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

No changes were made to personal or corporate tax rates, nor to the inclusion rate on taxable capital gains. Some highlights include:

A. Personal Measures
   - Several proposals target housing affordability. A Tax-Free First Home Savings Account and a refundable Multigenerational Home Renovation Tax Credit will be introduced. Existing home-related tax credits will also be enhanced.
   - Residential real estate sales within a year of purchase will generally be fully taxable, not capital gains and not eligible for the principal residence exemption.

B. Business Measures
   - Access to the small business deduction will be enhanced for corporations with taxable capital between $10 million and $50 million.
   - Anti-avoidance measures targeting private corporations attempting to avoid the refundable tax regime for investment income will be introduced.
   - Tax benefits for flow-through shares will be enhanced for critical mineral exploration and removed for oil, gas and coal.

C. Sales and Excise Tax
   - All new residential property assignment sales will be subject to GST/HST.
   - An excise tax regime will be introduced for vaping products.

D. Retirement Plans
   - The fair market value of RRSP and RRIF assets will be provided to CRA annually.

E. Previously Announced Measures
   - Intention to proceed with previously announced measures, such as the immediate expensing CCA provisions, the luxury tax, requirements for electronic interaction with CRA and a full review of the employment insurance system.

THE NUMBERS

The Government's fiscal position includes the following projected surplus/deficit:

Year	Surplus/(Deficit) billions
2020–2021	**($327.7)**
2021–2022	**($113.8)**
2022–2023	**($52.8)**
2023–2024	**($39.9)**
2024–2025	**($27.8)**
2025–2026	**($18.6)**
2026–2027	**($8.4)**

A. Personal Measures

Tax-Free First Home Savings Account (FHSA)

Budget 2022 proposes to create the tax-free FHSA to help first-time home buyers save up to $40,000 for their first home. Contributions to an FHSA would be deductible (like an RRSP), and income earned in an FHSA and qualifying withdrawals from an FHSA made to purchase a first home would be non-taxable (like a TFSA).

The lifetime limit on contributions would be $40,000, subject to an annual contribution limit of $8,000. Unused annual contribution room would not be carried forward. Individuals would also be allowed to transfer funds from an RRSP to an FHSA tax-free, subject to the $40,000 lifetime and $8,000 annual contribution limits.

Withdrawals for purposes other than to purchase a first home would be taxable. However, an individual could transfer funds from an FHSA to an RRSP (at any time before the year they turn 71) or a RRIF on a non-taxable basis. Transfers would not reduce, or be limited by, the individual's available RRSP room. Withdrawals and transfers would not replenish FHSA contribution limits.

Individuals would not be permitted to make both an FHSA withdrawal and a home buyers' plan withdrawal in respect of the same qualifying home purchase.

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

Eligibility

Individuals eligible to open an FHSA must be at least 18 years of age and resident in Canada. In addition, they must not have lived in a home that they or their spouse owned at any time in the year the account was opened or the preceding four calendar years.

Effective Date

The government would work with financial institutions to allow individuals to open an FHSA and start contributing in 2023.

Home Buyers' Tax Credit

First-time home buyers can obtain up to $750 in tax relief as a non-refundable tax credit by claiming this credit. Budget 2022 proposes to double the Home Buyers' Tax Credit amount, such that tax relief of up to $1,500 can be accessed by eligible home buyers. This measure would apply to acquisitions of a qualifying home made on or after January 1, 2022.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit is a non-refundable tax credit that provides relief of up to $1,500 on eligible home renovations (15% of expenses of up to $10,000) to make the dwelling more accessible to seniors or those eligible for the Disability Tax Credit that reside in the property. Budget 2022 proposes to double the annual expense limit to $20,000, such that the maximum non-refundable tax credit would be $3,000. This measure would apply to expenses incurred in the 2022 and subsequent taxation years.

Multigenerational Home Renovation Tax Credit

Budget 2022 proposes a new refundable tax credit to support constructing a secondary suite for an eligible person to live with a qualifying relation. An eligible person would be a senior (65+ years of age at the end of the tax year when the renovation was completed) or an adult (18+ years of age) eligible for the disability tax credit. A qualifying relation would be 18+ years of age and 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).

This tax credit would provide tax relief of 15% on up to $50,000 of eligible expenditures, providing a maximum benefit of $7,500.

Qualifying Renovation

The renovation must allow the eligible person to live with the qualifying relation by establishing a secondary unit (which must have 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. Relevant building permits for establishing a secondary unit must be obtained, and renovations must be completed in accordance with the laws of the jurisdiction in which the eligible dwelling is located.

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

The credit would be claimed in the year that the qualifying renovation passes a final inspection, or proof of completion of the project according to all legal requirements of the jurisdiction in which the renovation was undertaken is otherwise obtained.

Eligible Expenses

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

Goods or services provided by a person not dealing at arm's length with the claimant would not be eligible unless that person is registered for GST/HST. All expenses must be supported by receipts.

Expenses would not be eligible for this credit if claimed as a medical expense tax credit and/or home accessibility tax credit.

Eligible Claimants

The credit may be claimed by the eligible person, their spouse, or a qualifying relation that resides in or intends to reside in the dwelling within 12 months of the renovation. A qualifying relation that owns the dwelling can also make a claim.

Where one or more eligible claimants claim in respect of a qualifying renovation, the total of all amounts claimed for the renovation must not exceed $50,000.

Eligible Dwelling

An eligible dwelling must be owned by the eligible person, their spouse, or a qualifying relation. Within twelve months of the renovation, the eligible person and the qualifying relation must also ordinarily reside or intend to reside in the property.

Effective 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.

Residential Property Flipping Rule

The government is concerned that taxpayers are inappropriately reporting gains on the disposition of real estate acquired for resale at a profit. In these cases, the profit is fully taxable as business income (100% taxed), and not a capital gain (50% taxed, and potentially eligible for the principal residence exemption).

Budget 2022 proposes to introduce a new rule that all gains arising from dispositions of residential property (including a rental property) that was owned for less than 12 months would be business income.

The new deeming rule would not apply if the disposition related to one of the life events listed below:

- Death: due to, or in anticipation of, the death of the taxpayer or a related person;
- Household addition: due to, or in anticipation of, a related person joining the taxpayer's household or the taxpayer joining a related person's household (e.g. birth of a child, adoption, care of an elderly parent);
- Separation: due to the breakdown of a marriage or common-law partnership;
- Personal safety: due to a threat to the personal safety of the taxpayer or a related person, such as the threat of domestic violence;
- Disability or illness: due to a taxpayer or a related person suffering from a serious disability or illness;
- Employment change: for the taxpayer or their spouse or common-law partner to work at a new location or due to an involuntary termination of employment. In the case of work at a new location, the taxpayer's new home must be at least 40 kms closer to the new work location;
- Insolvency: due to insolvency or to avoid insolvency; and
- Involuntary disposition: a disposition against someone's will, for example, due to expropriation or the destruction or condemnation of the taxpayer's residence due to a natural or man-made disaster.

Properties held for more than 12 months, or meeting one of the exceptions noted above, would continue to generate either business income or a capital gain on the disposition, depending on whether the property was acquired for the purpose of resale at a profit (business income) or was acquired for some other purpose (capital gain). While this measure was reflected as a "personal income tax measure," it is unclear whether the deeming rule will also apply to corporations and other taxpayers.

The measure would apply in respect of residential properties sold on or after January 1, 2023. The government indicates that there will be a consultation when the legislation is drafted.

Other Personal Measures

Budget 2022 also proposes a number of measures for individuals for which few details were provided, including the following:

- Dental care would be funded, starting for children under age 12 in 2022, expanding to children under age 18, seniors and disabled individuals in 2023, with full implementation by 2025. Full coverage would be provided for families with under $70,000 of annual income and no coverage would be provided for families with income of $90,000 or more.
- The government intends to continue working towards a universal national pharmacare program, including tabling a Canada Pharmacare bill and working to have it passed by the end of 2023.
- A one-time $500 payment would be made to those facing housing affordability challenges. Timing, eligibility and delivery method are to be announced at a later date.
- The Incentives for Zero-Emission Vehicles program that has offered purchase incentives of up to $5,000 for eligible vehicles since 2019 would be extended until March 2025. Eligibility would be broadened to include more vehicle models, including more vans, trucks and SUVs. Further details will be announced by Transport Canada in the coming weeks.
- Budget 2022 announces the government's commitment to examine a new alternative minimum tax regime, with details on a proposed approach to be released in the 2022 fall economic and fiscal update.

B. Business Measures

Small Business Deduction

Canadian-controlled private corporations (CCPCs) benefit from the small business deduction (SBD), a reduced corporate tax rate on active business income from the 15% general rate to 9% federally. Each province also has an SBD regime. A "business limit" of $500,000 of annual income (shared between associated corporations) limits eligibility to the SBD federally, and in all provinces except Saskatchewan, which has a $600,000 provincial business limit.

The business limit is reduced for corporations or associated groups which have “taxable capital” in excess of $10 million, with the business limit reduced by $1 for every additional $10 of taxable capital over the $10 million threshold, until it is eliminated where taxable capital equals or exceeds $15 million.

Budget 2022 proposes to reduce the business limit by $1 for every $80 of taxable capital in excess of $10 million, such that the limit will be more gradually reduced, and only eliminated where taxable capital equals or exceeds $50 million. This measure is proposed to apply for corporate taxation years beginning on or after April 7, 2022.

No changes are proposed to the parallel reduction to the business limit where adjusted aggregate investment income exceeds $50,000.

Anti-Avoidance Measures – Corporate Investment Income

In addition to being ineligible for the SBD, investment income (such as interest, royalties, rent and taxable capital gains) earned by CCPCs is subject to a significantly higher corporate tax rate of 38 2/3% (plus provincial tax which, in most provinces, results in a combined tax rate of over 50%). A similar regime (Part IV Tax) applies to portfolio dividends received by CCPCs. This is intended to result in corporate taxes similar to the top personal tax rates.

A portion of this tax is refundable when taxable dividends are paid by the corporation to its shareholders, so that the combined corporate taxes after this refund and personal tax paid by the ultimate individual shareholders is comparable to the tax that would have been paid if the investments had been made personally, rather than corporately.

As these special rules apply only to CCPCs, some planning strategies have been developed where corporations are structured to fall outside CCPC status. These include the use of corporations governed by a foreign country’s corporate legislation, or the issuance of options or voting shares to non-Canadians. A number of taxpayers who have implemented such strategies have been challenged by CRA, with appeals to be heard by the Tax Court of Canada, however such challenges are both time-consuming and costly for the government.

Budget 2022 proposes that private corporations which are not CCPCs, but are factually controlled by one or more Canadian persons, be subject to the same investment income rules as a CCPC. An anti-avoidance rule will also apply this treatment to any corporation falling outside the technical rules, where it is reasonable to consider that one or more transactions were undertaken to avoid these rules. This measure will generally apply to taxation years that end on or after April 7, 2022, with possible deferral where an arm’s length sale pursuant to a written purchase and sale agreement was entered into prior to that date.

Intergenerational Business Transfers

A complex anti-avoidance rule prevents the sale of shares of closely-held corporations by individual shareholders to related corporations from resulting in capital gains, instead causing the seller to realize dividends. In addition to attracting higher taxes than capital gains, dividends are not eligible for the lifetime capital gains exemption (LCGE).

This provision has been a source of frustration for business owners wishing to transition a family business to the next generation, denying them access to the LCGE which would have been available on a similar sale to unrelated parties. On June 29, 2021, legislation (Bill C-208) exempting sales of shares of small business corporations or family farm or fishing corporations from parents to corporations controlled by their children from this provision, allowing the realization of capital gains potentially eligible for the LCGE, was passed into law.

The government had indicated that they were concerned that this legislation could permit transfers beyond genuine intergenerational business successions to benefit from this lower tax cost, a practice commonly referred to as “surplus stripping,” and that further amendments would be made to limit these transactions to their intended purpose.

Budget 2022 reiterates the government’s intention to amend the legislation to restrict these transactions to genuine intergenerational business transfers, while continuing to facilitate legitimate business successions. It announces a consultation by the Department of Finance, with specific mention of the agriculture sector, to close on June 17, 2022. Comments can be sent to intergenerational-transfers-transfertsintergenerationnels@fin.gc.ca. The government indicated that amending legislation would be included in a bill to be tabled in the fall after the conclusion of the consultation process.

Other Business Measures

Several business measures proposed in Budget 2022 target specific sectors. Including the following:

Financial Sector

- A one-time 15% tax on bank and life insurance groups, based on taxable income in excess of $1 billion for taxation years ended in 2021, would be imposed for the 2022 taxation year and payable over five years. For subsequent years, a 1.5% additional tax would apply to income of such corporate groups in excess of $100 million.

Combatting Aggressive Tax Planning

- The General Anti-avoidance Rule (GAAR) is proposed to be amended to allow CRA to challenge transactions that affect tax attributes (e.g. asset costs, losses carried forward, paid-up capital, capital dividend account) that have not yet become relevant to the computation of tax. This specific measure overrides a 2018 Federal Court of Appeal decision that held that GAAR could only be applied when the tax attribute was utilized to reduce income taxes.

C. International Measures

Ban on Residential Real Estate Purchases by Non-residents

The government intends to prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years. This would not apply to refugees and people authorized to come to Canada while fleeing international crises, certain international students on the path to permanent residency or individuals on work permits who are residing in Canada.

D. Sales and Excise Tax

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”). An assignment sale of newly constructed (or substantially renovated) residential real estate made by an individual would generally be taxable if the individual had originally entered into the agreement of purchase and sale with the builder for the primary purpose of selling their interest in the agreement. Where there was another primary purpose, such as residing in the property, the assignment sale would generally be exempt.

To provide greater certainty on the status of assignment sales, Budget 2022 proposes 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. Typically, the consideration for an assignment sale includes an amount attributable to a deposit that had previously been paid to the builder by the assignor. That deposit would already be subject to GST/HST when applied by the builder to the purchase price on closing. Budget 2022 proposes that the amount attributable to the deposit be excluded from the consideration for a taxable assignment sale.

The assignor in respect of a taxable assignment sale would generally be responsible for collecting the GST/HST and remitting the tax to CRA. Where an assignor is non-resident, the assignee would be required to self-assess and pay the GST/HST directly to CRA.

The amount of a new housing rebate is determined based on the total consideration payable for a newly-constructed home, which would include the consideration for a taxable assignment sale. Accordingly, these changes may affect the amount of a New Housing Rebate 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 May 7, 2022 (one month after Budget Day).

E. Retirement Plans

Reporting Requirements for RRSPs and RRIFs

Budget 2022 proposes to require financial institutions to annually report to CRA the total fair market value of property held in each RRSP and RRIF at the end of the calendar year. This information would assist 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.

G. 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 (a tax on certain automobiles, boats and aircrafts) 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.

Budget 2022 also reaffirms the government's intention to revise the Employment Insurance (EI) system, including its support for experienced workers transitioning to a new career and coverage for seasonal, self-employed and gig workers. A long-term plan for the future of EI will be released after consultations conclude. As an interim measure, Budget 2022 proposes to extend previous expansions to EI coverage for seasonal workers.