., 5% revenue decline x 0.8 = 4% subsidy rate)*	0%	0%	0%

* Expenses for each qualifying period are capped at $75,000 per location and are subject to an overall cap of $300,000 that is shared among affiliated entities.

** Period 17 of the Canada Emergency Wage Subsidy would be the tenth period of the Canada Emergency Rent Subsidy. Period identifiers have been aligned for ease of reference.

Note: Table taken from "A Recovery Plan for Jobs, Growth, and Resilience," by Federal Government of Canada, 2021.

Baseline remuneration

Currently enacted CEWS legislation provides for a baseline remuneration calculation that can limit the amount of CEWS available in respect of employees that do not deal at arm's length with an employer. Generally, the baseline remuneration is the average weekly eligible remuneration paid between January 1 and March 15, 2020. There is currently enacted legislation that allows an employer to elect to use an alternative period for baseline remuneration. Proposed alternative baseline remuneration periods are as follows:

- **Period 17:** March 1 to June 30, 2019 OR July 1 to December 31, 2019; and
- **Periods 18 to 20:** July 1 to December 31, 2019.

Requirement to repay the CEWS for public companies

Budget 2021 proposes to require publicly listed corporations to repay wage subsidy amounts received for a qualifying period that begins after June 5, 2021 in the event that its aggregate compensation for specified executives (ACSE) during the 2021 calendar year exceeds its ACSE during the 2019 calendar year. Any excess amount would be required to be repaid, up to the amount of the subsidy received for the period. This requirement is computed on a group level and applies to any CEWS received by any entity in the group.

Changes to CERS

The proposed extension leaves the subsidy rate for period 17, June 6 to July 3, 2021, the same as the existing rates for periods up to June 5, 2021. This means a maximum CERS rate of 65% with a revenue drop of 70% or more. For periods 18 through 20 the proposed maximum CERS available will be reduced to 60% in period 18, 40% in period 19 and 20% in period 20.

Asset purchase harmonization with the CEWS

There are special rules under currently enacted legislation for entities that purchase business assets to be eligible for the CEWS where they might not otherwise be eligible. Budget 2021 proposes to introduce similar rules for the CERS to harmonize eligibility for these entities. This proposal is proposed to be retroactive to the start of the CERS.

The new Canada Recovery Hiring Program

Budget 2021 proposes to introduce the new CRHP to 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.

The CRHP is available for essentially the same taxpayers as the CEWS; however, in the case of a corporation, only a Canadian-controlled private corporation will be eligible. The amount of the CRHP will be the incremental eligible remuneration paid to employees in the relevant qualifying period compared to the baseline period of March 14 to April 10, 2021 multiplied by the hiring subsidy rate (HSR) for the qualifying period.

Canada Recovery Hiring Program Dates Used to Calculate Incremental Remuneration, Periods 17* to 22
(June 6, 2021 to November 20, 2021)

Qualifying period	Qualifying period dates	Baseline period
Period 17	June 6 to July 3, 2021	March 14 to April 10, 2021
Period 18	July 4 to July 31, 2021	
Period 19	Aug 1 to Aug 28, 2021	
Period 20	Aug 29 to Sept. 25, 2021	
Period 21	Sept. 26 to Oct. 23, 2021	
Period 22	Oct 24 to Nov 20, 2021	

* Period 17 of the Canada Emergency Wage Subsidy would be the first period of the Canada Recovery Hiring Program. Period identifiers have been aligned for ease of reference.

Note: Table taken and adapted from "A Recovery Plan for Jobs, Growth, and Resilience," by Federal Government of Canada, 2021.

The CRHP has rules harmonized with the CEWS such as the dates of the qualifying periods, starting with period 17 from June 6 to July 3, 2021, as well as considering a maximum of $1,129 of eligible remuneration per week. The HSR is 50% for periods 17 to 19, 40% for period 20, 30% for period 21 and 20% for period 22.

Canada Recovery Hiring Program Rates, Periods 17* to 22
(June 6, 2021 to November 20, 2021)

Qualifying period	Hiring subsidy rate
Period 17: June 6 – July 3	50%
Period 18 : July 4 –July 31	50%
Period 19: Aug 1 –Aug 28	50%
Period 20 : Aug 29 – Sept 25	40%
Period 21 : Sept 26 – Oct 23	30%
Period 22 : Oct 24 – Nov 20	20%

* Period 17 of the Canada Emergency Wage Subsidy would be the first period of the Canada Recovery Hiring Program. Period identifiers have been aligned for ease of reference.

Note: Table taken and adapted from "A Recovery Plan for Jobs, Growth, and Resilience," by Federal Government of Canada, 2021.

In order to be eligible for the CRHP an eligible entity must have a revenue drop of more than 0% for period 17 or more than 10% for periods 18 to 22.

Funding programs for small and medium-sized businesses

Budget 2021 proposes a significant amount of funding to help support Canadians and Canadian businesses weather and recover from the economic impacts of the pandemic. Key programs that have been introduced, expanded or extended include:

1. Regional Relief and Recovery Fund and Indigenous Business Initiative – these two programs are similar to the more well-known Canada Emergency Business Account (CEBA) and are essentially CEBAs for certain targeted businesses that do not meet the requirements of the CEBA. Budget 2021 proposes to extend the filing deadline for both of these programs to June 30, 2021 to harmonize with the CEBA deadline. Unlike the CEBA, these programs were also subject to an overall funding limit. Budget 2021 proposes to provide an additional $80 million in funding for these programs.
2. Canada Digital Adoption Programs – Budget 2021 proposes two programs to adopt new technologies and digitize.
    a. For "main street businesses," this program will receive microgrants to help offset the costs of going digital.
    b. For "off-main street" businesses, this program will emphasize advisory expertise for technology planning and financing options needed to put these technologies to use.
    c. The Canada Digital Adoption Programs will be funded by providing $1.4 billion in funding over four years through Innovation, Science and Economic Development Canada for training and by providing $2.6 billion in funding over four years through Business Development Bank of Canada to help small and medium-sized businesses finance technology adoption.
3. Canada Small Business Financing Program – this program focuses on entrepreneurial start-ups that are built on intellectual property and other intangibles. Budget 2021 proposes to increase annual funding to this program by $560 million per year, expand eligibility rules, expand maximum loan amounts and expand the flexibility of the program.

Corporate tax rate reduction for zero-emission technology manufacturers

Budget 2021 proposes a temporary measure to reduce corporate income tax rates provided at least 10% of the corporation's gross revenue from all active businesses carried on in Canada is derived from eligible zero-emission technology manufacturing or processing activities (Eligible Activities).

Specifically, taxpayers would be able to apply reduced tax rates on eligible zero-emission technology manufacturing and processing income (eligible income) of:

1. 7.5 per cent, where that income would otherwise be taxed at the 15 per cent general corporate tax rate; and
2. 4.5 per cent, where that income would otherwise be taxed at the 9 per cent small business tax rate.

This proposed measure applies in respect of income from Eligible Activities, such as manufacturing of solar energy conversion equipment, wind energy conversion equipment, or water energy conversion equipment, to name a few.

Eligible Activities include the manufacturing of components or sub-assemblies only if such equipment is purpose-build or designed exclusively to form an integral part of the relevant system.

Reduced rate for small businesses

Currently, CCPCs benefit from a reduced federal corporate income tax rate of 9%, compared to the 15% general corporate tax rate, known as the small business tax rate.

For taxpayers with income subject to both the general and the small business corporate tax rates, Budget 2021 proposes that taxpayers would be able to choose to have their eligible income taxed at either the reduced rate of 4.5% for small businesses or the general reduced rate of 7.5%. The amount of income taxed at the 4.5% plus the amount of income taxed at the small business rate of 9% would not be allowed to exceed the business limit.

Given that the measure is temporary, no changes would be made to the dividend tax credit rates or the allocation of corporate income for the purpose of dividend distributions.

The reduced tax rates apply to taxation years that begin after 2021,and will be gradually phased out starting in taxation years that begin in 2029 and fully phased out for taxation years that begin after 2031.

Immediate write-off of Eligible Property for CCA

Budget 2021 proposes to provide CCPCs the ability to immediately write-off up to $1.5 million of Eligible Property (EP) acquired on or after April 19, 2021 which becomes available for use before January 1, 2024. EP is property other than that included in CCA classes 1 to 6, 14.1, 17, 47, 49, and 51 which are generally long-lived assets.

Moreover, a CCPC can expense up to $1.5 million irrespective of all other CCA claims under existing rules. For example, a CCPC can fully deduct manufacturing and processing machinery and equipment additions under the existing accelerated investment incentive rules, before taking advantage of this additional immediate expensing rule in relation to other EP. The half-year rule would be suspended for property for which this measure is used.

This immediate expensing would not change the total amount that can be deducted over the life of a property.

Limitations

The $1.5 million limit must be shared by associated corporations and is prorated for taxation years shorter than 365 days. Restrictions apply to property previously owned by a non-arm's length person and properties acquired by a taxpayer on a tax-deferred rollover basis. No carry-forward of any unused portion of the limit is allowed.

Tax write-off of clean energy equipment

Currently Classes 43.1 and 43.2 provide an accelerated tax write-off (known as capital cost allowance or CCA) for investments in specified clean energy generation and energy conservation equipment.

To support investment in clean technologies, Budget 2021 proposes to expand the scope of Classes 43.1 and 43.2 for certain additional types of clean-energy property that is acquired and available for use on or after April 19, 2021. Accelerated CCA would be available only if, at the time the property becomes available for use, the requirements of all Canadian environment laws, by-laws, and regulations applicable in respect of the property have been met.

Furthermore, Budget 2021 proposes to remove, or alter the criteria for, certain fossil-fuelled or low-efficiency waste-fuelled technologies from Classes 43.1 and 43.2 for property that becomes available for use after 2024.

Digital Services Tax

Budget 2021 proposes to implement a Digital Services Tax (DST) intended to ensure that revenue earned by large foreign and domestic businesses from engagement with online uses in Canada is subject to tax in Canada. The proposed DST is a temporary tax until an effective international and multilateral solution is developed through the Base Erosion and Profit Shifting project undertaken by the Organisation for Economic Co-operation and Development. The proposed tax has the following key features:

1. Rate of 3% on revenue from certain digital services reliant on the engagement, data and content contributions of Canadian users;
2. The targeted business models include:
    a. Online marketplaces, specifically services provided through an online marketplace that helps match sellers of goods and services with potential buyers; though specifically excluding storage or shipment of tangible goods, sale of goods or services by a seller on its own account, or trading in financial instruments.
    b. Social media, specifically services provided through an online interface to facilitate interaction between users or between users and user-generated content;
    c. Online advertising, specifically services aimed at the placing of online advertisements that are targeted based on data gathered from users of an online interface.
    d. User data, specifically the sale or licensing of data gathered from users of an online interface, including anonymized and aggregated data.
3. Targeted businesses include businesses in groups with both global revenues from all sources of €750 million revenues AND in-scope revenue associated with Canadian users of more than $20 million.

The DST is proposed to apply as of January 1, 2022, with draft legislation available during summer 2021. The government is seeking feedback from stakeholders until June 18, 2021.

Registration and revocation rules applicable to charities

Budget 2021 proposes various amendments to limit opportunities for the abuse of charitable registration status for terrorist financing purposes, including allowing the Minister of National Revenue to immediately revoke the registration of a charity or other qualified donee upon its listing as a terrorist entity and amending the definition of "ineligible individual" to include reference to a listed terrorist entity.

Budget 2021 also proposes to change the rules applicable to all registered charities to allow the Minister of National Revenue to suspend the authority of a registered charity to issue official donation receipts for one year or revoke its registration where certain false statements were made.

Increasing annual disbursement quotas for charities

Canadian registered charities are required to meet an annual disbursement quota. Budget 2021 proposes to launch public consultations with charities to explore the possibility of increasing the annual disbursement quota to provide necessary support for charitable programs. Budget 2021 states that a gap of $1 billion in charitable expenditures exists in our communities today notwithstanding that the investment assets of foundations has increased significantly in recent years.

Film or Video Production Tax Credits

Budget 2021 proposes to temporarily extend for 12 months certain timelines relevant for the Canadian Film or Video Production Tax Credit (CPTC) and the Film or Video Production Services Tax Credit (PSTC). The extensions are intended to recognize the impact that COVID-19 has had on film and video productions in meeting the existing timelines under these two credits and applies to productions for which eligible expenditures were incurred in taxation years ending in 2020 or 2021.

Support for employers hiring skilled tradespeople

In order to support skilled trades and apprenticeships, Budget 2021 proposes a support up to $5,000 for employers of all first-year apprenticeship opportunities for upfront costs such as salaries and training.

This support would be doubled to $10,000 for employers who hire those from underrepresented groups, including women, racialized Canadians, and persons with disabilities.

Supporting temporary foreign workers

Currently there is the Mandatory Isolation Support for Temporary Foreign Workers Program to help employers offset costs associated with temporary foreign workers in the farming, fish harvesting, and food production and processing sectors, fulfilling isolation requirements upon entering Canada. Budget 2021 proposes to extend this program with support of up to $1,500 per worker required to self-isolate until June 15, 2021 (or $2,000 if the worker must self-isolate at a government facility). The benefit is reduced to $750 per foreign worker self-isolating between June 16 and August 31, 2021.

Tax incentive for Carbon Capture, Utilization, and Storage (CCUS)

Budget 2021 proposes to introduce an investment tax credit for capital invested in CCUS projects, *as well as hydrogen production*, with the goal of reducing emissions by at least 15 megatons of CO2 annually. The government proposes a 90-day consultation period with stakeholders on the design of the investment tax credit and the rate of the incentive. This measure will come into effect in 2022.

In addition, a number of environment-oriented measures were proposed, including funding for the advancement of CCUS technologies, for implementing and administering the Clean Fuel Standard, for supporting the production and use of clean fuels, for the Low-Carbon fuel procurement program, and for programs and projects in British Columbia and Northern and Indigenous communities.

Personal measures

Affordable childcare

Budget 2021 proposes new investments in Early Learning and Child Care and Indigenous Early Learning and Child Care with the goals to:

- Reduce average fees for regulated early learning and child care by 50% in all provinces other than Quebec, where prices are already affordable, by the end of 2022
- Bring fees for regulated child care down to $10/day on average by 2025-26
- Increase the number of quality affordable child care spaces across the country annually
- Expand before and after-school care

The federal government will also work with Quebec to continue to make improvements to their existing system.

Minimum wage of $15/hr

The government intends to establish a federal minimum wage of $15/hour, rising with inflation. The increase will apply to workers in the federally regulated private sector, which includes industries such as banking, telecommunications and airlines, among others. Where provincial or territorial minimum wages are higher, those higher wages will apply.

Additional weeks of Recovery Benefits and EI Regular Benefits

Budget 2021 proposes to provide up to 12 additional weeks of Canada Recovery Benefit (CRB) to a maximum of 50 weeks. The first 4 of these additional weeks will be paid at $500/week and the remaining 8 weeks will be paid at $300/week. All new CRB claims after July 17, 2021 would receive the $300/week benefit, available to September 25, 2021.

Budget 2021 also proposes to extend the Canada Recovery Caregiver Benefit an additional 4 weeks to a maximum of 42 weeks at $500/week.

The following changes to the EI system are also being proposed:

- 420 hour entrance requirement for regular and special benefits with a 14 week minimum entitlement for regular benefits and a common earnings threshold for fishing benefits
- Ensure all insurable hours and employment count towards a claimant's eligibility to support multiple job holders and those who switch jobs
- Simplifying the rules around the treatment of severance, vacation pay and other payments on separation
- Extend temporary enhancements to the Work-Sharing program such as longer work-sharing agreements and streamlined application process
- Enhance sickness benefits from 15 to 26 weeks beginning in the summer of 2022
- Extending temporary eligibility changes for self-employed fishers who submit an EI claim for the winter of 2021
- Extend the rules of existing EI seasonal pilot project for an additional year, to October 2022

The government intends to begin consultations with employers, labour organizations and private insurers regarding changes to the EI Premium Reduction Program, which reduces the rate of premiums for employers who provide short term disability plans.

Tax treatment of COVID-19 benefit amounts

COVID-19 benefits such as the Canada Emergency Response Benefit/Employment Insurance Emergency Response Benefit, Canada Emergency Student Benefit, Canada Recovery Benefit, Canada Recovery Sickness Benefit, and Canada Recovery Caregiving Benefit are taxable in the year they are received. If an individual determines that they did not qualify for the benefit and repays the amount initially received, a deduction is available.

Budget 2021 proposes to allow taxpayers the option of claiming this deduction in the year the benefit was received rather than the year in which the repayment was made. This option would be available for benefit amounts repaid at any time before 2023. For an individual who has already filed their income tax return for the year in which the benefit was received and has already made the repayment, a request for an adjustment to the return for that year can be made with the Canada Revenue Agency (CRA).

Budget 2021 also proposes that any COVID-19 benefits received by those who reside in Canada but are considered non-residents for tax purposes will be taxable in Canada in a manner generally similar to employment and business income earned in Canada.

Disability Tax Credit

The disability tax credit (DTC) is a non-refundable tax credit available to individuals who have a severe impairment in physical or mental functions. To qualify, the individual must have a DTC certificate confirming that the effects of their impairment restrict their ability to perform basic activities of everyday living or would restrict their ability if not for extensive life-sustaining therapy.

Budget 2021 proposes that, for the purposes of the DTC, mental functions for everyday living will be expanded to include attention, concentration, memory, judgement, perception of reality, problem-solving, goal-setting, regulation of behaviour and emotions, verbal and non-verbal comprehension and adaptive functioning.

In addition, Budget 2021 proposes to expand the calculation of time spent on extensive life sustaining therapy to include a reasonable amount of time for the following activities provided certain conditions are met:

- Determining dietary intake and/or physical exertion
- Medical appointments to receive therapy or determine the daily dosage of medication
- Medically required recuperation after therapy
- Activities directly related to the determination of the amount of a medical food or formula to limit intake of a particular compound for proper development or functioning of the body

Furthermore, the requirement that therapy be administered at least three times per week would be reduced to twice a week and, where an individual cannot perform their therapy on their own due to their disability, time reasonably required of another personal would be allowed.

These proposals would apply to the 2021 and subsequent tax years for DTC certificates filed on or after Royal Assent.

Canada Workers Benefit

The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit for low- and modest-income workers. Currently, the CWB increases by 26 cents for every dollar of employment or business income in excess of $3,000 to a maximum credit of $1,395 for single individuals and $2,403 for families (couples and single parents). The amount is gradually reduced at a rate of 12% of adjusted net income exceeding $13,194 for single individuals or $17,522 for families.

Budget 2021 proposes to increase the phase-in rate from 26 cents to 27 cents and increase the phase-out thresholds to $22,944 for single individuals and $26,177 for families. The phase out rate would also increase to 15% of adjusted net income. Similar adjustments would be made to the thresholds for individuals that receive a CWB supplement because they are also eligible for the Disability Tax Credit.

A secondary earner exemption would also be available for individuals with an eligible spouse. This would allow the lower-income spouse or common-law partner to exclude up to $14,000 of their working income for purposes of the CWB phase-out calculation.

These proposals would apply to the 2021 and subsequent tax years.

Student debt relief

Budget 2021 will waive the requirement to pay interest on Canada Student Loans and Canada Apprentice Loans up to March 31, 2023. Furthermore, to provide additional help for low-income borrowers, the income threshold to receive repayment assistance will be increased from $25,000 to $40,000 for a single borrower.

Canada Student Grants doubled for two more years

During the pandemic, the federal government doubled Canada Student Grants for 2020-2021. Budget 2021 proposes to extend this doubling for two more years until the end of July 2023.

Support for adults who return to school full-time

As part of the Skills Boost program to help working adults pay for full-time studies for skills upgrade, Budget 2021 proposes to extend the $1,600 adult learner top-up to the full-time Canada Student Grant until July 2023. Furthermore, students can use current year income instead of previous year's to determine their eligibility for the Canada Student Grants.

Connecting employers with young workers

To help connect young workers with employers to gain valuable work experience, Budget 2021 is proposing additional funding to encourage employers to hire students and young workers. Additional funding to the Student Work Placement Program will increase that program's wage subsidy to 75%, up to $7,500 per student.

Additional funding to the Youth Employment and Skills Strategy will also assist young workers to find meaningful work.

Finally, Budget 2021 will provide significant funding for the Canada Summer Jobs program to support approximately 75,000 new job placements aimed at youths in the summer of 2022.

Increase to Old Age Security for seniors 75 and over

A one-time payment of $500 will be provided in August 2021 to OAS pensioners who will be 75 or over as of June 2022. This amount will not be subject to any OAS clawback.

In addition, pensioners aged 75 and over will see a permanent increase to their OAS payments by 10% as of July 2022.

Green home loans

Budget 2021 proposes to provide homeowners and landlords up to $40,000 in interest-free loans to undertake a "complete deep home retrofit." The purpose of these loans is to help make the home more energy efficient and improve its environmental impact. Homeowners and landlords will qualify for these loans after undergoing an authorized EnerGuide energy assessment of their home.

Changing the Climate Action Incentive to a quarterly payment

The Climate Action Incentive is received annually as part of an individual's personal tax filing by Canadians resident in a province subject to the federal carbon tax. Budget 2021 proposes to make this annual payment payable as a quarterly payment, which will be received through the benefit system starting in 2022.

Northern Residents Deductions

Individuals who live in prescribed northern areas of Canada for at least six consecutive months in a particular taxation year may claim the Northern Residents Deductions for that year. This deduction consists of a residency component and a travel component, available to those who live in the region or travel within the region, respectively.

Budget 2021 proposes to expand access to the travel component of the Northern Residents Deductions. Subject to certain restrictions, a taxpayer would have the option to claim up to:

- The actual amount of employer-provided travel benefits received in respect of the individual or
- A $1,200 standard amount allocated across eligible trips taken by the individual.

The amount claimed can be in respect of the taxpayer or an eligible family member, which includes spouses or common-law partners, minor children and wholly dependent individuals related to the taxpayer and, except for the taxpayer's parents or grandparents, dependent due to mental or physical infirmity. This measure would apply to the 2021 and subsequent tax years.

Postdoctoral fellowship income

Postdoctoral fellows are not considered to be students, so their fellowship income does not qualify for the scholarship exemption from income tax. This income is fully subject to tax but does not currently qualify as "earned income" for purposes of determining the Registered Retirement Savings Plan (RRSP) contribution limit. Budget 2021 proposes to include postdoctoral fellowship income in "earned income" for RRSP purposes. This measure would apply for postdoctoral fellowship income received in the 2021 and subsequent tax years.

Fixing contribution errors in defined contribution pension plans

Current rules do not allow pension plan administrators to accept retroactive contributions to employee accounts under a defined contribution pension plan as a means of correcting over-or under-contribution errors.

Budget 2021 proposes to allow more flexibility to plan administrators to compensate for under-contribution errors made in any of the preceding five years, subject to a dollar limit, and also to correct for over-contribution errors in respect of an employee for any of the five years prior to the year in which the excess amount is refunded to the employee or employer who made the contribution. The plan administrator would be required to file a prescribed form in respect of each employee rather than amending any prior year T4 slips. Any additional contributions to correct for under-contributions will reduce the employee's RRSP contribution room.

This measure will apply in respect of additional contributions made, and the amount of over-contributions refunded, in the 2021 and subsequent taxation years.

Taxes applicable to registered investments

The units of a trust or shares of a corporation that meet certain requirements can be approved by the CRA as a registered investment which, once approved, are qualified investments for registered plans such as RRSPs, RRIFs and deferred profit-sharing plans. A registered investment that is not sufficiently widely held is limited to holding investments that would be qualified investments for the types of plans for which it is registered. Otherwise it is liable to pay tax equal to one percent of the property's fair market value, at the time it was acquired, for each month that the registered investment holds the property.

Budget 2021 proposes that the tax imposed be pro-rated based on the proportion of shares or units of the registered investment held by the investors that are themselves subject to the qualified investment rules.

This measure will apply to taxes imposed in respect of months after 2020 and to taxpayers whose tax liability in respect of months before 2021 has not been finally determined by the CRA as of Budget Day.

Employee ownership trusts

Budget 2021 announces that the government intends on implementing stakeholder discussions to determine whether it makes sense to implement employee ownership trusts in Canada, which would allow private shareholders to transfer ownership of their business to employees through the use of a trust.

Sales tax measures

Special GST/HST regime for non-resident vendors – software and services

As previously announced in the Fall Economic Statement, Budget 2021 affirms the expansion of the GST/HST to non-resident vendors who make supplies of software and electronic services over the internet. Non-resident suppliers who do not otherwise carry on business in Canada and supply software and other services online to consumers will be required to register under a simplified registration system to collect and remit the GST/HST.

Canadian organizations who make purchases from suppliers registered under the simplified regime will not be eligible to claim an ITC for tax incurred; rather, by providing their GST/HST number to the supplier, the non-resident will be permitted not to charge the GST/HST (under this simplified regime).

The new rules would apply to supplies made on or after July 1, 2021. They will also apply to supplies made prior to July 1, 2021 but that are not payable until July 1, 2021 or afterwards.

Special rules – fulfilment warehouses & distribution platform operators

As online commerce has become prevalent in the Canadian consumer landscape, the use of fulfilment warehouses and online marketplaces have become common elements in these transactions. Budget 2021 implements measures which deem operators of fulfilment services to be the seller of goods located in fulfilment warehouses in Canada. Further, fulfilment warehouse operators will also be required to provide business information of non-resident vendors that make supplies through their platforms directly to CRA. The Minister may automatically register a non-resident person for GST/HST based on this information.

Budget 2021 clarifies the liability to platform operators and third-party suppliers if the third-party supplier provides false information to the platform operator. There will be limitations on liability if the platform operator reasonably relied on the information from a third-party supplier.

These changes are effective July 1, 2021.

Special rules – Accommodation Platform Operators (APO)

Budget 2021 places GST/HST collection obligations on operators of online accommodation platforms to ensure that the GST/HST applies to all taxable supplies of short-term accommodation in Canada even if the supply of the accommodation is made by a person who is not registered for GST/HST. APOs will be required to collect GST/HST on taxable supplies of accommodation made through their platforms made by person who are not registered for GST/HST. This new provision does not affect the collection or remittance of tax by suppliers on these platforms who are already registered.

If the APO is a non-resident, it may be permitted to register under the simplified regime. However, Canadian organizations acquiring short-term accommodations from a non-resident APO who is registered under the simplified regime will not be eligible to claim an ITC in respect of the tax charged; rather, they must provide their GST/HST number to the non-resident APO and no GST/HST will be charged.

The operators of the accommodation platforms where property owners list their properties will now be required to maintain records on property owners and provide this information to the CRA. This information will need to be filed annually and applies only to platform operators who are registered or required to be registered for the GST/HST.

Input tax credit documentary requirements

Budget 2021 increases the threshold for minimum documentary requirements from $30 to $100 for minimum requirements (i.e., where supplier's GST/HST number not required) and $150 to $500 for complete requirements. Billing agents may now be treated as intermediaries for purposes of meeting the ITC documentary requirements, which simplifies compliance requirements in billing agent arrangements.

Luxury goods tax

Cars and personal aircraft worth over $100,000 and boats priced over $250,000 will be subject to an additional luxury sales tax. This tax is the lesser of 20% of the value above the threshold, or 10% of the full value of the car, boat, or personal aircraft. This measure comes into force on January 1, 2022.

Notably, certain vehicles are exempt from this tax. These vehicles include, but are not limited to motorcycles, certain off-road vehicles such as ATVs and snowmobiles, racing cars, and motor homes. There are also exemptions for vehicles, aircraft, and boats for commercial use, such as airlines with capacity for more than 39 passengers, commercial fishing vessels, and cruise ships.

This tax forms part of the consideration for the good, and the GST/HST applies to the final sales price, inclusive of the luxury goods tax.

Non-Resident Vacancy Tax

In response to rising real estate costs, Budget 2021 imposes a 1% tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused. There is currently no guidance as to the definition of "vacant" or "underused". This tax would be levied annually on the value of the home and beginning in 2023 annual declarations regarding the use of property will be required by the property owners. The tax comes into effect January 1, 2022. Subsequently, starting in 2023, all owners of real property in Canada who are not Canadian citizens or permanent residents will be required to file a declaration annually with the CRA for each property they own.

Further information will be released in consultation papers in the coming months.

GST/HST new housing rebate conditions

Budget 2021 announces new conditions that, in a case where more than one person is purchasing a property, only one person needs to be acquiring the property for their or their relation's primary place of residence in order to receive the GST/HST new housing rebate. This measure addresses situations where not all purchasers intend to use the property as a residence, such as when a co-purchaser is required for financing purposes.

Clarification on duty value of goods being imported into Canada

New rules would require all importers to value their goods using the value of the last sale for export to a purchaser in Canada, ensuring fairness for all importers and enhancing consistency with international rules.

Other Excise measures

Budget 2021 announced the following Excise measures:

- Tobacco: Increased duty rate by $4 per carton
- Vaping products – further framework released to come into effect in 2022
  - While further information regarding the framework for excise on vaping products will still be released, it will likely take the form of a tax on volume, for example a flat rate on every 10mL of vaping fluid (amount to be determined, likely in the range of $1 per 10mL)

Previous measures

The government announced its intention to proceed with a number of previously announced GST/HST measures, including:

- May 17, 2019 regarding cryptocurrencies, drop shipments, and holding partnerships and trusts
- July 27, 2018 regarding holding companies and Input Tax Credit eligibility
- Budget 2016 regarding expanded availability of joint venture elections

International measures

Base Erosion and Profit Shifting (BEPS)

The government reiterates its commitment to the ongoing BEPS initiatives of the Organisation for Economic Co-operation and Development and proposes to implement the best practices recommended by the BEPS Action Plan on interest deductibility and hybrid mismatch arrangements.

Interest Deductibility Limits

Consistent with the recommendations in Action 4 of the BEPS Action Plan, which recommended that the amount of net interest expense of a group that may be deducted be limited to a certain percentage of the earnings, Budget 2021 proposes to introduce an "earnings-stripping" rule which will restrict the interest deduction for a corporation to a certain fixed ratio of its "tax EBITDA".

The new rules will apply to corporations, trusts, partnerships and Canadian branches of non-resident taxpayers. However, certain exemptions apply for:

- Canadian-controlled private corporations (CCPC's) and the associated group with taxable capital employed in Canada of less than $15 million, and
- Corporate groups (including trusts) whose net interest expense of their Canadian members does not exceed $250,000.

The earnings-stripping rules will be in addition to the existing thin-capitalization rules and will thus encompass interest on third-party debts that may not currently be limited by the thin-cap rules.

A taxpayer's tax EBITDA is its taxable income adjusted for its interest expense (excluding interest denied under the thin-cap rules), interest income, and deductions for tax depreciation and amortization (CCA). Interest expense and interest income would not only include amounts that are legally interest but also payments that are economically equivalent to interest (e.g. guarantee and similar financing expenses, and otherwise deductible or taxable). Note that interest expense and interest income related to debts owing between Canadian members of the corporate group is excluded.

Interest denied in the current year under the earnings-stripping rule can be carried forward for up to twenty years or back for up to three years, subject to interest limitations in those years. Further, Canadian members of a group can transfer their excess net interest capacity to other Canadian group members whose net interest expense is limited by this rule.

Where the taxpayer can demonstrate that a higher deduction limit is appropriate (based on the ratio of third-party interest expense of the consolidated group to its book EBITDA), the taxpayer can deduct interest in excess of the fixed ratio of tax EBITDA (the "group ratio" rule).

Budget 2021 notes that with respect to financial institutions there will be challenges in applying these rules, and thus the intra-group transfer of unused net interest to tax EBITDA capacity will not be permitted for members of the group that are not regulated banking or insurance entities. Other targeted measures for financial institutions may be identified and implemented.

The proposed measures will be phased in with a fixed ratio of 40 per cent for taxation years beginning after 2022 (the transition year), and 30 per cent for taxation years beginning after 2023. Any interest deduction denied in the transition year can be carried back and deducted in the three preceding years using the 40 percent ratio to determine the net interest to tax EBIDTA capacity.

Hybrid mismatch arrangements

Action 2 of the OECD's BEPS Action Plan has recommended detailed legislation aimed at targeting the perceived abuse of hybrid mismatch arrangements by multinationals. These recommendations mainly target:

- Mismatches arising from arrangements where one country allows a deduction in respect of a payment which is not picked up in the income in the other country
- Mismatches that provide for a deduction in two jurisdictions in respect of the same expense

With the objective of neutralizing a mismatch by aligning the Canadian income tax treatment with the income tax treatment in the foreign country, Budget 2021 proposes rules to target the hybrid mismatch arrangements. These rules will deny deduction of an amount paid in Canada to the extent that the amount is deductible in another country or not included in income of the non-resident recipient. Conversely, where a payment made by a non-resident of Canada is deductible in another jurisdiction, no deduction will be available in Canada against the income of the Canadian taxpayer. Further, the amount will be included in the income of the Canadian resident, and in case of dividends, the deduction otherwise available in respect of dividends from foreign affiliates will not be available. The proposed rules will not contain a "purpose" test and will be coordinated with similar rules in other countries. The rules will apply (with certain limited exceptions) in respect of payments between related parties and payments between unrelated parties under certain mismatch arrangements.

The proposed rules would be implemented in two separate legislative packages:

- The first will comprise of rules generally intended to neutralize a deduction/non-inclusion mismatch arising from a payment in respect of a financial instrument. This package will be released for stakeholder comment later in 2021, and those rules will apply as of July 1, 2022.
- The second legislative package will be released for stakeholder comment after 2021. Rules will apply no earlier than 2023. This package will include rules consistent with the Action 2 recommendations not included in the first package.

Transfer pricing

With specific reference to the recent Federal Court of Appeal (FCA) decision in *HMQ v Cameco Corporation*, the government has expressed concern regarding the application of Canada's transfer pricing rules. The government believes that, based on the reasoning of the FCA, the resultant limitations of the current transfer pricing rules can encourage the shifting of corporate income out of Canada, thereby, eroding the Canadian tax base.

With the objectives of protecting the integrity of Canada's corporate income tax system, while at the same time preserving Canada's attractiveness as a destination for new investments, Budget 2021 announces the government's intention to consult on Canada's transfer pricing rules. The Department of Finance will begin a consultation to provide stakeholders with an opportunity to comment on possible measures to improve Canada's transfer pricing rules.

CRA Initiatives and other related measures

Mandatory disclosure rules

The federal government is consulting on proposals intended to enhance the mandatory disclosure rules of our taxation system, including:

- Changes to the existing reportable transaction rules,
- Introduction of new rules for reporting on "notifiable transactions",
- Requirements for certain taxpayers to disclose uncertain tax positions, and
- Rules extending applicable reassessment periods and the introduction of penalties.

Stakeholders are invited to provide comments through the consultation process to the Department of Finance by September 3, 2021.

Submissions can be made to fin.taxdisclosure-divulgationfiscale.fin@canada.ca

Avoidance of tax debts

Budget 2021 proposes changes to existing rules to prevent situations where taxpayers engage in complex transactions to circumvent the joint and several liability rules for tax debts. The proposed changes involve new anti-avoidance measures to address aggressive tax planning, where applicable by:

- Deeming a tax debt to arise at an earlier date where steps were taken to defer a debt
- Deeming arm's length persons to be non-arm's length where steps were taken to avoid an arm's length situation
- Taking into account the outcome of a series of transactions or events when determining the value of property transferred as part of that series

The proposed measures would also introduce significant planner and promoter penalties. The proposed anti-avoidance measures apply to transfers of property that occur on or after April 19, 2021.

Audit authorities

Budget 2021 proposes to expand the CRA's authority in conducting audits and undertaking other compliance activities by granting CRA officers the authority to require persons to respond to questions orally or in writing, including in any form specified by the CRA official. These measures would apply to the CRA's audit and enforcement powers under the Income Tax Act; the Excise Tax Act; the Excise Act, 2001; the Air Travellers Security Charge Act and Part 1 of the Greenhouse Gas Pollution Pricing Act.

Electronic filing and certification of tax and information returns

To improve the administration of, and compliance with, the tax system, Budget 2021 proposes various amendments to improve the CRA's ability to operate digitally to allow for faster, more convenient and accurate service, while also enhancing security.

These measures include the ability for CRA to electronically send certain notices of assessment to individual taxpayers and correspondence with businesses. They also allow issuers of T4A and T5 information returns to provide an electronic copy without also having to issue a paper copy, beginning with T4As and T5s issued after 2021.

Budget 2021 proposes to amend the thresholds for professional preparers related to the electronic filing of income tax returns and information returns as well as eliminating the mandatory electronic filing thresholds for corporate income tax returns as well as Goods and Services Tax/Harmonized Sales Tax (GST/HST) returns, so that returns of most corporations and GST/HST registrants would be required to be filed electronically. These measures will apply in respect of calendar years after 2021.

Budget 2021 proposes that payments required to be made at a financial institution include online payments made through such an institution, as well as amending the thresholds for electronic payments required for remittances. These measures will apply to payments made on or after January 1, 2022.

Budget 2021 also proposes to eliminate the requirement that signatures be in writing on certain prescribed forms.

E-payroll solution

In response to the pandemic, Budget 2021 proposes to continue to provide funding to allow the CRA to implement a real-time e-payroll solution that will allow it to streamline payroll-related services for Canadian businesses. The aim is to improve accuracy and deploy benefits and services more rapidly.

Modernizing CRA services

A related proposal is to modernize CRA services to ensure quick and easy access to tax credits and benefits. Specifically, Budget 2021 proposes to provide funds to the CRA to reduce T1 personal income tax adjustment processing time. Additionally, the CRA will expand the existing program on simplified credit and benefit returns currently targeted towards Indigenous peoples.

General anti-avoidance rule (GAAR)

As announced in the 2020 Fall Economic Statement, the government will also take next steps to strengthen and modernize Canada's general anti-avoidance rule.