



**CONNELLY & KOSHY**  
PROFESSIONAL CORPORATION  
CHARTERED PROFESSIONAL ACCOUNTANTS

On April 16, 2024, the Deputy Prime Minister and Finance Minister, the Honourable Chrystia Freeland, presented Budget 2024 – Fairness for Every Generation, to the House of Commons.

Some highlights include the following:

**A. Personal Measures**

- An increase to the capital gains inclusion rate to 2/3, however individuals will retain the 1/2 inclusion rate on the first \$250,000 of capital gains annually.
- An increase to the lifetime maximum capital gains exemption, and two new incentives on specific types of business sales.
- Modifications to the proposed amendments to focus the alternative minimum tax regime on high-income individuals.

**B. Business Measures**

- A Canada carbon rebate for small businesses that will begin by delivering payments to eligible CCPCs for five years of carbon tax.
- Accelerated capital cost allowance on purpose-built residential rental properties.
- Immediate expensing of certain productivity-enhancing assets, including computer hardware, acquired on or after April 16, 2024.

**C. International Measures**

- A crypto-asset reporting framework that will require annual reporting by crypto-asset service providers on their clients' activities using these assets.

**D. Other Measures**

- Details on the Canada disability benefit intended to commence in July 2025.

## **A. Personal Measures**

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### **Capital Gains Inclusion Rate**

Currently, and since 2000, one half of capital gains are included in a taxpayer's income. Budget 2024 proposed to increase this inclusion rate to two thirds of the actual gain, effective for capital gains realized on or after June 25, 2024. Similarly, the deduction available for some employee stock option benefits will be reduced from one half to one third of the benefit. This adjustment to the inclusion rate will also apply to capital losses applied to offset capital gains. (Finance indicates there will be other consequential amendments resulting from this change!).

For taxation years that straddle June 25, 2024 (calendar 2024 for individuals), capital gains will be segregated between gains realized on or before June 24, 2024 (one half included in income) and gains realized on or after June 25, 2024 (two thirds will be income).

For individuals, only half of the first \$250,000 realized on or after June 25, 2024 will be included in their income.

Note: this will affect the capital dividend account planning!

### **Lifetime Capital Gains Exemption**

Individuals are eligible to offset up to \$1,016,836 (2024; indexed for inflation annually) of capital gains on qualified small business corporation shares and qualified farm or fishing property. Budget 2024 proposed to increase this lifetime limit to \$1,250,000 for dispositions taking place on or after June 25, 2024. This amount would be indexed for inflation commencing in 2026.

## **Federal Budget Commentary 2024**

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## Canadian Entrepreneurs' Incentive

Budget 2024 proposed to reduce the capital gains inclusion rate on capital gains realized on the disposition of qualifying shares by an eligible individual. The inclusion rate would be halved, resulting in one third of such gains being taxable under the inclusion rates proposed in Budget 2024. This reduced inclusion rate would apply to gains not offset by the lifetime capital gains exemption.

There would be a lifetime limit on gains eligible for this reduced rate, set at \$200,000 commencing in 2025, and increasing by \$200,000 annually until reaching a total of \$2 million in 2034.

To be eligible for this reduced inclusion rate, several conditions would be required to be met, including the following:

- the shares were directly owned by the taxpayer at the time of sale;
- the shares meet the asset tests required to be qualified small business corporation shares (generally, at the time of sale, all or substantially all assets were used in an active business carried on in Canada, and throughout the 24 months preceding the sale, more than 50% of the assets were so used);
- the taxpayer was a founding investor at the time the corporation was initially capitalized;
- the shares were held by the taxpayer for a minimum of five years prior to the sale;
- at all times from the initial share subscription until immediately before the sale, the taxpayer directly owned shares accounting for more than 10% of the votes and 10% of the fair market value of the corporation;
- throughout the five years immediately preceding the sale, the taxpayer was actively engaged on a regular, continuous and substantial basis in the activities of the business; and
- the shares were acquired for fair market value consideration.

This incentive would not be available where the shares sold represented a direct or indirect interest in any of the following types of corporations:

- a professional corporation (that is, a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor);
- a corporation whose principal asset is the reputation or skill of one or more employees;
- a corporation that carries on a business operating in the financial, insurance, real estate, food and accommodation, arts, recreation or entertainment sector; or
- a corporation providing consulting or personal care services.

Given the above restrictions, we expect very few shareholders will ever be eligible to utilize this new law!

## Employee Ownership Trust (EOT) Tax Exemption

Last year, Budget 2023 proposed tax rules to facilitate the creation of EOTs. An EOT is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the acquisition by employees of their employer's business, without requiring them to pay directly to acquire shares. These proposed rules are currently before Parliament in Bill C-59.

The 2023 Fall Economic Statement proposed to exempt the first \$10 million in capital gains realized on certain sales of a business to an EOT from taxation. Budget 2024 provided further details on this proposed \$10 million exemption. If you would like further information, please contact our office.

## Alternative Minimum Tax (AMT)

Individuals owe AMT if the tax amount calculated under the AMT regime is greater than the tax calculated under the ordinary progressive tax rate regime. Under the legislated rules, the calculation of AMT allows fewer deductions, exemptions and tax credits than under the ordinary income tax rules. In 2023, the government proposed changes to AMT that would focus on high-income individuals and certain trusts by amending the following:

- the AMT rate would be increased from 15% to 20.5%;
- the exemption would be increased from \$40,000 to the start of the fourth tax bracket (for 2024, this is \$173,205); and
- the AMT base would be broadened by further limiting tax preferences (i.e., exemptions, deductions and credits).

Budget 2024 proposed to make further changes to the AMT regime, such as the following:

- to allow 80% of the donation tax credit (the 2023 proposals only provided for a 50% claim);
- to fully allow deductions for the guaranteed income supplement, social assistance, and workers' compensation payments;
- to fully exempt employee ownership trusts from the AMT; and
- to allow certain disallowed credits under the AMT to be eligible for the AMT carry-forward (i.e., the federal political contribution tax credit, investment tax credits, and labour-sponsored funds tax credit).

All proposed AMT amendments would apply to taxation years that begin on or after January 1, 2024 (that is, the same day as the 2023 AMT amendments).

There were no broad-based changes to address concerns that many smaller trusts would be subject to AMT under the 2023 proposals. There was also no change to the 2023 proposal that only 50% of interest and financing costs incurred to earn income from property would be deductible for AMT purposes.

## Volunteer Firefighters and Search and Rescue Volunteers Tax Credits

Budget 2024 proposed to double the credit amount for the volunteer firefighters tax credit and the search and rescue volunteers tax credit to \$6,000. This would increase the maximum tax relief to \$900. This enhancement would apply to the 2024 and subsequent taxation years.

## Canada Child Benefit (CCB) – Death of a Child

Budget 2024 proposed to extend eligibility for the CCB for six months after the child's death (the "extended period") if the individual would have otherwise been eligible for the CCB in respect of that particular child. The extended period would also apply to the child disability benefit, which is paid with the CCB in respect of a child eligible for the disability tax credit. This measure would be effective for deaths that occur after 2024.

## Disability Supports Deduction

The disability supports deduction allows individuals who have an impairment in physical or mental functions to deduct certain expenses that enable them to earn business or employment income or to attend school.

Budget 2024 proposed to expand the list of expenses recognized under the disability supports deduction, as follows:

- where an individual has a severe and prolonged impairment in physical functions, the cost of an ergonomic work chair, a bed positioning device and purchasing a mobile computer cart;
- where an individual has an impairment in physical or mental functions, the cost of purchasing an alternative input device to allow the individual to use a computer and purchasing a digital pen device to allow the individual to use a computer;
- where an individual has a vision impairment, the cost of purchasing a navigation device for low vision; and
- where an individual has an impairment in mental functions, the cost of purchasing memory or organizational aids.

Budget 2024 also proposed that expenses for service animals would be recognized under the disability supports deduction. Taxpayers would be able to choose to claim an expense under either the medical expense tax credit or the disability supports deduction.

This measure would apply to the 2024 and subsequent taxation years.

## Home Buyers' Plan

Budget 2024 proposed to increase the withdrawal limit from the home buyers' plan from \$35,000 to \$60,000. This measure would apply to the 2024 and subsequent calendar years for withdrawals made after Budget Day.

Budget 2024 also proposed to temporarily defer the start of the 15-year repayment period by an additional three years for participants making a first withdrawal between January 1, 2022, and December 31, 2025. Accordingly, the 15-year repayment period would start the fifth year following the year the first withdrawal was made.

## B. Business Measures

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### Accelerated Capital Cost Allowance (CCA)

#### Productivity-Enhancing Assets

Budget 2024 proposed to provide immediate 100% CCA expensing for new additions of property in respect of the following three classes, provided that the property is acquired on or after April 16, 2024 and becomes available for use before January 1, 2027:

- class 44 (patents or the rights to use patented information for a limited or unlimited period);
- class 46 (data network infrastructure equipment and related systems software); and
- class 50 (general-purpose electronic data-processing equipment, such as computers and systems software).

This expensing would only be available for the year in which the property becomes available for use. The claim would be prorated when the taxation year is less than 12 months.

#### Purpose-Built Rental Housing

Budget 2024 proposed to provide an accelerated CCA of 10% for new eligible purpose-built rental projects that begin construction on or after April 16, 2024 and before January 1, 2031. The property must be available for use before January 1, 2036. Eligible property would be residential complexes with at least four private apartment units or 10 private rooms or suites. At least 90% of the units must be held for long-term rental. Conversions of non-residential real estate, such as an office building, into a residential complex would be eligible. While renovations of existing residential complexes would not be eligible, the cost of a new addition to an existing structure would be. All the normal rules applicable to CCA would apply.

#### Restrictions

Property that has been acquired on a tax-deferred "rollover" basis, or from a non-arm's length person, would not qualify for this acceleration of CCA.

Note: unlike the previous immediate expensing rules, which ended December 31, 2023, very few assets will be eligible.

#### Interest Deductibility Limits – Purpose-Built Rental Housing

Rules were previously proposed that would limit the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income (the EIFEL rules). These proposed rules are currently before Parliament in Bill C-59.

The EIFEL rules provide an exemption for interest and financing expenses incurred in respect of arm's length financing for certain public-private partnership infrastructure projects. Budget 2024 proposed expanding this exemption to also include situations in which arm's length financing is used to build or acquire eligible purpose-built rental housing in Canada.

### Canada Carbon Rebate for Small Businesses

In general, the federal government has intended to return 90% or more of the fuel charge collected in a province to individuals in that province through the Canada carbon rebate. A portion of the remainder is returned to farmers via a refundable tax credit. The government has committed to return the remainder of fuel charge proceeds to Indigenous governments and small and medium-sized businesses. The participating provinces include Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

Budget 2024 proposed an accelerated and automated process to provide direct carbon rebates (a refundable tax credit) to Canadian-controlled private corporations (CCPCs) in provinces where the federal fuel charge applies. The rebate will be calculated by multiplying the number of persons employed in the province during the calendar year in which the fuel charge year begins, by a payment rate to be specified by the Minister of Finance. For example, the number of persons employed in the 2022 calendar year would be used to calculate the rebate in respect of the 2022-23 fuel charge year. To be eligible for the rebate, the corporation would need to have had no more than 499 employees throughout Canada in the calendar year. The payment rates for each applicable province for the 2019-20 to 2023-24 fuel charge years will be determined once sufficient information is available from the 2023 taxation year.

The tax credit would be paid automatically, with no application required. CRA would automatically determine the tax credit amount for an eligible corporation and pay the amount. It appears as if the number of employees would be determined by reference to the number of T4s filed.

With respect to the 2019-20 to 2023-24 fuel charge years, the rebate would be available where a tax return for the 2023 taxation year is filed by July 15, 2024. Budget 2024 indicated that this would deliver over \$2.5 billion directly to 600,000 small- and medium-sized businesses.

### Non-Compliance with Information Requests

Budget 2024 proposed several amendments to expand CRA's ability to gather information. They are intended to enhance the efficiency and effectiveness of tax audits of uncooperative taxpayers and facilitate the collection of tax revenues on a timelier basis. The proposed measures included the following:

- CRA would be permitted to issue a "notice of non-compliance" to a taxpayer that fails to comply with a requirement or notice to provide information;

- where a notice of non-compliance is issued, a penalty of \$50 per day (\$25,000 maximum) would apply until the request is complied with;
- CRA would be permitted to require that information (oral or written) or documents included in a requirement or notice be provided under oath or affirmation;
- when CRA obtains a compliance order against a taxpayer from a court, the taxpayer would be subject to a penalty equal to 10% of the aggregate tax payable by the taxpayer for each related taxation year for which aggregate tax payable exceeds \$50,000; and
- various extensions of the time limit for reassessments would apply, generally providing CRA with additional time equal to the period of non-compliance, or of any legal dispute related to a requirement or notice.

## C. International Measures

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### Crypto-Asset Reporting Framework

Budget 2024 proposed to impose a new annual reporting requirement on crypto-asset service providers that deliver business services effectuating exchange transactions in crypto-assets (e.g. crypto exchanges, crypto-asset brokers and dealers, and operators of crypto-asset automated teller machines).

Crypto-asset service providers would be required to report to CRA, in respect of each customer and in respect of each crypto-asset, the annual value of:

- exchanges between the crypto-asset and fiat currencies;
- exchanges for other crypto-assets; and
- transfers of the crypto-asset, including the requirement to report information in respect of a customer of a merchant where the crypto-asset service provider processes payments on behalf of the merchant and the customer has transferred crypto-assets to the merchant in exchange for goods or services with a value exceeding US\$50,000.

Reportable crypto-assets would exclude central bank digital currencies and specified electronic money products (e.g., digital representations of fiat currencies), which would be reportable under proposed amendments to the Common Reporting Standard included in Budget 2024.

In addition to information on crypto-asset transactions, crypto-asset service providers would be required to obtain and report information on each of their customers, including name, address, date of birth, jurisdiction(s) of residence and taxpayer identification numbers for each jurisdiction of residence. If a customer is a corporation or other legal entity, the same information would need to be collected and reported in respect of the natural persons who exercise control over the entity. Reporting would be required with respect to both Canadian resident and non-resident customers.

## D. Other Measures

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### Housing Plan

Budget 2024 included a variety of proposed initiatives to stimulate home construction. In addition to tax-related measures discussed elsewhere in this document, a variety of non-tax measures were proposed, including the following:

- first-time homebuyers will be permitted to obtain CMHC-insured mortgages with a 30-year amortization period if they purchase a newly built home, commencing August 1, 2024;
- the Canada Mortgage Charter will include an expectation that permanent amortization relief will be provided to allow existing homeowners to reduce their payments by extending their mortgage term in order to facilitate homeowners being able to retain their homes; and
- expanded efforts will be undertaken to unlock government-owned real estate to be used for home construction, including the use of land held by the Department of National Defense and converting underused federal offices into homes.

### Canada Pension Plan (CPP)

Budget 2024 proposed to coordinate with provincial partners to make amendments to the CPP, including the following:

- enhance the death benefit for certain contributors;
- add a children's benefit for part-time students whose parent is deceased;
- extend eligibility for children's benefits where a disabled parent reaches age 65; and
- end eligibility for survivor's benefits to people who are legally separated after a division of pensionable earnings.

### Canada Disability Benefit

Budget 2024 provided additional details on the launch of the Canada disability benefit. Payments under this benefit are intended to commence in July 2025, following the successful completion of the regulatory process and consultations with persons with disabilities. A maximum annual benefit of \$2,400 would be available to low-income persons between the ages of 18 and 64 eligible for the disability tax credit. The benefit is expected to support over 600,000 individuals.

### Student Loan Forgiveness

Forgiveness of student loans for health care and social services professionals working in rural or remote areas would be expanded from its current coverage of, doctors and nurses to also be available to early childhood educators, dentists, dental hygienists, pharmacists, midwives, teachers, social workers, personal support workers, physiotherapists and psychologists.

### Canada Learning Bond

The Canada learning bond is a government contribution of up to \$2,000 per year to registered education savings plans (RESPs) for children in low-income families. In order to increase the receipt of these amounts, Budget 2024 proposed the following initiatives:

- commencing with children born in 2024, RESPs would be opened automatically for children eligible for these payments in the year they turn four years of age;
- caregivers of older children eligible for these payments will be permitted to apply for the creation of a similar RESP, and the automatic deposit of these funds; and
- the maximum age to retroactively claim the Canada learning bond will be increased to 30 from 20.

### Canada Revenue Agency (CRA) Funding

Additional funding will be provided to CRA for initiatives including the following:

- ongoing efforts to identify non-compliance in real estate transactions;
- pilot new automatic filing services SimpleFile Digital and SimpleFile by Paper to increase filings by low-income taxpayers; and
- improve the efficiency of its call centres.

### Consultations and Reviews

Budget 2024 also announced the following areas proposed to be reviewed, some with formal consultations:

- modernizing the scientific research & experimental development tax incentive program, with an intention to increase annual funding by \$150 million;
- implementing a tax on residentially zoned vacant land; and
- issuing draft legislation to limit non-sufficient funds (NSF) charges to \$10, and restrict their application in various other ways.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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