ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

2022 FEDERAL BUDGET SUMMARY

April 7, 2022

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INTRODUCTION

On April 7, 2022, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented Budget 2022: *A Plan to Grow Our Economy and Make Life More Affordable*.

The budget proposes measures to help Canadians buy their first home, including by introducing the Tax-Free First Home Savings Account and doubling the First-Time Home Buyers' Tax Credit. It also aims to cut taxes for Canada's growing small businesses and includes new incentives for the development of clean technologies and carbon capture, utilization, and storage.

Here are the highlights of the 2022 budget.

MEASURES PERTAINING TO INDIVIDUALS

Tax-Free First Home Savings Account

Budget 2022 proposes to create the Tax-Free First Home Savings Account (FHSA), a new registered account to help individuals save for their first home. Contributions to an FHSA would be deductible and income earned in an FHSA would not be subject to tax. Qualifying withdrawals from an FHSA made to purchase a first home would be non-taxable.

Some key design features of the FHSA are described below. The government will release its proposals for other design elements in the near future.

Eligibility

To open an FHSA, an individual must be a resident of Canada, and at least 18 years of age. In addition, the individual must not have lived in a home that they owned either:

- at any time in the year the account is opened, or
- during the preceding four calendar years.

Individuals would be limited to making non-taxable withdrawals in respect of a single property in their lifetime.

Once an individual has made a non-taxable withdrawal to purchase a home, they would be required to close their FHSAs within a year from the first withdrawal and would not be eligible to open another FHSA.

Contributions

The lifetime limit on contributions would be $40,000, subject to an annual contribution limit of $8,000. The full annual contribution limit would be available starting in 2023.

Unused annual contribution room could not be carried forward, meaning an individual contributing less than $8,000 in a given year would still face an annual limit of $8,000 in subsequent years.

Withdrawals and Transfers

Amounts withdrawn to make a qualifying first home purchase would not be subject to tax. Amounts that are withdrawn for other purposes would be taxable.

An individual could transfer funds from an FHSA to a registered retirement savings plan (RRSP) (at any time before the year they turn 71) or registered retirement income fund (RRIF). Transfers to an RRSP or RRIF would not be taxable at the time of transfer, but amounts would be taxed when withdrawn from the RRSP or RRIF in the usual manner. Transfers would not reduce, or be limited by, the individual's available RRSP room. Withdrawals and transfers would not replenish FHSA contribution limits.

If an individual has not used the funds in their FHSA for a qualifying first home purchase within 15 years of first opening an FHSA, their FHSA would have to be closed. Any unused savings could be transferred into an RRSP or RRIF, or would otherwise have to be withdrawn on a taxable basis.

Individuals would also be allowed to transfer funds from an RRSP to an FHSA on a tax-free basis, subject to the $40,000 lifetime and $8,000 annual contribution limits. These transfers would not restore an individual's RRSP contribution room.

Home Buyers' Plan

The home buyers' plan (HBP) allows individuals to withdraw up to $35,000 from an RRSP to purchase or build a home without having to pay tax on the withdrawal.

The HBP will continue to be available as under existing rules. However, an individual will not be permitted to make both an FHSA withdrawal and an HBP withdrawal in respect of the same qualifying home purchase.

Application Date

The government would work with financial institutions to have the infrastructure in place for individuals to be able to open an FHSA and start contributing at some point in 2023.

Home Buyers' Tax Credit

First-time home buyers who acquire a qualifying home can obtain up to $750 in tax relief by claiming the First-Time Home Buyers' Tax Credit (HBTC). The value of this non-refundable credit is calculated by multiplying the credit amount of

$5,000 by the lowest personal income tax rate (15 per cent in 2022).

Budget 2022 proposes to double the HBTC amount to $10,000, which would provide up to $1,500 in tax relief to eligible home buyers. Spouses or common-law partners would continue to be able to split the value of the credit as long as the combined total does not exceed $1,500 in tax relief.

This measure would apply to acquisitions of a qualifying home made on or after January 1, 2022.

An Extended and More Flexible First-Time Home Buyer Incentive

Budget 2022 announces an extension of the First-Time Home Buyer Incentive to March 31, 2025, and the government is exploring options to make the program more flexible and responsive to the needs of first-time home buyers, including single-led households.

Multigenerational Home Renovation Tax Credit

Budget 2022 proposes to introduce a new Multigenerational Home Renovation Tax Credit. The proposed refundable credit would provide recognition of eligible expenses for a qualifying renovation. A qualifying renovation would be one that creates a secondary dwelling unit to permit an eligible person (a senior or a person with a disability) to live with a qualifying relation. The value of the credit would be 15 per cent of the lesser of eligible expenses and $50,000.

Eligible Persons

Seniors and adults with disabilities would be considered eligible persons for the purpose of the Multigenerational Home Renovation Tax Credit.

> Seniors are individuals who are 65 years of age or older at the end of the taxation year that includes the end of the renovation period.

> Adults with disabilities are individuals who are 18 years of age or older at the end of the taxation year that includes the end of the renovation period, and who are eligible for the Disability Tax Credit at any time in that year.

Qualifying Relations

For the purposes of this credit, a qualifying relation, in respect of an eligible person, would be an individual who is 18 years of age or older at the end of the taxation year that includes the end of the renovation period and is a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of the eligible person (which includes the spouse or common-law partner of one of those individuals).

Eligible Claimants

The Multigenerational Home Renovation Tax Credit may be claimed by:

> an individual who ordinarily resides, or intends to ordinarily reside, in the eligible dwelling within twelve months after the end of the renovation period and who is:
>
> - an eligible person;
> - the spouse or common-law partner of the eligible person;
> - a qualifying relation, in respect of an eligible person; or

> a qualifying relation, in respect of an eligible person, who owns the eligible dwelling.

Where one or more eligible claimants make a claim in respect of an eligible renovation, the total of all amounts claimed in respect of the qualifying renovation must not exceed $50,000. If the claimants cannot agree as to what portion of the amounts each can claim, the Minister of National Revenue would be allowed to fix the portions.

Eligible Dwelling

For the purposes of this credit, an eligible dwelling would be defined as a housing unit that is:

> owned (either jointly or otherwise) by the eligible person, the spouse or common-law partner of the eligible person or a qualifying relation in respect of the eligible person; and

> where the eligible person and a qualifying relation in respect of the eligible person ordinarily reside, or intend to ordinarily reside, within twelve months after the end of the renovation period.

An eligible dwelling would include the land subjacent to the housing unit and the immediately contiguous land.

Qualifying Renovation

For the purposes of this credit, a qualifying renovation would be defined as a renovation or alteration of, or addition to, an eligible dwelling that is:

> of an enduring nature and integral to the eligible dwelling; and
> undertaken to enable an eligible person to reside in the dwelling with a qualifying relation, by establishing a secondary unit within the dwelling for occupancy by the eligible person or the qualifying relation.

A secondary unit would be defined as a self-contained dwelling unit with a private entrance, kitchen, bathroom facilities and sleeping area.

The secondary unit could be newly constructed or created from an existing living space that did not already meet the requirements to be a secondary unit.

One qualifying renovation would be permitted to be claimed in respect of an eligible person over their lifetime.

Renovation Period

For the purposes of this credit, the renovation period means a period that:

> begins at the time that an application for a building permit for a qualifying renovation is submitted; and
> ends at the time when the qualifying renovation passes a final inspection, or proof of completion of the project.

The credit would be available to be claimed for the taxation year that includes the end of the renovation period.

Eligible Expenses

Expenses would be eligible if they are made or incurred during the renovation period, for the purpose of a qualifying renovation, and are reasonable in the context of that purpose (i.e., enabling an eligible person to reside in the dwelling with a qualifying relation).

Eligible expenses would include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits. Items such as furniture, as well as items that retain a value independent of the renovation (such as construction equipment and tools), would not be integral to the dwelling and expenses for such items would therefore not qualify for the credit.

The following are examples of other expenses that would not be eligible:

> the cost of annual, recurring or routine repair or maintenance;
> payments for services such as outdoor maintenance and gardening, housekeeping or security;
> the costs of financing a renovation (e.g., mortgage interest costs);
> goods or services provided by a person not dealing at arm's length with the claimant, unless that person is registered for GST/ HST purposes.

Expenses that may be included in a claim must be reduced by any reimbursement or any other form of assistance that an individual is or was entitled to receive, including any related rebates, such as those for GST/HST. Expenses would not be eligible if they are claimed under the Medical Expense Tax Credit (METC) and/or Home Accessibility Tax Credit.

Application Date

This measure would apply for the 2023 and subsequent taxation years, in respect of work performed and paid for and/or goods acquired on or after January 1, 2023.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit is a non-refundable tax credit that provides recognition of eligible home renovation or alteration expenses in respect of an eligible dwelling of a qualifying individual.

Budget 2022 proposes to increase the annual expense limit of the Home Accessibility Tax Credit from $10,000 to $20,000.

This measure would apply to expenses incurred in the 2022 and subsequent taxation years.

Residential Property Flipping Rule

Property flipping involves purchasing real estate with the intention of reselling the property in a short period of time to realize a profit. Profits from flipping properties are fully taxable as business income, meaning they are not eligible for the 50-per-cent capital gains inclusion rate or the Principal Residence Exemption.

Budget 2022 proposes to introduce a new deeming rule to ensure profits from flipping residential real estate are always subject to full taxation.

Specifically, profits arising from dispositions of residential property (including a rental property) that was owned for less than 12 months would be deemed to be business income.

The new deeming rule would not apply if the disposition of property is due to certain life circumstances, such as a death, disability, the birth of a child, a new job, a household addition or a divorce.

Where the new deeming rule applies, the Principal Residence Exemption would not be available.

Where the new deeming rule does not apply because of a life event listed above or because the property was owned for 12 months or more, it would remain a question of fact whether profits from the disposition are taxed as business income.

Application Date

The measure would apply in respect of residential properties sold on or after January 1, 2023.

Labour Mobility Deduction for Tradespeople

Temporary relocations to obtain employment may not qualify for existing tax recognition for moving or travel expenses, particularly if they do not involve a change in an individual's ordinary residence and the employer does not provide relocation assistance.

Budget 2022 proposes to introduce a Labour Mobility Deduction for Tradespeople to recognize certain travel and relocation expenses of workers in the construction industry, for whom such relocations are relatively common. This measure would allow eligible workers to deduct up to $4,000 in eligible expenses per year.

For the purposes of this deduction, an eligible individual would be a tradesperson or an apprentice who:

> makes a temporary relocation that enables them to obtain or maintain employment under which the duties performed by the taxpayer are of a temporary nature in a construction activity at a particular work location; and
> ordinarily resided prior to the relocation at a residence in Canada, and during the period of the relocation, at temporary lodging in Canada near that work location.

Eligible Temporary Relocation

To qualify as an eligible temporary relocation:

> the temporary lodging must be at least 150 kilometres closer than the ordinary residence to the particular work location;
> the particular work location must be located in Canada; and
> the temporary relocation must be for a minimum duration of 36 hours.

To ensure that the measure does not subsidize long-distance commuting or expenses of those who choose to live far from where they typically work, it would further be required that the particular work location not be in the locality in which the eligible individual principally works (i.e., carries on employment or business activity).

Eligible Expenses

Eligible expenses in respect of an eligible temporary relocation would be reasonable amounts associated with expenses incurred for:

> temporary lodging for the eligible individual near the particular work location;
> transportation for the individual for one round trip from the location where the individual ordinarily resides to the temporary lodging; and
> meals for the individual in the course of travel while making one round trip to and from the temporary lodging.

An individual would not be permitted to claim lodging expenses for a period of time under this measure unless they maintain an ordinary residence elsewhere that remains available for their or their immediate family's use during that time period.

An individual would not be allowed to claim expenses in respect of which they received financial assistance from an employer that is not included in income.

The maximum amount of expenses that could be claimed in respect of a particular eligible temporary relocation would be capped at 50 per cent of the worker's employment income from construction activities at the particular work location in the year.

Amounts claimed under the Labour Mobility Deduction for Tradespeople would not be deductible under the existing Moving Expense Deduction. Similarly, amounts that are otherwise deducted could not be claimed under the Labour Mobility Deduction for Tradespeople.

Application Date

This measure would apply to the 2022 and subsequent taxation years.

Medical Expense Tax Credit for Surrogacy and Other Expenses

Some approaches to building a family involve medical expenses for individuals other than the intended parents.

Budget 2022 proposes to allow medical expenses related to a surrogate mother or a sperm, ova, or embryo donor to be claimed. This would include costs that have been reimbursed to a surrogate for in vitro fertilization expenses.

Budget 2022 also proposes to allow fees paid to fertility clinics and donor banks in Canada in order to obtain donor sperm and ova to be eligible under the METC.

Eligible Expenses

Only expenses incurred in Canada would be eligible. All expenses claimed under the METC would be required to be in accordance with the *Assisted Human Reproduction Act* and associated regulations.

Application Date

This measure would apply to expenses incurred in the 2022 and subsequent taxation years.

Amendments to the *Children's Special Allowances Act* and to the *Income Tax Act*

As a consequence of *An Act respecting First Nations, Inuit and Métis children, youth and families*, which came into force on January 1, 2020, Budget 2022 proposes legislative amendments to ensure the special allowance, the Canada Child Benefit and the Canada Workers Benefit amount for families continue to support children in need of protection. Budget 2022 also proposes to ensure consistent tax treatment of kinship care providers and foster parents who receive financial assistance from Indigenous communities.

These measures would apply for the 2020 and subsequent taxation years.

Reporting Requirements for RRSPs and RRIFs

Budget 2022 proposes to require financial institutions to annually report to the Canada Revenue Agency (CRA) the total fair market value, determined at the end of the calendar year, of property held in each RRSP and RRIF that they administer. This information would assist the CRA in its risk-assessment activities regarding qualified investments held by RRSPs and RRIFs.

This measure would apply to the 2023 and subsequent taxation years.

Next Steps Towards a Minimum Tax for High Earners

Budget 2022 announces that the government will examine a new minimum tax regime, which will go further towards ensuring that all wealthy Canadians pay their fair share of tax. The government will release details on a proposed approach in the 2022 fall economic and fiscal update.

MEASURES PERTAINING TO BUSINESSES

Small Business Deduction

Small businesses may benefit from a reduced corporate income tax rate of 9 per cent – a preference relative to the general corporate income tax rate of 15 per cent. This rate reduction is provided through the "small business deduction" and applies on up to $500,000 per year of qualifying active business income (i.e., the "business limit").

The reduction in the business limit can significantly increase a Canadian-controlled private corporation's (CCPC) marginal tax rate as the combined taxable capital of the CCPC and its associated corporations increases from $10 million to $15 million.

Budget 2022 proposes to extend the range over which the business limit is reduced based on the combined taxable capital employed in Canada of the CCPC and its associated corporations. The new range would be $10 million to $50 million.

For example, under the new rules, a CCPC with $30 million in taxable capital would have up to $250,000 of active business income eligible for the small business deduction, compared to $0 under current rules.

This measure would apply to taxation years that begin on or after April 7, 2022.

Genuine Intergenerational Share Transfers

The *Income Tax Act* contains a rule to prevent people from converting dividends into lower-taxed capital gains using certain self-dealing transactions – a practice referred to as "surplus stripping." Private Member's Bill C-208, which received Royal Assent on June 29, 2021, introduced an exception to this rule in order to facilitate intergenerational business transfers. However, the exception may unintentionally permit surplus stripping without requiring that a genuine intergenerational business transfer takes place.

Budget 2022 announces a consultation process for Canadians to share views as to how the existing rules could be modified to protect the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers. The government is committed to bringing forward legislation to address these issues, which would be included in a bill to be tabled in the fall after the conclusion of the consultation process.

Substantive CCPCs

Deferring Tax Using Foreign Entities

Some taxpayers are manipulating the status of their corporations in an attempt to avoid qualifying as a CCPC to achieve a tax-deferral advantage on investment income earned in their corporations.

The approach taken may involve effecting a change in status of the corporation in anticipation of capital gains on a sale of assets. This may be done in a number of ways, such as by moving a corporation into a foreign low-tax jurisdiction, by using foreign shell companies, or by moving passive portfolios to an offshore corporation. The corporation would no longer qualify as a CCPC and thus would not be subject to the refundable tax mechanisms under Part I of the *Income Tax Act*.

Budget 2022 proposes targeted amendments to address tax planning that manipulates CCPC status without affecting genuine non-CCPCs (e.g., private corporations that are ultimately controlled by non-resident persons and subsidiaries of public corporations). It would also cause a corporation to be a substantive CCPC in circumstances where the corporation would have been a CCPC but for the fact that a non-resident or public corporation has a right to acquire its shares.

Investment income earned and distributed by corporations that are, in substance, CCPCs would be taxed in the same manner as CCPCs. This would ensure that private corporations cannot effectively opt out of CCPC status and inappropriately circumvent the existing anti-deferral rules applicable to CCPCs.

This measure would apply to taxation years that end on or after April 7, 2022. An exception would be provided where the taxation year of the corporation ends because of an acquisition of control caused by the sale of all or substantially all of the shares of a corporation to an arm's length purchaser.

Deferring Tax Using Foreign Resident Corporations

Budget 2022 proposes to:

- remove from the general rate income pool of a CCPC an amount equal to the deductions claimed in respect of repatriations of a foreign affiliate's hybrid surplus and taxable surplus
- include in the capital dividend account of a CCPC (and a substantive CCPC) upon repatriation:
    - the amount of an inter-corporate dividend deduction claimed with respect to a dividend paid out of hybrid surplus less the amount of withholding tax paid with respect to the dividend;
    - the amount of an inter-corporate dividend deduction claimed with respect to a dividend paid out of taxable surplus
    - the amount of a withholding tax deduction claimed less the withholding tax paid in respect of repatriations of taxable surplus.

These measures would apply to taxation years that begin on or after April 7, 2022.

Canada Recovery Dividend

Budget 2022 proposes to introduce a temporary Canada Recovery Dividend, under which banking and life insurers' groups will pay a one-time 15 per cent tax on taxable income above $1 billion for the 2021 tax year. The Canada Recovery Dividend will be paid in equal installments over five years.

Additional Tax on Banks and Life Insurers

Budget 2022 proposes to permanently increase the corporate income tax rate by 1.5 percentage points on the taxable income of banking and life insurance groups above $100 million, such that the overall federal corporate income tax rate above this income threshold will increase from 15 per cent to 16.5 per cent.

Investment Tax Credit for Carbon Capture, Utilization, and Storage

Budget 2022 proposes to introduce an investment tax credit for Carbon capture utilization, and storage (CCUS). The CCUS tax credit would be refundable and available to businesses that incur eligible expenses starting on January 1, 2022.

Eligible Expenses

The CCUS tax credit would be available in respect of the cost of purchasing and installing eligible equipment used in an eligible CCUS project, so long as the equipment was part of a project where the captured CO_2 was used for an eligible use.

Credit Rates

The following rates would apply to eligible expenses incurred after 2021 through 2030:

> 60 per cent for eligible capture equipment used in a direct air capture project;
> 50 per cent for all other eligible capture equipment; and
> 37.5 per cent for eligible transportation, storage, and use equipment.

These rates will be reduced by 50 per cent for the period from 2031 through 2040.

Application Date

This measure would apply to eligible expenses incurred after 2021 and before 2041.

Clean Technology Tax Incentives – Air-Source Heat Pumps

Budget 2022 proposes to expand eligibility under Classes 43.1 and 43.2 to include air-source heat pumps primarily used for space or water heating.

This expansion of Classes 43.1 and 43.2 would apply in respect of property that is acquired and that becomes available for use on or after April 7, 2022, where it has not been used or acquired for use for any purpose before April 7, 2022.

Rate Reduction for Zero-Emission Technology Manufacturers

The government proposes to extend the 50 per cent reduction of the general corporate and small business income tax rates for zero-emission technology manufacturers to include manufacturers of air-source heat pumps:

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

Critical Mineral Exploration Tax Credit

Flow-through share agreements allow corporations to renounce or "flow through" specified expenses to investors, who can deduct the expenses in calculating their taxable income.

Budget 2022 proposes to introduce a new 30-per-cent Critical Mineral Exploration Tax Credit (CMETC) for specified minerals. The specified minerals that would be eligible for the CMETC are: copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals and uranium.

The CMETC would apply to expenditures renounced under eligible flow-through share agreements entered into after April 7, 2022 and on or before March 31, 2027.

Flow-Through Shares for Oil, Gas, and Coal Activities

Budget 2022 proposes to eliminate the flow-through share regime for oil, gas, and coal activities by no longer allowing oil, gas and coal exploration or development expenditures to be renounced to a flow-through share investor.

This change would apply to expenditures renounced under flow-through share agreements entered into after March 31, 2023.

International Financial Reporting Standards for Insurance Contracts (IFRS 17)

On January 1, 2023, IFRS 17 – a new international accounting standard for insurance contracts – will substantially change the financial reporting for Canadian insurers.

Budget 2022 proposes legislative amendments to confirm support of the use of IFRS 17 accounting standards for income tax purposes, with the exception of a new reserve known as the contract service margin, subject to some modifications. Without this exception, profits embedded in the new reserve would be deferred for income tax purposes.

These changes will ensure income is recognized when key economic activities occur, as under the current rules generally.

Budget 2022 proposes that all of these measures would apply as of January 1, 2023.

Hedging and Short Selling by Canadian Financial Institutions

Some Canadian financial institutions have been using hedging and short selling arrangements in aggressive tax planning strategies. Put simply, two different parts of an institution take different positions in relation to a Canadian dividend-paying stock – one short, or betting against the stock; one long, or betting on the stock – to take advantage of special treatment that those Canadian stocks receive.

Budget 2022 proposes to amend the *Income Tax Act* to deny the deduction for a dividend received where the taxpayer has entered into such transactions.

Application of the General Anti-Avoidance Rule to Tax Attributes

A 2018 Federal Court of Appeal decision held that the general anti-avoidance rule (GAAR) did not apply to a transaction that resulted in an increase in a tax attribute that had not yet been utilized to reduce taxes. The reasoning behind this decision has been applied in subsequent cases. The limitation of the GAAR to circumstances where a tax attribute has been utilized runs counter to the policy underlying the GAAR and the determination rules.

Budget 2022 proposes that the *Income Tax Act* be amended to provide that the GAAR can apply to transactions that affect tax attributes that have not yet become relevant to the computation of tax.

This measure would apply to notices of determination issued on or after April 7, 2022.

MEASURES PERTAINING TO INTERNATIONAL TAX MEASURES

International Tax Reform

Canada is one of 137 members of the Organisation for Economic Co-operation and Development (OECD)/Group of 20 Inclusive Framework on Base Erosion and Profit Shifting that have joined a two-pillar plan for international tax reform.

Pillar One is intended to reallocate a portion of taxing rights over the profits of the largest and most profitable multinational enterprises (MNEs) to market countries (i.e., where their users and customers are located). The government will continue to press forward and be prepared to introduce implementing legislation after the terms are multilaterally agreed.

Pillar Two is intended to ensure that the profits of large MNEs are subject to an effective tax rate of at least 15 per cent, regardless of where they are earned.

Budget 2022 is launching a public consultation on the implementation of Pillar Two and the domestic minimum top-up tax in Canada.

Exchange of Tax Information on Digital Economy Platform Sellers

In Canada, the onus is generally on taxpayers earning business income, including those carrying on business through online platforms (i.e., platform sellers), to report to the CRA the income they have earned. However, not all platform sellers are aware of the tax implications of their online activities.

The OECD has developed model rules for reporting by digital platform operators with respect to platform sellers.

Budget 2022 proposes to implement the model rules in Canada. The measure would require reporting platform operators that provide support to reportable sellers for relevant activities to determine the jurisdiction of residence of their reportable sellers and report certain information on them.

Interest Coupon Stripping

Interest coupon stripping is a way that some taxpayers avoid paying tax on cross-border interest payments. Due to differences between Canada's various tax treaties, the interest received from Canadian residents is often subject to different tax rates depending on where the recipient resides. Interest coupon stripping arrangements exploit these differences and allow some to pay less in taxes.

Budget 2022 proposes to create a specific anti-avoidance rule to ensure that the appropriate amount of tax is paid when an interest coupon stripping arrangement is used.

This measure would apply to interest paid or payable by a Canadian-resident borrower to an interest coupon holder to the extent that such interest accrued on or after April 7, 2022, unless the interest payment meets certain conditions.

MEASURES PERTAINING TO COMMODITY TAXES

GST/HST Health Care Rebate

Budget 2022 proposes to amend the GST/HST eligibility rules for the expanded hospital rebate to recognize the increasing role of nurse practitioners. It is proposed that to be eligible for the expanded hospital rebate, a charity or non-profit organization must deliver the health care service with the active involvement of, or on the recommendation of, either a physician or a nurse practitioner, irrespective of their geographical location. In other words, the expanded hospital rebate would no longer distinguish between health care services rendered by physicians and nurse practitioners.

This measure would generally apply to rebate claim periods ending after April 7, 2022 in respect of tax paid or payable after that date.

GST/HST on Assignment Sales by Individuals

An assignment sale in respect of residential housing is a transaction in which a purchaser (an "assignor") under an agreement of purchase and sale with a builder of a new home sells their rights and obligations under the agreement to another person (an "assignee").

Budget 2022 proposes to amend the *Excise Tax Act* to make all assignment sales in respect of newly constructed or substantially renovated residential housing taxable for GST/HST purposes. As a result, the GST/HST would apply to the total amount paid for a new home by its first occupant and there would be greater certainty regarding the GST/HST treatment of assignment sales.

The amount of a new housing rebate under the GST/HST legislation is determined based on the total consideration payable for a taxable supply of a home, as well as the total consideration payable for any other taxable supply of an interest in the home (e.g., the consideration for a taxable assignment sale). Accordingly, these changes may affect the amount of a GST New Housing Rebate or of a new housing rebate in respect of the provincial component of the HST that may be available in respect of a new home.

This measure would apply in respect of any assignment agreement entered into on or after the day that is one month after April 7, 2022.

Taxation of Vaping Products

Budget 2022 proposes to implement the previously announced excise duty on vaping products, effective as of October 1, 2022. The proposed federal excise duty rate would be $1.00 per 2 mL, or fraction thereof, for containers with less than 10 mL of vaping liquid. For containers with more than 10 mL, the applicable federal rate would be $5.00 for the first 10 mL, and $1.00 for every additional 10 mL, or fraction thereof.

Cannabis Taxation Framework and General Administration under the *Excise Act*, 2001

Excise Duty Quarterly Remittances

Budget 2022 proposes to allow licensed cannabis producers to remit excise duties on a quarterly rather than monthly basis, starting from the quarter that began on April 1, 2022.

This option would only be available in respect of a fiscal quarter, beginning on or after April 1, 2022, of a licensee that was required to remit less than a total of $1M in excise duties during the four fiscal quarters immediately preceding that fiscal quarter.

Technical Amendments

Budget 2022 proposes other technical amendments as the cannabis industry in Canada grows and evolves.

Settlement on the 100-per-cent Canadian Wine Exemption

To give effect to the World Trade Organization settlement, Budget 2022 proposes to repeal the 100-per-cent Canadian wine excise duty exemption.

The proposed measure would come into force on June 30, 2022.

Beer Taxation

Budget 2022 proposes to eliminate excise duty on low-alcohol beer, effective as of July 1, 2022. This will bring the tax treatment of low-alcohol beer into line with the treatment of wine and spirits with the same alcohol content.

OTHER MEASURES

Annual Disbursement Quota for Registered Charities

Registered charities are generally required to expend a minimum amount each year, referred to as the disbursement quota (DQ).

Modifying the Rate of the DQ

Budget 2022 proposes to increase the DQ rate from 3.5 per cent to 5 per cent for the portion of property not used in charitable activities or administration that exceeds $1 million.

In addition, Budget 2022 proposes to clarify that expenditures for administration and management are not considered qualifying expenditures for the purpose of satisfying a charity's DQ.

Relief for Certain Circumstances

Where a charity is unable to meet its DQ, it may apply to the CRA and request relief from the DQ requirement. If granted, a charity is deemed to have a charitable expenditure for the tax year.

Budget 2022 proposes to amend the existing rule such that the CRA will have the discretion to grant a reduction in a charity's DQ obligation for any particular tax year. In addition, Budget 2022 proposes to allow the CRA to publicly disclose information relating to such a decision.

The *Income Tax Act* also allows a charity to apply to the CRA for permission to accumulate property for a specific purpose.

Budget 2022 proposes to remove the accumulation of property rule.

Application Date

These measures would apply to charities in respect of their fiscal periods beginning on or after January 1, 2023. The amendment removing the accumulation of property rule would not apply to approved property accumulations resulting from applications submitted by a charity prior to January 1, 2023.

Charitable Partnerships

Registered charities are limited to devoting their resources to charitable activities they carry on themselves or providing gifts to qualified donees. Where charities conduct activities through an intermediary organization (other than a qualified donee), they must maintain sufficient control and direction over the activity such that it can be considered their own.

Budget 2022 proposes a number of changes to improve the operation of these rules, allowing charities to make qualified disbursements to organizations that are not qualified donees, provided that they meet certain accountability requirements. Additional measures designed to ensure compliance by charities with these new rules are forthcoming.

These changes would apply as of royal assent of the enacting legislation.

Restricting Foreign Investment in Canadian Housing

Budget 2022 announces the government's intention to propose restrictions that would prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring nonrecreational, residential property in Canada for a period of two years.

Employee Ownership Trusts

Employee ownership trusts encourage employee ownership of a business and facilitate the transition of privately owned businesses to employees.

Budget 2022 proposes to create the Employee Ownership Trust—a new, dedicated type of trust under the *Income Tax Act* to support employee ownership.

Making the Switch to Zero-Emission Vehicles More Affordable

Budget 2022 proposes to extend the Incentives for Zero-Emission Vehicles program until March 2025. Eligibility under the program will also be broadened to support the purchase of more vehicle models, including more vans, trucks, and sport utility vehicles, which will help make zero-emission vehicles more affordable. Further details will be announced by Transport Canada in the coming weeks.

Publicly Accessible Beneficial Ownership Registry

The government is accelerating by two years its commitment to amend the *Canada Business Corporations Act* to implement a public and searchable beneficial ownership registry, which will now be accessible before the end of 2023. The registry will cover corporations governed under the aforementioned Act and will be scalable to allow access to the beneficial ownership data held by provinces and territories that agree to participate in a national registry. Legislative proposals will be forthcoming as part of the *Budget Implementation Act*.

Dental Care

Budget 2022 proposes to provide dental care for Canadians. This will start with under 12-year-olds in 2022, and then expand to under 18-year-olds, seniors, and persons living with a disability in 2023, with full implementation by 2025. The program would be restricted to families with an income of less than $90,000 annually, with no co-pays for those under $70,000 annually in income.

Review of Tax Support to SRED and Intellectual Property

The government intends to undertake a review of the program, first to ensure that it is effective in encouraging the Scientific Research and Experimental Development (SRED) that benefits Canada, and second to explore opportunities to modernize and simplify it.

PREVIOUSLY ANNOUNCED MEASURES

Budget 2022 confirms the government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations and deliberations since their release:

- Legislative proposals relating to the Select Luxury Items Tax Act released on March 11, 2022.
- Legislative proposals released on February 4, 2022 in respect of the following measures:
  - electronic filing and certification of tax and information returns;
  - immediate expensing;
  - the Disability Tax Credit;
  - a technical fix related to the GST Credit top-up;
  - the rate reduction for zero-emission technology manufacturers;
  - film or video production tax credits;
  - postdoctoral fellowship income;
  - fixing contribution errors in registered pension plans;
  - a technical fix related to the revocation tax applicable to charities;
  - capital cost allowance for clean energy equipment;
  - enhanced reporting requirements for certain trusts;
  - allocation to redeemers methodology for mutual fund trusts;
  - mandatory disclosure rules;
  - avoidance of tax debts;

- taxes applicable to registered investments;
- audit authorities;
- interest deductibility limits; and
- crypto asset mining.

> Legislative proposals tabled in a Notice of Ways and Means Motion on December 14, 2021 to introduce the *Digital Services Tax Act*.
> Legislative proposals released on December 3, 2021 with respect to Climate Action Incentive payments.
> The income tax measure announced in Budget 2021 with respect to Hybrid Mismatch Arrangements.
> The transfer pricing consultation announced in Budget 2021.
> The anti-avoidance rules consultation announced on November 30, 2020 in the Fall Economic Statement.
> The income tax measure announced on December 20, 2019 to extend the maturation period of amateur athletes trusts maturing in 2019 by one year, from eight years to nine years.
> Measures confirmed in Budget 2016 relating to the GST/HST joint venture election.

Budget 2022 also reaffirms the government's commitment to move forward as required with technical amendments to improve the certainty and integrity of the tax system.

NOTICE TO USERS

This budget summary is based on the documents issued by the federal government. The legislation, when enacted, may vary from the summary described herein. Professional advice should be obtained.

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