TaxNewsFlash
Canada

# 2022 Federal Budget Highlights

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Canada's Deputy Prime Minister and Finance Minister Chrystia Freeland delivered the 2022 federal budget on April 7, 2022. The budget expects a deficit of $113.8 billion for 2021-22 and forecasts deficits of $52.8 billion for 2022-23, and $39.9 billion for 2023-24. Although the budget does not change the federal personal or corporate tax rates, it does introduce a one-time 15% tax on bank and life insurer groups, an additional 1.5% tax on the taxable income for members of bank and life insurer groups and allows more medium-sized Canadian-controlled private corporations (CCPCs) to benefit from the small business deduction.

This year's budget focuses on affordable housing and transitioning to the green economy. In particular, the budget announces tax changes intended to help individuals purchase their first home, including a new Tax-Free First Home Savings Account (FHSA) and an increase to the Home Buyers' Tax Credit, and also introduces a new "anti-flipping" tax. The budget also includes several climate change measures, such as a long-awaited refundable investment tax credit for carbon capture, utilization, and storage (CCUS), and a 30% Critical Mineral Exploration Tax Credit (CMETC).

In addition to these wide-ranging personal and corporate tax changes, the budget also announces several consultations on potential changes, such as modernizing the general anti-avoidance rule (GAAR), modifying the existing intergenerational business transfer rules and implementing OECD's Pillar Two international tax reform, among others.

## Business tax changes

### *Canada Recovery Dividend*

The budget introduces the Canada Recovery Dividend (CRD) as a one-time 15% tax on banks and life insurer groups. A group includes a bank or life insurer and any other financial institution for the purposes of Part VI tax that is related to the bank or life insurer. The CRD is imposed for 2022 taxation years based on the taxable income for taxation years ending in 2021. The budget proposes $1 billion taxable income exemption to be allocated among the group. The CRD will be paid in equal instalments over five years, and is pro-rated for short taxation years.

### *Additional tax on banks and life insurers*

The budget increases the income tax rate on bank and life insurer groups (as determined for purposes of the CRD) to 16.5% (from 15%), subject to a $100 million taxable income exemption to be allocated among the group members. This measure applies to taxation years ending after April 7, 2022. The additional tax will be pro-rated for the number of days after April 7, 2022 for taxation years that straddle this date.

### *Small business deduction*

The budget introduces changes to allow more medium-sized CCPCs to benefit from the small business deduction. Specifically, the budget introduces a new range of $10 million to $50 million (previously $10 million to $15 million) over which the small business limit is reduced based on the combined taxable capital employed in Canada of a CCPC and its associated corporations. This measure increases the amount of qualifying active business income that can be eligible for the small business deduction. This measure applies to taxation years that begin on or after April 7, 2022.

### *Substantive CCPCs*

*Deferral of investment income using a non-CCPC*

The budget proposes to align the taxation of investment income earned and distributed by “substantive CCPCs” with the rules that currently apply to CCPCs. Substantive CCPCs are private corporations resident in Canada (other than CCPCs) that are ultimately controlled, in law or in fact, by Canadian-resident individuals. This measure contains an extended definition of control and deems a corporation to be controlled by a Canadian resident individual where Canadian individuals own, in aggregate, sufficient shares to control the corporation. Further, under these rules, a corporation would be a substantive CCPC 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 substantive CCPCs would be taxed in the same manner as CCPCs (i.e., subject to a federal tax rate of 38⅔%, of which 30⅔% would be refundable upon distribution and added to the corporation’s low-rate income pool). Substantive CCPCs would be treated as non-CCPCs for all other tax purposes.

These new rules also include:

- A targeted anti-avoidance rule where it is reasonable to consider that a particular arrangement, transaction, or series of transactions was undertaken to avoid the anti-deferral rules applicable to investment income, and

- Targeted amendments to facilitate administration of the rules applicable to substantive CCPCs, including a one-year extension of the normal reassessment period for any consequential assessment of Part IV tax.

This measure would apply to taxation years that end on or after April 7, 2022. For genuine commercial transactions entered into before April 7, 2022, the rules provide an exception 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, provided that the purchase and sale agreement was entered into before April 7, 2022 and the share sale occurs before the end of 2022.

*Deferral using foreign affiliates*

The budget eliminates the tax-deferral advantage available to CCPCs and their shareholders earning investment income through controlled foreign affiliates. The deferral advantage would be addressed by applying the same relevant tax factor to individuals, CCPCs and substantive CCPCs (i.e., the relevant tax factor of 1.9 currently applicable to individuals). This relevant tax factor is calibrated based on the highest combined federal and provincial or territorial personal income tax rate and would thus eliminate any tax incentive for CCPCs and their shareholders to earn investment income in a controlled foreign affiliate.

This rule is accompanied by specific amendments to address the integration of foreign accrual property income (FAPI) as it is repatriated to, and distributed by, CCPCs and substantive CCPCs to their individual shareholders, including adjustments to the general rate income pool and to the capital dividend account.

The budget provides that certain dividend income from foreign affiliates out of hybrid surplus and taxable surplus, to the extent not deductible in computing taxable income, would continue to be subject to the refundable tax system. In addition, dividends paid out of exempt surplus and pre-acquisition surplus would remain unaffected.

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

### *Hedging and short selling by Canadian financial institutions*

The budget introduces specific legislation to prevent taxpayers from realizing tax deductions through the use of hedging and short selling arrangements. Specifically, the budget proposes to deny the dividend received deduction for dividends received on Canadian shares by:

- A taxpayer, if a registered securities dealer that does not deal at arm's length with the taxpayer enters into transactions that hedge the taxpayer's economic exposure to the shares, where the registered securities dealer knew or ought to have known that these transactions would have such an effect, and

- A registered securities dealer, if it eliminates all or substantially all of its economic exposure to the shares by entering into certain hedging transactions.

The budget also provides that, in the above situations, the registered securities dealer can claim a full deduction for a dividend compensation payment it makes under a securities lending arrangement entered into in connection with these hedging transactions.

These rules apply to dividends and related dividend compensation payments that are paid, or become payable, on or after April 7, 2022. However, if the relevant hedging transactions or related securities lending arrangement were in place before April 7, 2022, the rules apply to dividends and related dividend compensation payments that are paid after September 2022.

### *International financial reporting standards for insurance contracts*

The budget confirms support for the use of the new international accounting standard for insurance contracts (IFRS 17) for income tax purposes, with the exception of the contract service margin (CSM), subject to certain relieving modifications. To recognize underwriting profits as taxable income when the key economic activities occur, the CSM would not be considered a deductible reserve for tax purposes. The budget also provides transitional rules and consequential changes for life insurers, among other changes. These measures apply as of January 1, 2023.

### *Borrowing by defined benefit pension plans*

The budget introduces a new borrowing limit imposed on registered pension plans (other than individual pension plans) based on the total amount of additional borrowed money for purposes other than acquiring real property, that replaces the previous 90-day term limit borrowing rule. The new limit is equal to the lesser of:

- 20% of the value of the plan's assets (net of unpaid borrowed amounts), and

- The amount, if any, by which 125% of the plan's actuarial liabilities exceeds the value of the plan's assets (net of unpaid borrowed amounts).

The new borrowing limit is redetermined on the first day of each fiscal year of the plan, based on the value of assets and unpaid borrowed amounts on that day and the actuarial liabilities on the effective date of the plan's most recent actuarial valuation report. Each redetermined limit would not apply to earlier borrowings. Plan administrators must continue to comply with existing federal and provincial pension benefit standards legislation. The new limit applies to amounts borrowed by defined benefit registered pension plans (other than individual pension plans) on or after April 7, 2022.

### *Reporting requirements for RRSPs and RRIFs*

The budget introduces new annual requirements for financial institutions to report registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). Plan administrators are required to disclose the total fair market value, determined at the end of the calendar year, of property held in each RRSP and RRIF that they administer. The new requirements apply to 2023 and subsequent taxation years.

### *Limiting aggressive tax avoidance by financial institutions*

The government intends to consider potential changes to the financial transaction approval process to limit the ability of federally regulated financial institutions to use corporate structures in "tax havens" to engage in what the government perceives as aggressive tax avoidance.

### *Review of tax support to R&D and intellectual property*

The budget announces a review of the federal Scientific Research and Experimental Development (SR&ED) program, which provides tax incentives to encourage Canadian businesses to conduct research and development (R&D). This review will consider whether Finance should make changes to the program's eligibility criteria to ensure it is providing adequate support and improve the program's efficiency. The budget notes that Finance will also consider whether it should adopt a patent box regime to encourage the development and retention of intellectual property stemming from R&D conducted in Canada.

### *Application of the GAAR to tax attributes*

The budget amends the GAAR so that it applies to transactions that affect tax attributes that have not yet become relevant to the computation of tax. The budget advises that Finance made this change in response to a recent court case that found that the GAAR did not apply to a transaction that resulted in an increase in a tax attribute that had not been used to reduce taxes.

Specifically, the budget amends the definition of "tax benefit" in the GAAR to include a reduction, increase or preservation of an amount that could at a subsequent time be relevant for purposes of computing (and that results in) a reduction, avoidance or deferral of tax or other amount payable under the Act (including an amount that would be payable but for a tax treaty), or an increase in a refund of tax or other amount under the Act (including an increase in a refund of tax or other amount as a result of a tax treaty). Also, the budget amends the definition of "tax consequences" in the GAAR to include an amount that is, or could at a subsequent time be, relevant for purposes of computing a person's income, taxable income or taxable income earned in Canada, or the tax or other amount payable by, or refundable to, a person. These changes apply to transactions that occur on or after April 7, 2022, or transactions that occur before April 7, 2022 if a determination of tax attributes is made on or after April 7, 2022 in respect of the transaction.

### *GAAR consultation paper*

The budget reveals that the government will soon release a broader consultation paper on modernizing the GAAR. According to Finance, the consultation paper will run through the summer of 2022, and it will table legislative proposals by the end of 2022.

## Housing affordability changes

### *Residential property flipping*

The budget introduces a new rule to deem profits from “flipping” residential real estate as business income. Specifically, this rule deems profits arising from dispositions of residential property (including a rental property) that was owned for less than 12 months to be business income, and the principal residence exemption would not be available.

The rule provides exemptions for disposition of property for certain life events, such as death, birth of a child, adoption, care of an elderly parent, separation, personal safety, disability or illness, employment change and insolvency, as well as involuntary disposition, for example, due to a natural or man-made disaster. The budget notes that the exemptions will be set in forthcoming rules and draft legislative proposals will be released for consultation. The budget advises that where the new rule does not apply, it remains a question of fact whether profits from the disposition are taxed as business income.

The measure applies to residential properties sold on or after January 1, 2023.

### *Tax-free First Home Savings Account*

The budget announces a new tax-free FHSA, which allows certain taxpayers to contribute up to $8,000 per year to the account, up to a lifetime maximum of $40,000. Contributions to an FHSA are deductible and income earned in the account is not subject to tax. In addition, qualifying withdrawals from an FHSA made to purchase a first home are non-taxable.

To open an FHSA, individuals must be a resident of Canada and at least 18 years of age. The individual must also not have lived in a home that they owned at any time in the year the account is opened, or during the preceding four calendar years. An individual will not be permitted to make both an FHSA withdrawal and a Home Buyers’ Plan withdrawal for the same qualifying home purchase.

The full annual contribution limit would be available starting in 2023.

### *Home Buyers’ Tax Credit*

The budget increases the Home Buyers’ Tax Credit to $10,000 (from $5,000) to provide eligible first-time home buyers with up to $1500 in tax relief. The value of the non-refundable tax credit is calculated by multiplying the credit amount (i.e., $10,000) by the lowest personal income tax rate (i.e., 15% in 2022). This measure applies to acquisitions of a qualifying home made on or after January 1, 2022.

### *Review of large corporations that invest in residential real estate*

The budget announces a federal review of housing to understand how large corporate players affect Canadian renters and homeowners. This review will consider several options and tools, including potential tax changes for large corporate players that invest in residential real estate. Finance says it will release further details on this review later in 2022, with potential measures to be announced before 2023.

## Transitioning to the green economy

### *Investment tax credit for Carbon Capture, Utilization, and Storage*

The budget introduces a new refundable investment tax credit for CCUS. The CCUS tax credit applies to the cost of purchasing and installing eligible equipment used in eligible CCUS projects, where the equipment was part of a project where the captured $CO_2$ was used for an eligible use. To be eligible, equipment must be used solely to capture, transport, store, or use $CO_2$ as part of an eligible CCUS project. The following rates apply to eligible expenses incurred after 2021 through 2030:

- 60% for eligible capture equipment used in a direct air capture project
- 50% for all other eligible capture equipment, and
- 37.5% for eligible transportation, storage, and use equipment.

The following rates apply to eligible expenses incurred after 2030 through 2040:

- 30% for eligible capture equipment used in a direct air capture project
- 25% for all other eligible capture equipment, and
- 18.75% for eligible transportation, storage, and use equipment.

The government will assess the effectiveness of eligible CCUS projects in five-year intervals, to a maximum of 20 years. The credit may need to be repaid if the portion of $CO_2$ going to an ineligible use is more than 5% higher than set out in the initial project plans. Finance advises that specific design features of the repayment mechanism will be released at a later date.

Projects that expect to have eligible expenses of $100 million or greater over the life of the project based on project plans will generally be required to undergo an initial project tax assessment. Prior to claiming CCUS tax credit amounts, taxpayers must have expenses verified by Natural Resources Canada. Eligible CCUS projects that expect to have eligible expenses of $250 million or greater over the life of the project must contribute to public knowledge sharing in Canada to be eligible for the CCUS tax credit.

In order to be eligible for the CCUS tax credit, taxpayers are required to produce a climate-related financial disclosure report highlighting how their corporate governance, strategies, policies and practices will help manage climate-related risks and opportunities and contribute to achieving Canada's commitments under the Paris Agreement and goal of net zero by 2050.

The CCUS tax credit is available to businesses with eligible expenses incurred after 2021 and before 2041.

### *Tax credit for investments in clean technology*

The budget announces a new investment tax credit of up to 30% on net-zero technologies, battery storage solutions, and clean hydrogen. Finance states that additional details will be provided in the 2022 fall economic update.

### *Tax incentives for air-source heat pumps*

The budget allows certain air-source heat pumps to qualify under Classes 43.1 and 43.2 of the capital cost allowance (CCA) regime where they are primarily used for space or water heating. Eligible property includes equipment that is part of an air-source heat pump system that transfers heat from the outside air, including refrigerant piping, energy conversion equipment, thermal energy storage equipment, control equipment and equipment designed to enable the system to interface with other heating and cooling equipment. The expansion of Classes 43.1 and 43.2 applies to property that is acquired and 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.

### *Critical Mineral Exploration Tax Credit*

The budget introduces a new 30% CMETC for eligible exploration expenses on the following specified minerals used in the production of batteries and permanent magnets: copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals and uranium.

For exploration expenses to be eligible for the CMETC, a "qualified person" needs to certify that the expenditures, that are intended to be renounced to flow-through share investors, will be incurred as part of an exploration project that targets the specified minerals. Any credit provided for ineligible expenditures can be recovered from the flow-through share investor that received the credit. Eligible expenses claimed under this credit cannot also be claimed under the existing 15% Mineral Exploration Tax Credit (METC).

The CMETC applies 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*

The budget eliminates 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. The change applies to expenditures renounced under flow-through share agreements entered into after March 31, 2023.

## Personal tax changes

### *Intergenerational share transfers*

The budget announces a consultation on potential modifications to the existing intergenerational business transfer rules to prevent an individual shareholder from converting dividends into lower-taxed capital gains where there is no genuine intergenerational business transfer. The budget invites comments from stakeholders and affected sectors by June 17, 2022.

### *Proposed approach on minimum tax for high earners*

The budget announces the government's intention to release details on a proposed approach for a new minimum tax regime for wealthy individuals in the 2022 fall economic update.

### *Employee ownership trusts*

The budget announces further consultations on creating Employee Ownership Trusts, a new dedicated type of trust to support employee ownership. Finance says it will continue to engage with stakeholders to finalize the rules for the new type of trust.

### *Multigenerational Home Renovation Tax Credit*

The budget introduces a new Multigenerational Home Renovation Tax Credit, which provides a 15% tax credit on eligible renovation expenses up to $50,000 on certain projects. The refundable credit applies to eligible expenses used to create a secondary dwelling unit for a senior or a person with a disability to live with a qualifying relation (i.e., an adult family member).

This tax credit may be claimed by:

- An individual who ordinarily resides, or intends to ordinarily reside, in the eligible dwelling within 12 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.

Expenses that are made or incurred during the renovation period, for the purposes of a qualifying renovation, and reasonable in the context of that purpose (i.e., enabling an eligible person to reside in the dwelling with a qualifying relation) qualify for the tax credit. These expenses include:

- Cost of labour and professional services
- Building materials
- Fixtures
- Equipment rentals
- Permits.

This measure will apply to the 2023 and subsequent taxation years for work performed and paid for and goods acquired on or after January 1, 2023.

### *Home Accessibility Tax Credit*

The budget increases the annual expense limit of the Home Accessibility Tax Credit to $20,000 (from $10,000). This tax credit is a non-refundable tax credit a taxpayer can claim on eligible home renovation expenses for an eligible dwelling for a senior who is 65 years of age or older or a person that is eligible to claim the Disability Tax Credit. The value of the credit is calculated by applying the lowest personal income tax rate (15% in 2022) to eligible expenses up to $20,000. This measure will apply to expenses incurred in the 2022 and subsequent taxation years.

### *Labour Mobility Deduction for Tradespeople*

The budget introduces a new deduction that allows certain tradespersons or apprentices to deduct up to $4,000 in eligible travel and relocation expenses per year. The Labour Mobility Deduction for Tradespeople allows certain workers in the construction industry that commonly relocate for work to claim the deduction for related expenses, such as:

- Temporary lodging near the particular work location
- Transportation for the individual for one round trip from their home (where they ordinarily reside) to the temporary lodging
- Meals in the course of travel while making the one round trip.

The budget states that individuals must maintain an ordinary residence elsewhere that remains available during their relocation to qualify for the deduction. In addition, individuals can claim a maximum of 50% of their employment income from construction activities at the particular work location in the year. This measure will apply to the 2022 and subsequent taxation years.

### *Medical Expense Tax Credit for surrogacy and other expenses*

The budget expands the range of eligible medical expenses related to a surrogate mother or donor of sperm, ova or embryo for the Medical Expense Tax Credit. The budget includes changes to allows certain expenses paid by a taxpayer who is an intended parent, or the taxpayer's spouse or common-law partner, to be eligible for the credit by broadening the definition of patient. The budget allows taxpayers to claim the tax credit for amounts it reimbursed to a patient, under this expanded definition. For example, the tax credit could be available where a taxpayer reimbursed a surrogate for an in vitro fertilization procedure. In addition, the budget allows taxpayers to claim the Medical Expense Tax Credit for fees paid to fertility clinics and donor banks in order to obtain donor sperm or ova, under certain conditions. This measure will apply to expenses incurred in the 2022 and subsequent taxation years.

### *Career Extension Tax Credit*

The budget announces plans to consult with experts on a potential Career Extension Tax Credit for seniors who want to continue to work. The budget also intends to improve labour mobility and foreign credential recognition, and create opportunities for persons with disabilities to address barriers faced by underrepresented populations in Canada.

### *Employment Insurance*

The budget announces consultations on potential changes to the Employment Insurance (EI) system. Finance intends to release its long-term plan for the EI system after it concludes these consultations.

## International tax changes

### *Commitment to OECD Inclusive Framework*

The budget reiterates the government's commitment to the Organization for Economic Co-operation and Development (OECD) Inclusive Framework on Base Erosion and Profit Shifting (the Inclusive Framework), and specifically Pillars One and Two.

The budget states that the government is actively working with its international partners to develop the model rules and the multilateral convention needed to establish the Pillar One framework. The budget does not specify a target implementation date for Pillar One. However, in the budget, the government reiterates that timely implementation of the new Pillar One international tax framework will make its proposed Digital Services Tax (DST) rules unnecessary.

**KPMG observations**
Canada has indicated that it will move forward with a 3% DST if the tax changes in Pillar One have not come into force by January 1, 2024. Under these proposals, businesses that earn revenue from certain digital services may be liable for the DST, effective for

certain revenues earned as of January 1, 2022. For details, see *TaxNewsFlash-Canada* 2021-64, "Canada Lays Out Digital Tax Proposals for Businesses".

The budget proposes to implement Pillar Two, along with a domestic minimum top-up tax that would apply to Canadian entities of MNEs that are within the scope of Pillar Two. The government anticipates that the Income Inclusion Rule (IIR) and domestic minimum top-up tax rules would come into effect in 2023 (as of a date to be fixed) and the Undertaxed Profit Rule (UTPR) would come into effect no earlier than 2024.

Further, the budget announces a public consultation on the implementation of the Pillar Two rules, with questions on specific aspects of the OECD model rules set out in the budget. The government will accept submissions on these rules until July 7, 2022.

### *Interest coupon stripping*

The budget introduces interest coupon stripping rules intended to ensure that the total Canadian interest withholding tax paid under an interest coupon stripping arrangement is the same as if the arrangement was not undertaken.

Typically, an interest coupon stripping arrangement involves a non-resident lender selling its right to receive future interest payments (interest coupons) in respect of a loan made to a non-arm's length Canadian-resident borrower to a person or partnership that is not subject to Canadian withholding tax or is subject to a lower rate of Canadian withholding tax than the non-resident lender. The non-resident lender generally retains its right to the principal amount under the loan. The result of the arrangement is that the Canadian withholding tax on the interest is lower than it would be if the interest were paid or credited to the non-resident lender.

Under these new rules, where an interest coupon stripping arrangement exists, the Canadian-resident borrower is deemed, for the purposes of the Canadian interest withholding tax rules, to pay an amount of interest to the non-resident lender such that the withholding tax on the deemed interest payment equals the withholding tax otherwise avoided as a result of the interest coupon stripping arrangement.

The coupon stripping rules do not apply to a "specified publicly offered debt obligation", which is, generally, a debt or other obligation issued by a taxpayer as part of a public offering where it can reasonably be considered that none of the main purposes of the arrangement is to avoid or reduce tax that would otherwise be payable by a non-resident person or partnership to whom the debt or other obligation is owed.

The coupon stripping rules apply to interest paid or payable by a Canadian-resident borrower to an interest coupon holder to the extent that such interest accrues on or after April 7, 2022, unless:

- The interest payment is in respect of a debt or other obligation incurred by the Canadian-resident borrower before April 7, 2022, and

- The interest payment is made to an interest coupon holder that deals at arm's length with the non-resident lender and that acquired the interest coupon as a consequence of an agreement or other arrangement entered into by the interest coupon holder, and evidenced in writing, before April 7, 2022.

For cases falling in this exception, the measure applies to interest that accrues beginning one year after April 7, 2022.

### *Exchange of tax information on digital economy platform sellers*

The budget proposes to require digital platform operators to collect and report relevant information about sellers that use their platform to tax authorities. This new measure is based on model rules developed by the OECD to ensure that revenues earned by taxpayers through those platforms can be properly taxed.

This measure requires platform operators to determine the jurisdiction of residence of their reportable sellers and report certain information about those sellers. Reporting platform operators are considered to be entities that are engaged in contracting directly or indirectly with sellers to make the software that runs a platform available for the sellers to be connected to other users, or entities collecting compensation for the relevant activities facilitated through the platform. Under these rules, the CRA will automatically exchange this information with partner jurisdictions. These exchanges would take place under provisions in tax treaties and similar international instruments.

This measure would apply to calendar years beginning after 2023, with the first reporting and exchange of information to take place in early 2025 with respect to the 2024 calendar year.

## Indirect tax changes

### *GST/HST health care rebate*

The budget expands the GST/HST hospital rebate for charities or non-profit organizations to include certain health care services delivered by nurse practitioners. This measure eliminates the previous condition under which services by nurse practitioners were only included in geographic areas where a physician may not be readily accessible. This measure applies to rebate claim periods ending after April 7, 2022 for tax paid or payable after that date.

### *GST/HST on assignment sales by individuals*

The budget announces that all assignment sales by individuals for newly constructed or substantially renovated residential housing will be taxable for GST/HST purposes. Previously, assignment sales were either taxable or exempt depending on the individual's primary purpose to purchase the new home. This measure applies to assignments made on or after the day that is one month after April 7, 2022.

### *Taxation of vaping products*

The budget announces changes to the proposed new excise duty system on vaping products originally announced in the 2021 federal budget. The budget notes that the tax base includes vaping products with liquid or solid vaping substances, but excludes products that are subject to the cannabis excise duty or that are produced by individuals for their personal use. In general, the duty rate is $1 per 2 ml for the first 10 ml of vaping substance, and $1 per 10 ml for volumes above that. The duty rate will double if a province or territory chooses to participate in the coordinated vaping taxation regime. The budget notes that the federal duty applies to each separate pod (instead of total volume of liquid in a retail package). The budget includes other details related to the travellers' exemption and the federal-provincial-territorial taxation coordination. These measures apply effective October 1, 2022.

### *Cannabis taxation framework*

The budget announces amendments to the cannabis excise duty framework. Among other changes, the budget proposes to allow certain licensed cannabis producers to remit excise duties on a quarterly basis (instead of a monthly basis). This measure applies for the quarter that began on April 1, 2022, and applies generally only to qualifying producers that had to remit less than a total of $1 million in excise duties over the four preceding fiscal quarters. The budget also allows certain contract-for-service arrangements between two licensed cannabis producers, subject to certain conditions. The budget also changes some of the penalties on licensees, including for lost excise stamps, under the cannabis framework. These measures come into force upon Royal Assent of the related measures.

### *Canadian wine exemption*

The budget repeals the 100% Canadian wine excise duty exemption, effective June 30, 2022.

### *Beer taxation*

The budget eliminates the excise duty for beer containing no more than 0.5% alcohol by volume (ABV) effective July 1, 2022.

## Trade and customs changes

### *Strengthening Canada's trade remedy system*

The budget announces trade and customs measures to strengthen Canada's trade remedy systems through legislative changes to the *Special Import Measures Act* and the *Canadian International Trade Tribunal Act.* These changes are meant to ensure the system properly applies duties to unfairly traded goods and increases the participation of workers in the trade remedy system.

### *Trade Remedy Counselling Unit*

The budget also provides funding for the Canada Border Services Agency to establish the Trade Remedy Counselling Unit. This unit will be tasked to assist companies navigate Canada's trade remedy system, with a focus on small and medium-sized enterprises.

### *Other changes*

The budget also announces changes to the *Customs Act* including to:

- Allow for electronic assessments and payments of duties and taxes
- Clarify the responsibilities of certain importers for the payment of duties and taxes.

## Charities tax changes

### *Annual disbursement quota for registered charities*

The budget increases the disbursement quota (DQ) rate to 5% (from 3.5%) for the portion of property not used in charitable activities or administration that exceeds $1 million. The budget also clarifies that expenditures for administration and management are not considered qualifying expenditures for the purpose of satisfying a charity's DQ. The budget provides the CRA the discretion to grant a reduction in a charity's DQ obligation for any particular tax year and allows the CRA to publicly disclose information relating to such a decision. These measures apply to charities for their fiscal periods beginning on or after January 1, 2023.

The budget also removes the CRA's discretion to allow a charity to accumulate property for a specific purpose. This amendment would not apply to approved property accumulations resulting from applications submitted by a charity prior to January 1, 2023.

### *Charitable partnerships*

The budget announces new accountability requirements so charities can make disbursements to non-qualified donees, provided the disbursements further the organization's charitable purposes and the funds are applied to charitable activities by the grantee. To be considered a qualifying disbursement, the charity must meet certain mandatory accountability requirements. Upon request by the CRA, the charity must obtain documentation from grantees to demonstrate appropriate use of the funds. In addition, the budget restricts registered charities from accepting gifts which are conditional on making gifts to other non-qualified donees. These measures apply on the date of Royal Assent of the enacting legislation.

## Administrative and other changes

### *Beneficial ownership registry*

The budget announces that the government will implement a national, publicly searchable beneficial ownership registry by 2023 (accelerated from 2025). The registry will cover corporations governed by the *Canada Business Corporations Act* (CBCA), and may be expanded to allow access to beneficial ownership data held by provinces and territories that agree to participate in the national registry. The government also notes that it intends to work with provincial and territorial governments towards a beneficial ownership registry of real property, similar to other countries

### *Funding for the CRA*

The budget announces $1.2 billion of additional funding for the CRA over five years starting in 2022-23. This funding is intended to allow the CRA to:

- Expand audits of larger entities and non-residents engaged in what the government perceives as aggressive tax planning
- Increase the investigation and prosecution of suspected tax evasion
- Expand its educational outreach.

## Previously announced tax changes

The budget confirms that Finance intends to proceed with certain previously announced tax measures, as modified by recent consultations and deliberations. These measures include:

- Legislative proposals released on March 11, 2022 related to the *Select Luxury Items Tax Act*
- 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
  - CCA 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
  - CRA's audit authority
  - Interest deductibility limits
  - 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 the 2021 federal budget with respect to hybrid mismatch arrangements
- The transfer pricing consultation announced in the 2021 federal budget
- The anti-avoidance rules consultation announced in the 2020 fall economic statement
- The income tax measure announced on December 20, 2019 to extend the maturation period of amateur athletes trusts maturing in 2019 to nine years (from eight years)
- Measures confirmed in the 2016 federal budget relating to the GST/HST joint venture election.

The budget also confirms the government's commitment to move forward with technical amendments to improve the certainty and integrity of the tax system.

## We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's federal budget on your personal finances or business affairs, and point out ways to realize any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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