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Federal

Budget 2022

Charting the way forward

Pre-budget insights & analysis

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With Federal Budget 2022 on the horizon, the Liberal minority government continues to deal with an evolving economic landscape that's facing new challenges after two years of the pandemic. In addition to some of the hardest hit industries trying to recover from the economic impact of COVID-19, the country, along with most of the world, is dealing with higher-than-normal inflation with the latest Statistics Canada report pegging the Consumer Price Index at 5.1%, year-over-year for January 2022.

Although most pandemic-related stimulus programs appear to be winding down in 2022, the government still faces the task of having to pay for all the programs that were introduced over the last two years. With total program costs close to $300 billion (see Appendix A), the government will need to decide if it can afford any more tax cuts than what has been proposed, or if it will start to rein in fiscal stimulus spending.

That said, it's possible that Canadians will see new tax cuts in Budget 2022, given the federal government seems comfortable with its current debt level. This is evidenced by the fact that it continually touts the federal Debt-to-GDP ratio as being the lowest in the G7. However, with higher interest rates, the cost of servicing over $1 trillion in debt[1] will become more costly and will likely influence the government's approach to spending, at least in the short-term.

Pre-budget proposed tax changes

On February 4, 2022, the federal government released draft legislation for several tax changes, all of which are open for consultation. Almost all the proposals had previously been announced in Budget 2021; however, draft legislation was not introduced at that time.

Some of the more prominent proposals which now include draft legislation are:

- mandatory disclosure rules, which would increase the requirement for taxpayers and their advisors to disclose certain transactions considered aggressive, with significant penalties attached for non-compliance
- immediate expensing of up to $1.5 million of eligible capital assets for Canadian-controlled private corporations (CCPCs), sole proprietors and some partnerships
- cutting corporate tax rates in half for businesses manufacturing zero-emission technologies
- expanding the capital cost allowance rates applicable to clean energy equipment to include more types of "green" equipment and limiting the rates on equipment that have a certain percentage of energy content from fossil fuel
- limiting interest and financing expenses in accordance with the OECD's Base Erosion and Profit Shifting Project Action 4, which targets multinational corporations, although these rules are not limited to these entities and could also apply to large CCPCs with interests abroad
- delaying the increased reporting requirements for express trusts to years that end after December 30, 2022, as well as making these rules applicable to bare trusts[2]

Though these proposals have not yet been enacted, it's likely that all the measures will pass (with some potential changes that may come out of the consultations), particularly since the election was only a few months ago.

[1] Statistics Canada reports debt of over $1.1 trillion as of November 2021.

[2] The increased reporting requirements for trusts were supposed to apply starting in 2021 but no legislation had been drafted until now. The draft legislation pushes the application of these rules to taxation years that end after December 30, 2022, effectively delaying them for one year. Furthermore, it was previously unclear whether the new rules would apply to bare trusts but the proposals now clarify that they would.

What tax measures are expected in Budget 2022?

Each year is a guessing game as to what tax changes might be included in the federal budget. Although nobody knows for sure, given the unprecedented spending on support programs during the pandemic, it's somewhat unlikely that there will be widespread tax cuts included in the federal budget, particularly given that the economy appears to be relatively strong, post-pandemic. Instead, there's a possibility that the federal government will provide targeted spending and possibly targeted tax cuts in certain areas while increasing taxes in others. The following section examines speculative tax changes, some of which were proposed in the Liberal party's campaign platform and others that have been advocated for by different organizations as part of the federal government's annual pre-budget consultation process.

Liberal party 2021 election campaign proposals

The election platform included many tax-related changes, some which had previously been introduced in Budget 2021 and some that were detailed in the 2021 Fall Economic Statement.

These platform positions form the basis of likely changes and may include:

- increasing the federal tax rate by 3% (from 15% up to 18%) for banks and insurance companies on earnings over $1 billion

- introducing the OECD-endorsed global minimum tax
- offering a refundable 25% tax credit for investments made to improve air quality available to sole proprietors, CCPCs with taxable capital less than $15 million (i.e. “qualifying CCPCs”) and partnerships consisting of individuals or qualifying CCPCs
- introducing a luxury tax on automobiles, vessels and aircraft worth at least $100,000
- adding a 15% minimum tax that would apply to taxpayers in the top tax bracket (which would be in addition to the already existing alternative minimum tax that applies to individuals under certain circumstances)
- increasing the rate on the refundable Eligible Educator School Supply Tax Credit from 15% to 25%
- introducing legislation for the proposed Underused Housing Tax equal to 1% of the property value on vacant or underused residential property owned by non-resident, non-Canadians

Several additional tax measures were proposed over the past year (many of which have not yet been detailed) suggesting further information on these changes and possibly draft legislation will be introduced in Budget 2022. These measures may include additional home-related credits and incentives (per the Liberal election platform), as well as addressing tax avoidance and aggressive tax planning.

As the Liberal government has set lofty goals to help achieve its 2030 climate targets, it’s no surprise that several environment-related tax measures were proposed in their platform. These include investment tax credits for renewable energy, battery storage and “clean technologies”; an expansion of the types of vehicles that would qualify for federal zero-emission vehicle rates; and grants and loans to assist individuals with retrofitting and upgrading their homes to help save on energy costs.

Continued pandemic-related stimulus

There is evidence of our economy returning to as close to a pre-pandemic normal as possible, with some provinces reducing or eliminating pandemic-related restrictions and others announcing their intention to soon follow. Nevertheless, some individuals and businesses continue to struggle economically. Both the Tourism and Hospitality Recovery Program (THRP) and the Hardest-Hit Business Recovery Program (HHBRP) are currently available until May 2022. Extensions are possible into July and there may be further extensions legislated to extend these programs’ even further. Furthermore, the lockdown-related subsidies for both individuals and businesses were both expanded to make them available where there is a capacity-limitation rather than a full lockdown. This suggests that the federal government may provide more pandemic-related stimulus to both individuals and businesses, although limited to the extension or expansion of current programs rather than introducing new ones.

Environment-related initiatives

The environment has been a focus for the Liberal government. There’s a possibility that the government will make changes to help meet its aggressive emissions targets from a stimulus perspective. Several environmentally focused tax measures were introduced as part of the Liberal party’s election platform last year; however, further changes could be on the horizon. The Green Budget Coalition, which consists of organizations such as the David Suzuki Foundation, World Wildlife Fund and the Canadian Environmental Law Association, included recommendations to eliminate all fossil fuel subsidies in its pre-budget consultation submission. Although some of these subsidies have been reduced, the Green Budget Coalition stresses that more needs to be done for Canada to meet its 2050 net-zero targets.

Tax cuts to encourage continued investment into green initiatives could be extended as indicated in the pre-budget proposed tax changes noted above. Although the proposed tax-rate reduction currently only applies to businesses that manufacture zero-emission technologies that meet specific criteria, it’s possible that the rate reduction could be expanded. For example, in its pre-budget consultation submission, Advanced Biofuels Canada recommended expanding the availability of this tax rate reduction to other types of low-carbon intensity fuels. As this legislation is still in the proposed stage and open for consultation, it’s possible for similar suggestions to be submitted, compelling the government to make changes. In the medium-term, it’s possible that other “green” businesses such as producers and distributors of “clean” electricity, green consulting businesses, and businesses that are not specifically a 'green business' but do provide some services that might be considered green could also partially benefit from similar rules. Given Canada's aggressive emissions targets into 2030 and 2050, even more may need to be done to encourage businesses to help meet these targets.

Wealth Tax

A tax on personal wealth has been raised in recent policy discussions on how to deal with wealth inequality in Canada. Although there's no guarantee that such a tax could be successfully administered, as several countries have previously attempted to do so with limited success, there continues to be support for such an initiative. Both the NDP and Green Party have advocated for a super-wealth tax on net wealth over $20 million. Although conversations in the US on President Biden's Build Back Better bill have stalled, even those proposals included an additional surtax on millionaires and billionaires–though not quite the same as the wealth tax being discussed in Canada.

In its pre-budget consultation submission, Canadians for Tax Fairness advocate for a wealth tax as a way to reduce wealth and income inequality. Their submission includes the following with respect to a wealth tax:

- a progressive annual wealth tax as follows:
  - 1% on net wealth over $10 million
  - 2% on net wealth over $100 million
  - 3% on net wealth over $1 billion
- a tax on high wealth estates gained through inheritance
- $1 million cap on amounts that corporations can deduct for any single executive or employee

The Parliamentary Budget Office (PBO) was also asked to estimate the revenue that could be generated from a one-time wealth tax on wealth accumulated up to a specific date (April 30, 2021 for purposes of the PBO report) that would apply as follows:

- 3% on net wealth over $10 million
- 5% on net wealth over $20 million

The tax would be payable over a 5-year period. Based on the PBO's modelling, it's estimated that over those five years, net revenue between $44 – $60.7 billion could be generated from this one-time wealth tax.[3]

With the significant levels of government spending over the last two years, the government may decide to bring in such a tax, whether it be on an annual or one-time basis. Given recent polls[4] that seem to indicate general support for such a tax amongst Canadians, it should not be a surprise if there is at least mention of this in the upcoming budget.

Changes to the GST

Although it may not be a popular idea, there is a possibility that the government will make changes to the GST (or the federal portion of the HST, for harmonized provinces) to increase its revenues from this source. There appears to be little appetite to increase income taxes, other than the proposals that have been previously mentioned. One of the next logical ways to increase revenue would be to focus on consumption taxes. The government is already doing so by targeting the wealthy through its proposed luxury tax; however, given the limited revenue this is expected to generate,[5] it may have to cast its net wider.

Several groups have called for changes to the GST, including widening the base so that more goods and services would be subject to the GST/HST. CPA Canada's pre-budget consultation submission advocates for "broadening the tax base, simplifying the GST system, and rebalancing taxation toward consumption taxes, bringing Canada in line with other G7 countries." Implementing such changes could have the effect of increasing federal revenues from the GST as well as experiencing cost savings in the administration of the tax for both government and businesses.

Although it may be a very unpopular option, the government may decide that there's some room to increase the current rate of 5%, given that the GST rate was originally 7% when it was first introduced. The C.D. Howe Institute produced a report in May 2020 that outlined several options to help pay for post-pandemic spending. One of those options was increasing the GST/HST rate by 2%, back up to 7%, accompanied with an increase in the refundable GST tax credit by 40% for lower-income households. The report estimated that doing so would raise almost $15 billion, an amount significantly higher than the proposed luxury tax on cars, boats and planes. More recently, the C.D. Howe Institute has advocated for using the GST as an automatic lever to bolster the economy during economic downturns. In its November 2021 report, it states that "cutting value-added taxes would be more effective and more immediate than interest-rate adjustments" and proposes that the rate cut be implemented automatically on a temporary basis.

Despite all this, an increase to the GST rate is unlikely as doing so would be politically unpopular, particularly for a Liberal minority government. However, given the very large debt balance that the government is now faced with, as well as the compelling argument made by the C.D. Howe Institute's November 2021 report, it's a possibility.

Child care measures

Job losses caused by the pandemic disproportionally affected women more than men, particularly in the services sector. For example, Statistics Canada reported that although women employed in small firms represent 23.6% of pre-pandemic total employment, they account for 37.9% of the year-over-year decline in employment, much greater, proportionally, than men.

To address one of its election campaigns promises, the Liberal government has been working on agreements with the provinces to cap childcare costs across the country at $10/day. Although not a tax measure, this is a significant change that could help many parents, particularly lower income women, return to the workforce. However, if and when this goal is achieved, it doesn't guarantee that all Canadian families who need it would be able to benefit from it. Limited childcare spaces, lack of availability during necessary hours and even some families' need to protect immune-compromised children can all impact the availability of lower-cost childcare.

[3] The range was as a result of different assumptions of the behavioural responses that would result from taxpayers who would be faced with such a tax.

[4] In July 2021, Abacus Data's conducted a survey on behalf of the Broadbent Institute in which they asked Canadians questions about income inequality and the deficit. The results showed that 89% of those surveyed support a 1% wealth tax on wealth greater than $20 billion.

[5] Based on the PBO's May 2021 report, the luxury tax is estimated to generate revenue of only $663 million over five years.

Some parents may have no choice but to find alternatives such as private childcare, the cost of which could be prohibitive for even dual-income families, particularly due to the continued rise in housing costs and higher-than-normal inflation.

Additional tax changes related to childcare could also help Canadian families make the cost of childcare more affordable. The Canadian Chamber of Commerce outlined several possibilities in its pre-budget consultation submission. One of its recommendations is to remove the requirement for the lower-income spouse to receive the childcare deduction.[6] Doing so would allow the higher-income spouse to take the deduction, which would be more beneficial for the family due to the greater savings at the higher marginal tax rate. Two additional recommendations that would impact small business owners are:

- making childcare an eligible business expense, and
- allowing the deduction to be taken against non-eligible dividend income[7].

Looking forward

The COVID-19 pandemic has been one of the most disruptive and impactful global events of the 21st century. Many Canadians and Canadian businesses have faced incredible hardships, and many continue to do so as they struggle to recover financially, mentally and emotionally. The continued uncertainty with both the virus and the Canadian (and global) economy's resiliency suggest that the government will continue to play a significant role in bringing the country out of the pandemic. Although most agree that the government's support programs throughout the pandemic were necessary and played a large role in preventing the worst economic scenarios from occurring, the cost of those programs will need to be paid. The question is – from where? It's anyone's guess what Budget 2022 will bring, but it is likely that there will be increases in taxes, particularly on the wealthy and on large corporations, and decreases in spending in areas that are not the government's key focus.

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[6] Canadian tax law sets certain limits on the amount of childcare expenses that can be deducted annually and requires the lower-income spouse to take the deduction.

[7] Child care expenses are only deductible against "earned income", which is a defined term that excludes dividends.

Appendix

Federal COVID-19 support programs – Summary of costs of main programs

Program	$ amount to date	Source
Canada Emergency Wage Subsidy (CEWS) *As of January 30, 2022*	$100.16 billion	Govt of Canada CEWS website
Canada Emergency Rent Subsidy (CERS) and Lockdown Support *As of January 30, 2022*	$7.65 billion	Govt of Canada CERS website
Canada Emergency Business Account (CEBA) *As of January 26, 2022*	$48.4 billion	CEBA website
Canada Recovery Hiring Program (CRHP) *Estimated, up to May 7, 2022*	$704 million*	PBO report
Tourism and Hospitality Recovery Program (THRP) and Hardest-Hit Business Recovery Program (HHBRP) *Estimated, up to May 7, 2022*	$7.19 billion**	PBO costing – wage PBO costing – rent PBO costing – Local Lockdown expansion
Canada Emergency Response Benefit (CERB) and Employment Insurance (EI) benefits *Up to October 4, 2020*	$81.64 billion	Govt of Canada CERB/EI website
Canada Recovery Benefit (CRB) *As of January 2, 2022*	$28.39 billion	Govt of Canada CRB website
Canada Recovery Sickness Benefit (CRSB) *As of February 6, 2022*	$1.17 billion	Govt of Canada CRSB website
Canada Recovery Caregiver Benefit (CRCB) *As of February 6, 2022*	$4.07 billion	Govt of Canada CRCB website
Canada Worker Lockdown Benefit (CWLB) *December 19, 2021 to March 12, 2022*	$248 million***	PBO report

** Total taken directly from Parliamentary Budget Office report, published on January 31, 2022, estimating the cost of the CRHP, including the extension to May 2, 2022, as per Bill C-2.*

*** The total represents the estimated sum of the THRP, HHBRP and expanded Local Lockdown programs for both wage and rent subsidies, per the PBO reports cited..*

**** The PBO report only looked at the cost of the expansion of the CWLB, which makes it available in regions where there is a capacity limitation of 50% or more, in addition to regions under lockdown. Only the period between December 19, 2021 and March 12, 2022 was costed out as the report indicates that for the period from October 24 to December 18, 2021, only a small number of workers resided in a region that met the CWLB conditions to qualify. The CWLB is currently available up to May 7, 2022.*

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