



2021 FEDERAL BUDGET HIGHLIGHTS

On April 19, 2021, Canada's Finance Minister, the Honourable Chrystia Freeland, tabled the first federal budget in two years.

Big measures

With concerns about the nation's pandemic recovery hovering in the background, the federal plan proposes more than \$101 billion in new spending over three years to kickstart the economy and position it for future growth.

Other major announcements in the budget include a \$30 billion commitment over five years to create and sustain early learning and childcare programs, \$18 billion to build safer, healthier Indigenous communities, and \$17.6 billion for green investments and jobs.

While the budget doesn't change the federal personal or corporate tax rates, it extends the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Rent Subsidy (CERS) and the Lockdown Support until September 25, 2021, and introduces a new Canada Recovery Hiring Program.

KEY TAKEAWAYS

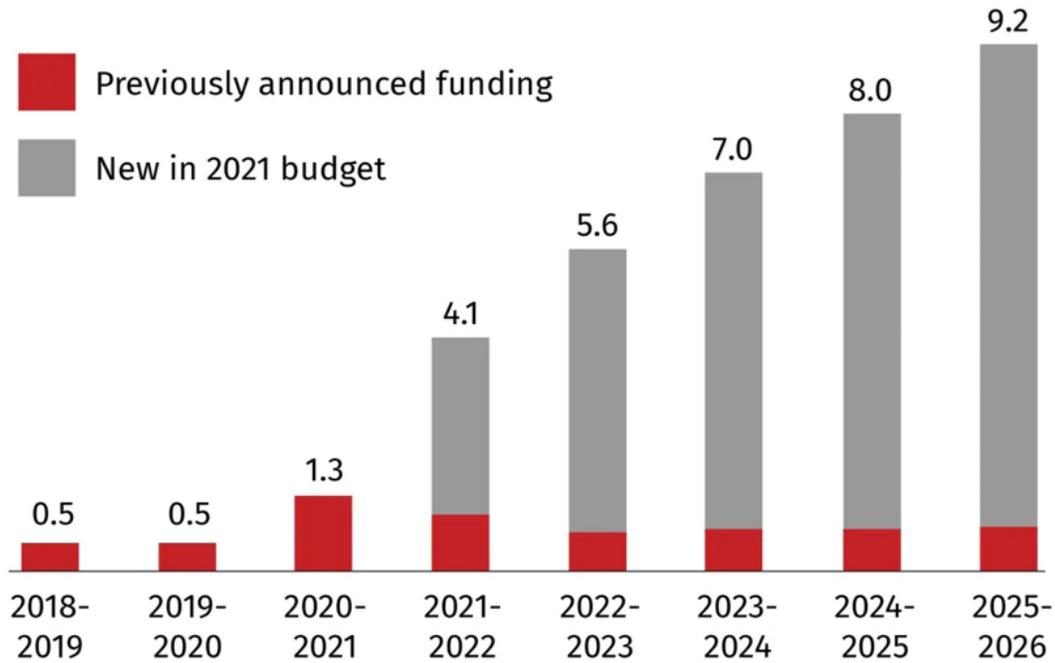
- Big measures include \$101 billion in new spending over three years and a \$30 billion commitment over five years for early learning and childcare programs
- Extension of COVID-19 recovery benefits and employment insurance general benefits
- Student grants are extended and increased
- Benefit bump for Seniors
- Increasing the broadening of qualifications for the Disability Tax Credit
- Boost to the Canada Workers Benefit
- Postdoctoral Fellowship Income to qualify as earned income
- Northern residents deduction
- Expanded digital tax filing
- Emergency support for businesses under CEWS and CERS
- Rate reduction for zero-emission technology manufacturers
- Luxury tax on certain cars, boats and personal aircraft
- Home retrofit interest-free loan of \$40K
- Tax on unproductive use of Canadian housing by foreign nonresident owners

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Investments in child care and early childhood learning (\$Billions)



(CBC News, Source: 2021 federal budget)

Deficit and debt

After accounting for Budget 2021 measures, Canada is expected to run a deficit of \$354.2 billion in 2020-21, improving to \$154.7 billion in 2021-22, and gradually declining to a deficit of \$30.7 billion in 2025-26, or approximately one percent of GDP. Meanwhile, the federal debt is expected to peak at 51.2 percent of GDP in 2021-22, before declining to 49.2 percent of GDP in 2025-26.

As Canada has a minority government, these measures will require the support of another political party before they pass into law.

The following is a summary of the most relevant budget proposals that may impact financial advisors and their clients.

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Measures for individuals

The budget proposes a number of extensions to its COVID-19 support programs. Notable changes include:

- **The Canada Recovery Benefit (CRB)** gives income support to employed and self-employed individuals who are directly affected by COVID-19 but not entitled to Employment Insurance (EI) benefits. The budget proposes to provide up to 12 additional weeks of CRB to a maximum of 50 weeks. The first four of these additional 12 weeks will be paid at \$500 per week, with the remaining eight weeks paid at a lower amount of \$300 per week claimed. Also, new claimants after July 17, 2021 will receive the \$300 per week benefit up to September 25, 2021.
- **The Canada Recovery Caregiving Benefit (CRCB)** provides income support to employed and self-employed individuals who are unable to work because they must care for their child under 12 years old or a family member who needs supervised care. The budget proposes to extend this support for an additional four weeks to a maximum of 42 weeks at \$500 per. The budget also proposes giving the government the authority to extend the programs, as well as regular EI benefits, until no later than November 20, 2021, should it be required.

COVID Benefit Repayments

If a COVID-19 benefit amount is repaid, the taxpayer claims a deduction in the year of repayment. The budget proposes to allow the option to request an adjustment to a tax return for the year that the COVID-19 benefit was received. This option will be available for benefit amounts repaid any time before 2023.

The budget also proposes that any COVID-19 benefits paid to individuals residing in Canada but considered nonresidents of Canada for tax purposes will be taxable in Canada in a manner similar to employment and business income earned in Canada.

Canada-wide Early Learning and Child Care Plan

A key budgetary proposal is the establishment of Canada-wide early learning and childcare program. The government's goal is to ensure that all families have access to high-quality, affordable and flexible early learning and childcare, with an overall goal of reducing fees for regulated childcare down to \$10 per day on average within the next five years.

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These targets would apply everywhere outside of Quebec, where prices are already affordable. The budget proposes new investments totaling up to \$30 billion over the next 5 years, and \$8.3 billion ongoing for these programs as well as expanding and improving afterschool care programs.

It is also proposed to provide \$29.2 million over two years, starting in 2021-22, to Employment and Social Development Canada through the Enabling Accessibility Fund to support childcare centers as they improve their physical accessibility to assist families with children with disabilities.

Student Grants and Interest-Free Loans

Budget 2021 proposes to extend the increased student grant for students (upped from \$3,000 to \$6,000 for full-time students; \$1,800 to \$3,600 for part-time students; and \$2,000 to \$4,000 for students with disabilities, among others) for another two years, until 2023.

In addition, it proposes to increase the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023. The repayment assistance thresholds, where students living alone do not have to make payments on their loans, would rise from students earning \$25,000 in income to \$40,000.

Benefit Bump for Seniors

Budget 2021 proposes a one-time payment of \$500 in August 2021 for seniors age 75 and older as of June 2022. In addition, it proposes a permanent 10 percent increase to regular Old Age Security Benefits for pensioners age 75 and older, beginning July 2022. This is expected to provide additional benefits of \$766 annually to full OAS pensioners in the first year and be indexed to inflation thereafter.

Broadening of Disability Tax Credit

Budget 2021 proposes to make qualification for the disability tax credit (DTC) easier by expanding eligibility in the areas of mental functions and life-sustaining therapy.

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Boosting the Canada Workers Benefit

The Canada Workers Benefit (CWB) provides a tax refund to low-wage workers, up to almost \$1,400 for single people with no kids and \$2,400 for families. Budget 2021 proposes an expansion to another one million Canadians. The government is proposing to raise the income level where benefits begin to be reduced to \$22,944 for single folks without kids and to \$26,177 for families.

As well, when income-testing for the CWB, new rules would allow secondary earners to exclude up to \$14,000 of their income, so they can go back to work without disqualifying for the benefit.

Postdoctoral Fellowship Income qualify as Earned Income

Currently, postdoctoral fellowship income does not qualify as "earned income" for calculating RRSP contribution room. Budget 2021 proposes to include it. The measure applies to postdoctoral fellowship income received in 2021 and afterward. Taxpayers may also apply to the CRA in writing for an adjustment to RRSP contribution room with respect to postdoctoral fellowship income received from 2011 to 2020.

Northern Residents Deduction

Currently, the Northern Residents Deduction serves only those who already receive travel benefits through work. An update would expand it to those who don't have such travel benefits, allowing those eligible to claim up to \$1,200 in travel expenses.

Budget 2021 also proposes a maximum of two trips for non-medical personal travel in a year and unlimited trips for medical purposes for all taxpayers in each household. This measure applies to 2021 and future years.

Electronic Filings & Certification of Tax & Information Returns

Budget 2021 proposes a number of measures to improve the CRA's ability to operate digitally, including the following:

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- Certain Notice of Assessments (NOA) will be sent electronically without taxpayer authorization if their tax returns have been filed electronically
- Businesses that use the CRA's My Business Account will have communication electronically as the default option
- Issuers of T4A & T5s may submit information returns electronically without taxpayer authorization
- Tax preparers are required to file electronically if they submit 5 or more tax, individual or corporate returns (reduced from 10)
- Tax preparers can only submit a maximum of 5 paper returns, individual or corporate (reduced from 10)
- Handwritten signatures would no longer be required for T183's (individual and corporate), T2200, and other prescribed CRA forms

Measures for Corporations

The budget proposes a number of extensions to its COVID-19 support programs for business, including:

- The Canada Emergency Wage Subsidy (CEWS) provides a subsidy to eligible employers who have experienced a drop in revenue during COVID-19 to cover part of their employee wages. This support is due to expire in June 2021. The budget proposes an extension until September 25, 2021. It also proposes to gradually decrease the subsidy rate, beginning July 4, 2021 as more people are vaccinated.
- The Canada Emergency Rent Subsidy (CERS) provides eligible organizations with subsidies for rent, mortgage, and other expenses. Lockdown support provides organizations eligible for the rent subsidy with additional support if they are subject to a lockdown order or must significantly restrict their business activities under a public health order. The budget proposes extending these programs until September 25, 2021. As with the CEWS, the rate of the rent subsidy will be gradually decreased, beginning July 4, 2021. However, the government has reserved the ability to extend the program until November 20, 2021.
- The Regional Relief and Recovery Fund and Indigenous Business Initiative provide interest-free partially forgivable loans to Aboriginal and some regional businesses. The application deadline for support under both programs is extended to June 30, 2021.

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New Canada Recovery Hiring Program

The budget proposes to introduce a new Canada Recovery Hiring Program to provide certain eligible employers with a subsidy of up to 50% on incremental remuneration paid to eligible employees between June 6, 2021 to November 20, 2021. This subsidy would not be available if the employer has claimed CEWS for the same qualifying period.

Employers that are eligible for CEWS (such as individuals, non-profit organizations, certain partnerships) would generally also be eligible for this hiring subsidy. For-profit corporations would qualify only if they are a Canadian-controlled private corporation (CCPC). The employer must have experienced a decline in revenues to qualify for this subsidy.

This subsidy would not be available for furloughed employees (employees on leave with pay but not performing any work for the employer) other than employees on vacation leave, sick leave or a sabbatical. To qualify, the employee must be employed primarily in Canada during the qualifying period.

Eligible remuneration that would qualify for this subsidy includes salary, wages and other amounts paid to employees subject to income tax withholdings by the employer and paid during the qualification period subject to a maximum of \$1,129 per week for each eligible employee. Amounts paid for severance pay, stock-option benefits or benefits relating to personal use of a corporate vehicle would not qualify.

The subsidy amount will be calculated based on the incremental remuneration, which is the difference between the total eligible remuneration paid in the qualifying period and the total eligible remuneration paid for the baseline period of March 14 to April 10, 2021.

Immediate Expensing of Capital Cost Expenses

The budget proposes to allow, on a temporary basis, the immediate expensing of eligible property acquired by Canadian-controlled private corporations (CCPCs) on or after April 19, 2021, that becomes available for use before January 1, 2024.

The immediate expensing will be limited to \$1.5 million per taxation year (prorated for short taxation years) and available for the year in which the property becomes available for use. The limit will be shared among associated corporations, and no carryforward will be allowed for CCPCs with less than \$1.5 million of eligible capital costs.

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Rate Reduction for Zero-Emission Technology Manufacturers

The budget proposes a reduction in the corporate tax rate on eligible zero-emission technology manufacturing and process income. Under the proposal, the federal portion of the general corporate tax rate would be reduced to 7.5%, while the small-business tax rate would be reduced to 4.5% for businesses that generate income from activities such as the manufacture of solar, wind or water energy conversion equipment and zero-emission vehicles.

Other Measures of Note

Luxury Tax on Certain Cars, Boats and Personal Aircraft

The budget proposes a new tax, applicable as of January 1, 2022, on certain luxury goods, including luxury vehicles, personal aircraft and boats. For qualifying new luxury vehicles and personal aircraft, the new tax would be equal to the lesser of 10% of the total value or 20% of the value above \$100,000. For qualifying boats over \$250,000, the new tax would be equal to the lesser of 10% of the full value or 20% of the value above \$250,000. The applicable GST/HST on these luxury goods would apply to the final sale price, including the proposed new tax. The budget notes that the government will release further details on this tax in the coming months.

Employee Ownership Trusts

In Budget 2021, the government announced a proposal to engage with stakeholders to review the merits of employee ownership trusts and how this type of trust can benefit Canadian private businesses.

Home Retrofit Interest-Free Loan of \$40,000

The budget proposes that, starting in 2021/2022, the federal government will provide interest-free loans of up to \$40,000 through Canada Mortgage Housing Corporation (CMHC) to assist homeowners and landlords in undertaking energy-efficient retrofits, including:

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- Replacing oil furnaces with high-efficiency furnaces
- Better wall or basement insulation
- Installing high-efficiency water heater
- Replacing drafty windows and doors

Tax on Unproductive Use of Canadian Housing by Foreign Non-Resident Owners

Budget 2021 proposes a new national 1% tax on the value of nonresident, non-Canadian owned residential real estate considered to be vacant or underused. This tax would be levied annually beginning in 2022.

The budget also proposes that, beginning in 2023, owners of residential property in Canada (except for Canadian citizens and Permanent residents of Canada) will also be required to file an annual declaration with the CRA for each residential property owned in the prior calendar year. Failure to file the annual declaration would result in penalties and interest.