2022 Federal Budget Highlights

On April 7, 2022, Canadian Deputy Prime Minister and Minister of Finance Chrystia Freeland delivered the government's 2022 Federal Budget, forecasting a deficit of $113.8 billion for the 2021-2022 fiscal year[1] and $52.8 billion for 2022-2023. Here is a brief overview of some of the notable proposals affecting individuals, corporations and charities.

Personal and corporate tax rates remain unchanged[2] and despite speculation, the Budget did not address an increase to the capital gains inclusion rate, a wealth tax, nor changes to the principal residence exemption.

Individuals

Home Buyers/Owners

The government introduced a number of measures to address home ownership and affordability.

Tax-Free First Home Savings Account (FHSA)

Budget 2022 proposes a new Tax-Free First Home Savings Account (FHSA) to allow prospective first-time home buyers[3] to make tax-deductible contributions of up to $8,000 per year, up to a lifetime maximum of $40,000. Income earned in the account is not subject to tax, and qualifying withdrawals are non-taxable.

To open an FHSA, you must be at least 18 years old and a resident of Canada, and you cannot have lived in a home that you owned in the year the account is opened or in the previous four calendar years.

If funds in the account have not been used to make a qualifying first home purchase within 15 years of first opening the FHSA, the account must be closed. Unused savings could be transferred to an RRSP or RRIF, or withdrawn as a taxable amount. After making a qualifying withdrawal, you must close your FHSA within a year of the first withdrawal and are ineligible to open another FHSA.

While the Home Buyers' Plan (HBP) will continue to allow tax-free RRSP withdrawals of up to $35,000 to buy or build a qualifying home, individuals will not be allowed to make both HBP and FHSA withdrawals for the same home.

First-time home buyers can expect to start making FHSA contributions in 2023.

New Multigenerational Home Renovation Tax Credit

Starting in 2023, this new tax credit could provide up to $7,500 in support for building a secondary suite for a family member who is a senior or an adult with a disability, based on a 15% refundable credit on up to $50,000 in eligible renovation and construction costs.

Expenses claimed under the Medical Expenses Tax Credit and/or existing Home Accessibility Tax Credit will not be eligible for the Multigenerational Home Renovation Tax Credit.

Increase to Home Accessibility Tax Credit

The Home Accessibility Tax Credit limit is proposed to double for the 2022 tax year, offering tax savings up to $3,000 for eligible Canadians, based on 15% of eligible renovation expenses of up to $20,000.

Increase to First-Time Home Buyers' Tax Credit

The Budget proposes to double the First-Time Home Buyers' Tax Credit base amount to $10,000. The enhanced credit would provide up to $1,500 in direct support for a home purchase made on or after January 1, 2022.

Taxing Property Flipping as Business Income

Budget 2022 proposes new rules to tax as business income profits earned by individuals who sell residential real estate that has been held for less than 12 months. Under the new rules, such profits are not eligible for the 50% capital gains inclusion rate nor the Principal Residence Exemption (PRE).

Exemptions will be provided for certain life events, such as a sale due to death, divorce, a new job, a new child or a disability.

The measure would apply to residential property sales on or after January 1, 2023.

GST/HST Tax on Assignment Sales

Currently, Goods and Services Tax/Harmonized Sales Tax may or may not apply when a person makes a new home assignment sale, depending on the reason for purchasing the home. To clarify when GST/HST applies and mitigate potential dishonesty by speculators, all assignment sales of newly constructed or substantially renovated residential housing would be GST/HST taxable, effective May 7, 2022.

Other

Moving toward a minimum tax for high earners

The Budget announces a commitment to explore a new minimum tax regime, which will go further toward 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.

Reporting Requirements for RRSPs and RRIFs

Financial institutions are currently required to annually report to the Canada Revenue Agency (CRA) any withdrawals from, and contributions to, each Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) they administer. The Budget introduces a further requirement to report the total year-end fair market value of assets held in each RRSP and RRIF they administer.

Consistent with existing reporting requirements for Tax-Free Savings Accounts (TFSAs), this additional information is meant to "assist the CRA in its risk-assessment activities regarding qualified investments held by RRSPs and RRIFs" and is applicable to the 2023 and subsequent taxation years.

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 flow-through share investors.

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

Medical Expense Tax Credit for Surrogacy and Other Expenses

The Medical Expense Tax Credit (METC) provides a 15% non-refundable tax credit for qualifying medical expenses in excess of the lesser of $2,479 and 3% of net income.

Budget 2022 proposes to expand the METC to cover medical expenses paid by taxpayers or their spouses or common-law partners with respect to reproductive technologies and procedures for surrogates and donors of sperm, ova or embryos. Fees paid to fertility clinics and donor banks in Canada will be eligible under the METC.

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

Corporations

Small Business Deduction

Small business corporations benefit from a reduced federal corporate tax rate of 9%, compared to the general corporate rate of 15%. This rate reduction is available to Canadian-controlled private corporations (CCPCs) via the small business deduction (SBD) on up to $500,000 per year of qualifying active business income.

The $500,000 business limit is reduced on a straight-line basis when a CCPC (and any associated corporations) has taxable capital in Canada between $10 million and $15 million, or "adjusted aggregate investment income" between $50,000 and $150,000. The business limit is the lesser of the two amounts determined by these reductions.

The Budget proposes to increase the taxable capital range over which the business limit is reduced to between $10 million and $50 million.

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

Intergenerational Share Transfers

The Budget announced the commencement of a consultation process to review tax issues relating to intergenerational share transfers and the surplus stripping rules.

Substantive CCPCs

The Budget proposes that for taxation years ending on or after April 7, 2022, investment income earned by a private corporation residing in a foreign jurisdiction, but controlled by a Canadian resident taxpayer, will be subject to the same tax rules as other Canadian-controlled private corporations (CCPCs).

Charitable Organizations

The Budget calls to increase the disbursement quota by registered charities to 5% (from 3.5%) for the portion of investment assets in excess of $1 million.

The disbursement quota is the minimum calculated amount that a registered charity is required to spend each year on its own charitable programs or on gifts to qualified donees, such as other registered charities.

Budget 2022 can be viewed online in its entirety on the Department of Finance Canada's website[4] and is subject to parliamentary approval.

For more information, please contact your Odlum Brown Investment Advisor or Portfolio Manager.

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[1] Ending March 31, 2022.
[2] Exceptions for major financial institutions: A 1.5% increase to the corporate income tax rate to 16.5% (from 15%) on the taxable income of banking and life insurance groups above $100 million, and a Canada Recovery Dividend, which is a one-time 15% tax on taxable income above $1 billion for the 2021 tax year, payable in equal installments over five years.
[3] You are considered a first-time home buyer if, in the four-year period, you did not occupy a home that you or your current spouse or common-law partner owned.
[4] budget.gc.ca/2022/home-accueil-en.html