TAX HIGHLIGHTS FROM THE 2024 FEDERAL BUDGET

Canada's Finance Minister, the Honourable Chrystia Freeland, tabled the 2024 federal budget on April 16, 2024.

As per the Budget, inflation has fallen from its June 2022 peak of 8.1% to 2.9% in January and to 2.8% in February 2024. Budget 2024 further advises that the labour market remains solid, with over 1.1 million more Canadians employed today than before the pandemic. While GDP per capita has declined, real GDP rose by 1.1% in 2023, avoiding the recession predicted by many forecasters.

Tax revenues increased by $1.3 billion, or 3.5%, compared to the same period in 2022/23, largely as a result of higher personal income tax revenue. The budget forecasts a deficit of $40.1 billion for 2023/24 and expects to remain in deficit for the next five fiscal years. The federal debt-to-GDP ratio is expected to decrease from 42.0% in 2023/24 to 41.5% in 2024/25, and eventually to 39.0% in 2028/29.

From a tax perspective, the largest single change is the increase to the capital gains inclusion rate from one-half to two-thirds for corporations and trusts, and on the portion of capital gains realized by individuals in the year that exceeds $250,000. The budget also introduces significant new and expanded credits and incentives on housing and clean energy.

The following is a summary of significant tax and program changes announced in the budget. Please note that the changes are proposals until they are passed by the federal government.

PERSONAL TAX MATTERS

Personal Income Tax Rates and Tax Brackets

With the exception of the increase to the capital gains inclusion rate from one-half to two-thirds on the portion of capital gains realized in the year that exceeds $250,000, there were no changes to personal income tax rates. Tax brackets and other amounts have been indexed by 4.7% to recognize the impact of inflation. The table below shows federal personal income tax rates and brackets for 2024.

2024 TAX RATES				
Taxable income range	Other income	Capital gains	Eligible dividends	Non-eligible dividends
First $55,867	15.00%	7.50%	0.00%	6.87%
Over $55,867-$111,733	20.50%	10.25%	7.56%	13.19%
Over $111,733-$173,205	26.00%	13.00%	15.15%	19.52%
Over $173,205-$246,752	29.32%	14.66%	19.73%	23.34%
Over $246,752	33.00%	16.50%/22.00%*	24.81%	27.57%

*Based on an increased two-thirds inclusion rate effective June 25, 2024, for the portion of capital gains realized in the year that exceed $250,000.

The table below shows the highest marginal federal tax rates for various types of income in 2024.

TYPE OF INCOME	2024 TAX RATES
Regular income	33.00%
Capital gains	22.00%*
Eligible dividends	24.81%
Non-eligible dividends	27.57%

*Based on an increased two-thirds inclusion rate effective June 25, 2024, for the portion of capital gains realized in the year that exceed $250,000.

Capital Gains Inclusion Rate

One-half of a capital gain is included in computing a taxpayer's income. This is referred to as the capital gains inclusion rate. The current one-half inclusion rate also applies to capital losses. Budget 2024 proposes to increase the capital gains inclusion rate from one-half to two-thirds for corporations and trusts, and on the portion of capital gains realized by individuals in the year that exceeds $250,000, effective on June 25, 2024.

The $250,000 threshold will effectively apply to capital gains realized by an individual, either directly or indirectly through a partnership or trust, net of any:

- current-year capital losses;
- capital losses from other years applied to reduce current-year capital gains; and
- capital gains in relation to which the Lifetime Capital Gains Exemption, the proposed Employee Ownership Trust Exemption or the proposed Canadian Entrepreneurs' Incentive is claimed.

Claimants of the employee stock option deduction will be provided with a one-third deduction of the taxable benefit to reflect the new capital gains inclusion rate but will be entitled to a deduction of one-half the taxable benefit up to a combined limit of $250,000 for both employee stock options and capital gains.

Net capital losses from prior years will continue to be deductible against taxable capital gains in the current year, with their value adjusted to reflect the inclusion rate of the capital gains being offset. This means that a capital loss realized before the rate change will fully offset an equivalent capital gain realized after the rate change.

For tax years that begin before and end on or after June 25, 2024, two different inclusion rates will apply. As a result, transitional rules will be required to separately identify capital gains and losses realized before the effective date (Period 1) and those realized on or after the effective date (Period 2). For example, taxpayers will be subject to the higher inclusion rate for the portion of their net gains realized in Period 2 that exceed the $250,000 threshold, provided these net gains are not offset by a net loss from Period 1 or any other taxation years.

The annual $250,000 threshold for individuals will be fully available in 2024, meaning it will not be prorated, and will apply to net capital gains realized in Period 2. Additional design details will be released in the coming months.

Lifetime Capital Gains Exemption

The income tax system provides an individual with a lifetime tax exemption for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. The amount of the Lifetime Capital Gains Exemption (LCGE) is $1,016,836 in 2024 and is indexed to inflation.

Budget 2024 proposes to increase the LCGE to apply to up to $1.25 million of eligible capital gains. This measure will apply to dispositions that occur on or after June 25, 2024. Indexation of the LCGE will resume in 2026.

Canadian Entrepreneurs' Incentive

Budget 2024 proposes the introduction of the Canadian Entrepreneurs' Incentive. This incentive is aimed to reduce the tax rate on capital gains from the disposition of qualifying shares by an eligible individual. Specifically, this incentive will offer a capital gains inclusion rate that is one-half the prevailing inclusion rate, on up to $2 million in capital gains per individual over their lifetime.

The lifetime limit would be phased in by increments of $200,000 per year, beginning on January 1, 2025, before ultimately reaching a value of $2 million by January 1, 2034.

Under the two-thirds capital gains inclusion rate proposed in Budget 2024, this measure would result in an inclusion rate of one-third for qualifying dispositions. This measure would apply in addition to any available capital gains exemption.

A share of a corporation would be a qualifying share if certain conditions are met, including but not limited to the following:

- At the time of sale, the share must be part of the capital stock of a small business corporation, as defined by the Income Tax Act, and owned directly by the claimant.
- Throughout the 24-month period immediately preceding the disposition of the share, it was a share of a Canadian-Controlled Private Corporation. Additionally, more than 50% of the fair market value of the corporation's assets must have been:
  - Principally used in an active business conducted primarily in Canada by the Canadian-Controlled Private Corporation, or by a related corporation,
  - Certain shares or debts of connected corporations, or
  - A combination of these two types of assets.
- The claimant was a founding investor at the time the corporation was initially capitalized and held shares for a minimum of five years prior to disposition.
- From the initial share subscription until immediately before the sale of the shares, the claimant directly owned shares amounting to more than 10% of the fair market value of the issued and outstanding capital stock of the corporation, giving the individual more than 10% of the votes that could be cast at an annual meeting with shareholders of the corporation.
- Throughout the five-year period immediately preceding the disposition of the share, the claimant must have been actively engaged on a regular, continuous and substantial basis in the activities of the business.
- The share does not represent a direct or indirect interest in a professional corporation, a corporation whose principal asset is the reputation or skill of one or more employees, or a corporation that carries on certain types of businesses including a business:
  - operating in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment sector; or
  - providing consulting or personal care services.
- Shares must have been obtained for fair market value consideration.

This measure would apply to dispositions that occur on or after January 1, 2025.

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) is a parallel tax calculation that allows fewer tax credits, deductions and exemptions than the standard personal income tax rules. Taxpayers are required to pay either regular tax or AMT, whichever is higher.

Budget 2023 introduced amendments to the *Income Tax Act* to modify the AMT calculation. Budget 2024 proposes additional amendments to the AMT proposals, as described below.

Changes to the Tax Treatment of Charitable Donations
Budget 2024 proposes revising the tax treatment of charitable donations to allow individuals to claim 80% of the Charitable Donation Tax Credit, an increase from previously proposed 50%, when calculating the AMT.

Additional Amendments
Budget 2024 proposes several additional amendments to the AMT proposals. These amendments would:

- Fully allow deductions for the Guaranteed Income Supplement, social assistance and workers' compensation payments.
- Allow individuals to fully claim the federal logging tax credit under the AMT.
- Fully exempt Employee Ownership Trusts from the AMT.
- Enable certain disallowed credits under the AMT, such as the federal political contribution tax credit, investment tax credits, and labour-sponsored funds tax credit, to be eligible for the AMT carry-forward.

Budget 2024 also proposes several technical amendments to the AMT legislative proposals.

Proposed Exemption for Certain Trusts for the Benefit of Indigenous Groups
Budget 2024 proposes to provide an exemption from the AMT for trusts established under:

a) a law of Canada or a province if the trust is for the benefit of an Indigenous group, community or people that holds rights recognized and affirmed by section 35 of the Constitution Act, 1982, or

b) a treaty or a settlement agreement between His Majesty in right of Canada, or His Majesty in right of a province, and an Indigenous group, community or people recognized and affirmed by section 35 of the *Constitution Act, 1982*, provided that all or substantially all of the contributions to the trust before the end of the year are amounts paid under the law, treaty or a settlement agreement described in paragraph (a) or (b), or are reasonably traceable to those amounts.

These amendments would apply to taxation years that begin on or after January 1, 2024.

Home Buyers' Plan

The home buyers' plan (HBP) helps eligible home buyers save for a down payment by allowing them to withdraw up to $35,000 from a registered retirement savings plan (RRSP) to purchase or build their first home, or a home for a specified disabled individual, without having to pay tax on the withdrawal. Eligible home buyers purchasing a home jointly may each withdraw up to $35,000 from their own RRSP under the HBP.

Amounts withdrawn under the HBP must be repaid to an RRSP over a period not exceeding 15 years, starting the second year following the year in which a first withdrawal was made. Otherwise, amounts due for repayment within a specific year are taxable as income for that year.

Increasing the withdrawal limit
Budget 2024 proposes to increase the withdrawal limit from $35,000 to $60,000. This increase would also apply to withdrawals made for the benefit of a disabled individual. This measure would apply to the 2024 and subsequent calendar years in respect of withdrawals made after Budget Day.

Temporary repayment relief

Budget 2024 proposes 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 in which a first withdrawal was made.

RESP Enhancements

Automatic enrolment in the Canada Learning Bond

Budget 2024 announces the government's intention to amend the Canada Education Savings Act to introduce automatic enrolment in the Canada Learning Bond for eligible children who do not have a Registered Education Savings Plan (RESP) opened for them by the time the child turns four. Starting in 2028/29, all eligible children born in 2024 or later will have a Registered Education Savings Plan automatically opened for them and the eligible Canada Learning Bond payments will be auto deposited in these accounts.

To ensure that all children can benefit from this simplified process, starting in 2028/29, caregivers of eligible children born before 2024 would also be able to request that Employment and Social Development Canada open a Registered Education Savings Plan for their child and auto deposit the eligible Canada Learning Bond payments.

Retroactive claims of the Canada Learning Bond

Budget 2024 also announces the government's intention to introduce changes to the Canada Education Savings Act to extend the age from 20 to 30 years to retroactively claim the Canada Learning Bond. This would provide those who start their post-secondary education later to benefit from the government's contribution to their education savings.

Canada Child Benefit

The Canada Child Benefit (CCB) is an income-tested benefit that is paid monthly and provides support for eligible families with children under the age of 18. A recipient becomes ineligible for the CCB in respect of a child starting the month following the child's death.

Budget 2024 proposes to amend the Income Tax Act to extend eligibility for the CCB in respect of a child 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 change is proposed to take effect for any deaths occurring 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. In order for an expense to qualify, it must be specified in the *Income Tax Act* and a medical practitioner must either prescribe the expense or otherwise certify in writing that the expense is required.

Budget 2024 proposes to expand the list of expenses recognized under the Disability Supports Deduction, subject to specified conditions:

- For individuals with severe and prolonged impairment in physical functions:
  - the cost of an ergonomic work chair, including related amounts paid for an ergonomic assessment to a person engaged in the business of providing such services;
  - the cost of a bed positioning device, including related amounts paid for an ergonomic assessment to a person engaged in the business of providing such services; and
  - the cost of purchasing a mobile computer cart.

- For individuals with an impairment in physical or mental functions:
  - the cost of purchasing an alternative input device to allow the individual to use a computer; and
  - the cost of purchasing a digital pen device to allow the individual to use a computer.
- For individuals with a vision impairment, the cost of purchasing a navigation device for low vision.
- For individuals with an impairment in mental functions, the cost of purchasing memory or organizational aids.

Budget 2024 also proposes recognizing expenses for service animals, as defined by the Medical Expense Tax Credit rules in the *Income Tax Act,* under the Disability Supports Deduction. Taxpayers would have the option to claim an expense either under the Medical Expense Tax Credit or the Disability Supports Deduction.

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

Volunteer Firefighters and Search and Rescue Volunteers Tax Credits

The Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit allow individuals who performed at least 200 hours of combined volunteer service during the year as a volunteer firefighter or a search and rescue volunteer to claim a 15% non-refundable tax credit based on an amount of $3,000.

Budget 2024 proposes 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 2024 and subsequent taxation years.

Mineral Exploration Tax Credit

The Mineral Exploration Tax Credit provides an additional income tax benefit for individuals who invest in mining flow-through shares, which augments the tax benefits associated with the amounts that are flowed through. This tax credit provides support to junior mining companies engaged in certain grassroots mineral exploration. The tax credit is equal to 15% of the specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. The Mineral Exploration Tax Credit is legislated to expire on March 31, 2024. The government proposes to extend eligibility for the Mineral Exploration Tax Credit for one year, to flow-through share agreements entered into on or before March 31, 2025.

CORPORATE TAX MATTERS

Corporate income tax rates

With the exception of the increase to the capital gains inclusion rate from one-half to two-thirds for corporations and trusts as discussed above, there were no additional proposed changes to federal corporate income tax rates or the small business limit for 2024. The table below shows federal tax rates and the small business limit for 2024.

Category	2024 Tax Rates
General rate	15.0%
Manufacturing & processing rate	15.0%
Small business rate	9.0%
Small business limit	$500,000

Accelerated Capital Cost Allowance

The capital cost allowance (CCA) system determines the deductions that a business may claim each year for income tax purposes related to the capital cost of its depreciable property. Depreciable property is generally divided into CCA classes, with each having its own rate in Schedule II of the Income Tax Regulations.

Purpose-Built Rental Housing

Currently, purpose-built rental buildings are eligible for a CCA rate of 4% under Class 1. Budget 2024 proposes to provide an accelerated CCA of 10% for new eligible purpose-built rental projects that begin construction on or after Budget Day and before January 1, 2031, and are available for use before January 1, 2036.

Productivity-Enhancing Assets

Currently, assets included in 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 and systems software) are prescribed CCA rates of 25%, 30%, and 55%, respectively. Budget 2024 proposes immediate expensing for new additions of property within these three classes if the property is acquired on or after Budget Day and becomes available for use before January 1, 2027. This enhanced allowance would provide a 100% first-year deduction and would be available only for the year in which the property becomes available for use.

Property that becomes available for use after 2026 and before 2028 would continue to benefit from the Accelerated Investment Incentive.

Restrictions

Property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer will qualify for the accelerated CCA only if both of the following conditions are met:

- neither the taxpayer nor a non-arm's-length person previously owned the property; and
- the property has not been transferred to the taxpayer on a tax-deferred "rollover" basis.

Canada Carbon Rebate for Small Businesses

Budget 2024 proposes to return a portion of fuel charge proceeds from a province through the new Canada Carbon Rebate for Small Businesses, an automatic, refundable tax credit directly for eligible businesses, sized in proportion to the number of persons they employ in the province.

For the 2019/20 to 2023/24 fuel charge years, the tax credit will be available to a Canadian-controlled private corporation that files a tax return for its 2023 taxation year by July 15, 2024. Additionally, to be eligible for a credit for an applicable fuel charge year, the corporation must have had no more than 499 employees throughout Canada in the calendar year when the fuel charge year began.

Eligible corporations would not have to apply for this tax credit. The Canada Revenue Agency would automatically determine the tax credit amount for an eligible corporation and pay the amount to the eligible corporation through the new Canada Carbon Rebate for Small Businesses.

The tax credit amount of an eligible corporation for an applicable fuel charge year will be calculated for each province where the eligible corporation had employees in the calendar year when the fuel charge year started. This amount will be equal to the number of persons employed by the eligible corporation in that province in that calendar year multiplied by a payment rate specified by the Minister of Finance for the province for the corresponding fuel charge year.

Clean Electricity Investment Tax Credit

Budget 2023 announced a refundable Clean Electricity investment tax credit equal to 15% of the capital cost of eligible property, with some additional changes announced in the 2023 Fall Economic Statement. Budget 2024 now provides the design and implementation details of the tax credit:

The Clean Electricity investment tax credit will be exclusively available to Canadian corporations. Eligible entities include:

- Taxable Canadian corporations;
- Provincial and territorial Crown corporations, subject to additional requirements;
- Corporations owned by municipalities;
- Corporations owned by Indigenous communities; and
- Pension investment corporations.

The Clean Electricity investment tax credit contains the following design features:

- A 15% refundable tax credit rate for eligible investments in new equipment or refurbishments related to:
  - Low-emitting electricity generation systems using energy from wind, solar, water, geothermal, waste biomass, nuclear, or natural gas with carbon capture and storage.
  - Stationary electricity storage systems that do not use fossil fuels in operation, such as batteries and pumped hydroelectric storage.
  - Transmission of electricity between provinces and territories.
- The Clean Electricity investment tax credit would be available to certain taxable and non-taxable corporations, including corporations owned by municipalities or Indigenous communities, and pension investment corporations.
- Provided that a provincial and territorial government satisfies additional conditions, the tax credit would also be available to provincial and territorial Crown corporations investing in that province or territory.
- "Robust labour requirements to pay prevailing union wages and create apprenticeship opportunities" will need to be met to receive the full 15% tax credit.

The Clean Electricity investment tax credit would apply to property that is acquired and becomes available for use on or after the day of Budget 2024 for projects that did not begin construction before March 28, 2023. The credit would no longer be in effect after 2034.

Interest Deductibility Limits – Purpose-Built Rental Housing

Budget 2021 previously announced an earnings stripping measure that limits the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income. Legislative proposals to implement this measure – the excessive interest and financing expenses limitation (EIFEL) 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 proposes expanding this exemption to also include an elective exemption for certain interest and financing expenses incurred before January 1, 2036, in respect of arm's length financing used to build or acquire eligible purpose-built rental housing in Canada.

Eligible purpose-built rental housing will be defined as a residential complex that:

- Contains at least four private apartment units, each with a private kitchen, bathroom and living areas, or 10 private rooms or suites; and
- maintains at least 90% of residential units are for long-term rental.

This change will take effect for taxation years beginning on or after October 1, 2023, consistent with broader EIFEL amendments.

Polymetallic Extraction and Processing

Budget 2024 proposes to modify the Clean Technology Manufacturing investment tax credit to include the cost of investments in eligible property used primarily to produce qualifying critical minerals at mine or well sites, and to make certain other adjustments to provide greater clarity to businesses involved in polymetallic extraction and processing.

Mutual Fund Corporations

The *Income Tax Act* includes special rules for mutual fund corporations that facilitate conduit treatment for investors (shareholders), such as generally allowing capital gains realized by a mutual fund corporation to be treated as capital gains realized by its investors, and not being subject to mark-to-market taxation, allowing a mutual fund corporation to elect capital gains treatment on the disposition of Canadian securities.

To qualify as a mutual fund corporation under the *Income Tax Act*, a corporation must satisfy several conditions, including that the corporation is a "public corporation", which may be satisfied where a class of shares of the corporation is listed on a designated stock exchange in Canada. These conditions are premised on the idea of a mutual fund corporation being widely held.

Budget 2024 proposes amendments to the *Income Tax Act* to preclude a corporation from qualifying as a mutual fund corporation where it is controlled by or for the benefit of a corporate group (including a corporate group that consists of any combination of corporations, individuals, trusts, and partnerships that do not deal with each other at arm's length). Exceptions would be provided to ensure that the measure does not adversely affect mutual fund corporations that are widely held pooled investment vehicles. This measure would apply to taxation years that begin after 2024.

Synthetic Equity Arrangements

Synthetic equity arrangements include agreements that provide all or substantially all of the risk of loss and opportunity for gain or profit (the "economic exposure") in respect of a share to another person.

Where a taxpayer enters into a synthetic equity arrangement in respect of a share, the taxpayer is generally obligated to compensate the other person for the amount of any dividends paid on the share. This compensation payment may result in a tax deduction for the taxpayer in addition to the dividend received deduction. Unless the anti-avoidance rule applies to deny the dividend received deduction, a tax loss would generally arise as a result of the two deductions.

The anti-avoidance rule incorporates certain exceptions, including where the taxpayer establishes that no tax-indifferent investor has all or substantially all of the economic exposure in respect of the share. An associated exception is also available for synthetic equity arrangements traded on a derivatives exchange.

Budget 2024 proposes to remove the tax-indifferent investor exception (including the exchange traded exception) to the anti-avoidance rule. This measure would simplify the anti-avoidance rule and prevent taxpayers from claiming the dividend received deduction for dividends received on a share where there is a synthetic equity arrangement. This measure would apply to dividends received on or after January 1, 2025.

INTERNATIONAL TAX MATTERS

Crypto-Asset Reporting Framework and the Common Reporting Standard

To ensure appropriate reporting, the OECD has developed a new framework, referred to as the Crypto-Asset Reporting Framework, or CARF, that provides for the automatic exchange of tax information in relation to transactions in crypto-assets.

Budget 2024 proposes the following:

- Implement the CARF in Canada.
- Implement amendments to the Common Reporting Standard (CRS) that have been endorsed by the OECD in connection with the CARF.
- Amend the CRS to remove Labour-Sponsored Venture Capital Corporations (LSVCCs) from the list of non-reporting financial institutions and treat a non-registered account held in an LSVCC as an excluded account provided that annual contributions to the account do not exceed US$50,000.
- Amend the anti-avoidance provision of the CRS to clarify that it applies when an individual or any entity enters into an arrangement or engages in a practice, if it can reasonably be considered that the primary purpose is to avoid an obligation of any person under the CRS.

These measures would apply to the 2026 and subsequent calendar years.

Withholding for Non-Resident Service Providers

Budget 2024 proposes to provide the Canada Revenue Agency (CRA) with the legislative authority to waive the withholding requirement, over a specified period, for payments to a non-resident service provider if either of the following conditions are met:

- the non-resident would not be subject to Canadian income tax in respect of the payments because of a tax treaty between its country of residence and Canada; or
- the income from providing the services is exempt income from international shipping or from operating an aircraft in international traffic.

This measure would come into force on royal assent of the enacting legislation.

SALES & EXCISE TAX MEASURES

Extending GST Relief to Student Residences

The government recently announced that it would temporarily remove the Goods and Services Tax (GST) from new purpose-built rental housing projects, such as apartment buildings, student housing and senior residences built specifically for long-term rental accommodation.

The removal of the GST is being implemented through an Enhanced (100%) GST Rental Rebate for new qualifying purpose-built rental housing projects. Qualifying purpose-built rental housing units include those that are part of a residential complex and meet the following conditions:

- contains at least four private apartment units, or at least 10 private rooms or suites; and
- all or substantially all of the residential units meet the conditions for the existing GST Rental Rebate.

Budget 2024 proposes to modify the *Excise Tax Act* to allow universities, public colleges and school authorities to apply the normal GST/HST rules that apply to other builders (i.e., paying GST/HST on the final value of the building) for new student housing projects.

The proposed measures would apply to student residences that begin construction after September 13, 2023 and before 2031, and that complete construction before 2036.

Tobacco and Vaping Product Taxation

Excise Duty on Tobacco

Budget 2024 announces the government's intention to increase the tobacco excise duty rate by $4 per carton of 200 cigarettes along with corresponding increases to the excise duty rates for other tobacco products. This measure is set to come into force on the day after Budget Day.

Excise Duty on Vaping Products

Budget 2024 announces the government's intention to increase the vaping product excise duty rate. This proposed increase will also apply to the additional duty imposed on participating jurisdictions under the coordinated vaping product taxation framework. This measure is set to come into force on July 1, 2024.

Sharing of Confidential Information

Budget 2024 proposes to amend the Excise Act, 2001 to allow the CRA to share confidential information for the purposes of the administration or enforcement of the Tobacco and Vaping Products Act. This measure is set to come into force upon royal assent to the enabling legislation.

Fuel, Alcohol, Cannabis, and Tobacco Sales Tax Framework

Budget 2024 proposes to amend the First Nations Goods and Services Tax Act (FNGST) to provide additional flexibility to Indigenous governments seeking to exercise tax jurisdiction on their lands. Specifically, the amendments would enable Indigenous governments to enact a value-added sales tax, under their own laws, on fuel, alcohol, cannabis, tobacco, and vaping (FACT) products within their reserves or settlement lands. The FACT sales tax would be analogous to the FNGST, including applying at the same five per cent GST rate, but would be limited to fuel, alcohol, cannabis, tobacco and vaping products.

OTHER PROPOSALS

Qualified Investments for Registered Plans

Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Tax-Free Savings Accounts (TFSAs), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs), First Home Savings Accounts (FHSAs), and Deferred Profit-Sharing Plans (DPSPs) can invest only in qualified investments for those plans. A broad range of assets are qualified investments, including mutual funds, publicly traded securities, government and corporate bonds, and guaranteed investment certificates.

Budget 2024 invites stakeholders to provide suggestions on how the qualified investment rules could be modernized on a prospective basis to improve the clarity and coherence of the registered plans regime. Stakeholders are invited to submit comments to Finance by July 15, 2024.

Employee Ownership Trust Tax Exemption

Budget 2023 proposed tax rules to facilitate the creation of employee ownership trusts (EOTs). These legislative proposals 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 the sale of a business to an EOT from taxation, subject to certain conditions. Budget 2024 provides further details on the proposed exemption and conditions.

Qualifying Conditions

The exemption will be available to an individual (other than a trust) on the sale of shares to an EOT where the following conditions are met:

- The individual, a personal trust of which the individual is a beneficiary, or a partnership in which the individual is a member, disposes of shares of a corporation that is not a professional corporation.
- The transaction is a qualifying business transfer, as defined in the proposed rules for EOTs, in which the trust acquiring the shares is not already an EOT or a similar trust with employee beneficiaries.
- Throughout the 24 months immediately prior to the qualifying business transfer:
  - the transferred shares were exclusively owned by the individual claiming the exemption, a related person or a partnership in which the individual is a member; and
  - over 50% of the fair market value of the corporation's assets were used principally in an active business.
- At any time prior to the qualifying business transfer, the individual (or their spouse or common-law partner) has been actively engaged in the qualifying business on a regular and continuous basis for a minimum period of 24 months.
- Immediately after the qualifying business transfer, at least 90% of the beneficiaries of the EOT must be resident in Canada.

If the above conditions are satisfied, the individual would be able to claim an exemption for up to $10 million in capital gains from the sale. If multiple individuals disposed of shares to an EOT as part of a qualifying business transfer and met the conditions described above, they may each claim the exemption, but the total exemption of the qualifying business transfer cannot exceed $10 million. The individuals would be required to agree on how to allocate the exemption.

Alternative Minimum Tax

Capital gains exempted through this measure would be subject to an inclusion rate of 30% for the purposes of the alternative minimum tax, similar to the treatment for gains eligible for the lifetime capital gains exemption.

This measure would apply to qualifying dispositions of shares that occur between January 1, 2024 and December 31, 2026.

CPP Enhancements

Budget 2024 announces that the federal government, in coordination with provincial partners, proposes to make technical amendments to the CPP legislation. These amendments would:

- provide a top-up to the Death Benefit for certain contributors;
- introduce a partial children's benefit for part-time students;
- extend eligibility for the disabled contributors children's benefit when a parent reaches age 65; and,
- end eligibility for a survivor pension to people who are legally separated after a division of pensionable earnings.

Charities and Qualified Donees

Budget 2024 proposes to amend the *Income Tax Act* and *Income Tax Regulations* to improve the operation of the rules related to registered charities and other qualified donees.

Modernizing Service

Budget 2024 proposes to permit the CRA to communicate certain official notices digitally, where the charity has opted to receive information from the CRA electronically.

Donation Receipts

Budget 2024 proposes a number of changes to simplify the issuance of official donation receipts and to align the process for issuing receipts with modern practices of charities.

Budget 2024 proposes to remove the requirement that official donation receipts contain:

- the place of issuance of the receipt;
- the name and address of the appraiser, if an appraisal of the donated property has been done; and
- the middle initial of the donor.

These measures would apply upon royal assent.

Avoidance of Tax Debts

Budget 2024 proposes to introduce a supplementary rule to strengthen the tax debt anti-avoidance rule. This rule will be applied when:

- there has been a transfer of property from a tax debtor to another person;
- as part of the same transaction or series of transactions, there has been a separate transfer of property from a person other than the tax debtor to a transferee that does not deal at arm's length with the tax debtor; and
- one of the purposes of the transaction or series is to avoid joint and several, or solidary, liability.

Where these conditions are met, the property transferred by the tax debtor would be deemed to have been transferred to the transferee for the purposes of the tax debt avoidance rule.

The *Income Tax Act* currently contains a penalty for those who engage in, participate in, assent to, or acquiesce in planning activity that they know, or would reasonably be expected to know, as tax debt avoidance planning. The penalty is equal to the lesser of:

- 50% of the tax that is attempted to be avoided; and
- $100,000 plus any amount the person, or a related person, is entitled to receive or obtain in connection with the planning activity.

Budget 2024 proposes to extend this penalty to tax debt avoidance planning and planners. Taxpayers who participate in tax debt avoidance planning will be jointly and severally, or solidarily, liable for the full amount of the avoided tax debt, including any portion that has effectively been retained by the planner.

Manipulation of Bankrupt Status

Budget 2024 proposes to repeal the exception to the debt forgiveness rules for bankrupt corporations and the loss restriction rule applicable to bankrupt corporations. This change would subject bankrupt corporations to the general rules that apply to other corporations whose commercial debts are forgiven. The bankruptcy exception to the debt forgiveness rules would remain in place for individuals.

While bankrupt corporations would be subject to the reduction of their loss carryforward balances and other tax attributes upon debt forgiveness, as insolvent corporations, they could qualify for relief from the debt forgiveness income inclusion rule provided under the existing deduction for insolvent corporations.

Non-Compliance with Information Requests

Budget 2024 proposes several amendments to the information gathering provisions in the *Income Tax Act* intended to enhance the efficiency and effectiveness of tax audits and facilitate the collection of tax revenues on a more timely basis and proposes certain technical amendments to ensure the rules meet their policy objectives.

One such proposal amends the *Income Tax Act* to allow the CRA to issue a new type of notice, referred to as a "notice of non-compliance", to a person that has not complied with a requirement or notice to provide assistance or information issued by the CRA. The issuance of a notice of non-compliance would be reviewable by the CRA on request of the person. After reconsideration, the notice of non-compliance would be vacated if the CRA determines that it was unreasonable to issue the notice of non-compliance, or that the person had reasonably complied at the time the notice of non-compliance was issued, with the initial requirement or notice. There would be a further statutory right of review by a judge of the Federal Court.

Budget 2024 also proposes to amend the *Income Tax Act* to allow the CRA to include a requirement or notice that any essential information (oral or written) or documents be provided under oath or affirmation.

Currently, the CRA can obtain a compliance order from a court that directs a non-compliant taxpayer to comply with the CRA's information requests. Budget 2024 now proposes to amend the *Income Tax Act* to impose a penalty when the CRA obtains a compliance order against a taxpayer. The penalty would be equal to 10% of the aggregate tax payable by the taxpayer in respect of the taxation year or years to which the compliance order relates. The penalty will apply only if the tax owed for any of the taxation years covered by the compliance order exceeds $50,000.

Budget 2024 further proposes an amendment to allow the CRA to seek a compliance order when a person has failed to comply with a requirement to provide foreign-based information or documents.

Stopping the Reassessment Limitation Clock

Under existing rules, a taxpayer may seek judicial review of a requirement or notice issued to the taxpayer by the CRA. In these circumstances, the reassessment period is extended by the amount of time it takes to dispose of the judicial review. An analogous rule applies in respect of a compliance order.

The "stop the clock" rules currently do not apply to all situations where a taxpayer does not comply with a requirement or notice issued by the CRA. Budget 2024 proposes to amend these rules to provide that they apply when a taxpayer seeks judicial review of any requirement or notice issued to the taxpayer by the CRA in relation to the audit and enforcement process, or during any period that a notice of non-compliance is outstanding. Analogous rules would apply where a requirement or notice has been issued to a person that does not deal at arm's length with the taxpayer.

These amendments would come into force on royal assent of the enacting legislation.

Reportable and Notifiable Transactions Penalty

The *Income Tax Act* includes a general provision that provides that a person who fails to file or make a return or comply with certain specified rules is guilty of an offence, and liable to penalties up to $25,000 and imprisonment up to a year.

Budget 2024 announces the government's intention to remove from the scope of this general penalty provision, the failure to file an information return in respect of a reportable or notifiable transaction, under the mandatory disclosure rules. This amendment would be deemed to have come into force on June 22, 2023.

PREVIOUSLY ANNOUNCED MEASURES

Budget 2024 confirms the government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations, deliberations and legislative developments, since their release.

- Legislative proposals released on March 9, 2024, to extend by two years the two per cent cap on the inflation adjustment on beer, spirit, and wine excise duties, and to cut by half for two years the excise duty rate on the first 15,000 hectolitres of beer brewed in Canada.
- Legislative proposals released on December 20, 2023, with respect to the following measures:
  - The Clean Hydrogen investment tax credit,
  - The Clean Technology Manufacturing investment tax credit,

- Concessional loans,
- Short-Term rentals,
- Vaping excise duties, and
- International shipping.

- Legislative and regulatory proposals announced in the 2023 Fall Economic Statement, including with respect to the following measures:
  - The Canadian journalism labour tax credit,
  - Proposed expansion of eligibility for the Clean Technology and Clean Electricity investments tax credits to support generation of electricity and heat from waste biomass,
  - The addition of psychotherapists and counselling therapists to the list of health-care practitioners whose professional services rendered to individuals are exempt from the Goods and Services Tax/Harmonized Sales Tax (GST/HST),
  - Proposals relating to the GST/HST joint venture election rules,
  - The application of the enhanced (100%) GST Rental Rebate to qualifying co-operative housing corporations, and
  - Proposals relating to the Underused Housing Tax.
- Regulatory proposals released on November 3, 2023, to temporarily pause the federal fuel charge on deliveries of heating oil.
- Legislative and regulatory amendments to implement the enhanced (100%) GST Rental Rebate for purpose-built rental housing announced on September 14, 2023.
- Legislative proposals released on August 4, 2023, including with respect to the following measures:
  - The Carbon Capture, Utilization, and Storage investment tax credit,
  - The Clean Technology investment tax credit,
  - Labour Requirements Related to Certain investment tax credits,
  - Enhancing the reduced tax rates for zero-emission technology manufacturers,
  - Flow-Through Shares and the Critical Mineral Exploration Tax Credit – Lithium from Brines
  - Employee ownership trusts,
  - Retirement compensation arrangements,
  - Strengthening the intergenerational business transfer framework,
  - The Income Tax and GST/HST Treatment of Credit Unions,
  - Alternative minimum tax for high-income individuals,
  - A tax on repurchases of equity,
  - Modernizing the general anti-avoidance rule,
  - Global minimum tax (Pillar Two),
  - Digital services tax,
  - Technical amendments to GST/HST rules for financial institutions,
  - Providing relief in relation to the GST/HST treatment of payment card clearing services,
  - Enhancements to the vaping product taxation framework,
  - Tax-exempt sales of motive fuels for export,
  - Excessive interest and financing expenses limitations,
  - Extending the quarterly duty remittance option to all licensed cannabis producers;
  - Revised Luxury Tax draft regulations to provide greater clarity on the tax treatment of luxury items, and
  - Technical tax amendments to the *Income Tax Act* and the Income Tax Regulations.
- Legislative amendments to implement changes discussed in the transfer pricing consultation paper released on June 6, 2023.
- Tax measures announced in Budget 2023, including the Dividend Received Deduction by Financial Institutions.
- Legislative proposals released on August 9, 2022, with respect to the following measures:
  - Substantive Canadian-Controlled Private Corporations,
  - Technical amendments to the Income Tax Act and Income Tax Regulations, and
  - Remaining legislative and regulatory proposals relating to the GST/HST, excise levies and other taxes and charges announced in the August 9, 2022 release.
- Legislative amendments to implement the Hybrid Mismatch Arrangements rules announced in Budget 2021.
- Legislative proposals released in Budget 2021 with respect to the Rebate of Excise Tax for Goods purchased by provinces.
- Regulatory proposals released in Budget 2021 related to information requirements to support input tax credit claims under the GST/HST.
- The income tax measure announced on December 20, 2019, to extend the maturation period of amateur athlete trusts maturing in 2019 by one year, from eight years to nine years.

Budget 2024 also reaffirms the government's commitment to move forward as required with other technical amendments to improve the certainty and integrity of the tax system.

WE CAN HELP

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include CI Assante Private Client's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.

For more information, we encourage you to speak to your advisor or visit us at assante.com

Published April 16, 2024.