

**April 20, 2021 – Summary of the 2021 Federal Budget**

On April 19, 2021, the Honourable Chrystia Freeland tabled her first budget as federal Minister of Finance. The federal government revised down their predicted deficit for 2020-21 from \$381.6 billion to \$354.2 billion. The new budget predicts the deficit for 2021-22 will be \$154.7 billion.

No changes were made to income tax rates. There are no changes to the capital gains inclusion rate and no changes to the principal residence exemption. Additional tax measures have been tabled. Some of the key tax changes announced are summarized below.

**Support for businesses:**

- 1) Extension of the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS) and Lockdown Support programs:
  - extending the programs from June 6, 2021 to September 25, 2021
  - requiring employers to have a revenue decline of more than 10% to qualify, beginning on July 4, 2021
  - continuing to make the CEWS available for eligible furloughed employees until August 28, 2021
  - gradually phasing out the rates in the CEWS and CERS programs

- 2) A new program was proposed to encourage hiring as the wage subsidies phase out. During the period overlapped, employers cannot apply for both the CEWS and CRHP (must choose one)

Canada Recovery Hiring Program (CRHP):

- certain employers will be allowed to claim an amount under the proposed CRHP for six periods between June 6 and November 20, 2021.
  - Eligible employers include Canadian-controlled private corporations (CCPCs), individuals, non-profit organizations, registered charities and certain partnerships.
  - The subsidy would apply to incremental remuneration increases at the rate of 50% for the first three periods, declining for the final three periods to 40%, 30% and 20% respectively.
  - Eligible weekly remuneration is limited to \$1,129 per eligible employee.
  - The CEWS revenue decline test would apply to determine qualification, along with other conditions. Revenue decline greater than 10% to qualify, beginning on July 4, 2021.
- 3) New immediate expensing deduction — This new rule allows CCPCs to immediately expense certain capital expenditures, for property acquired after April 19, 2021 and put into use before 2024. The deduction is limited to \$1.5 million per year, and this limit must be shared by associated corporations.

**Other proposed changes for businesses:**

**Interest deductibility restrictions** — For corporations, trusts, and partnerships

- Restricts the deduction of interest expenses to earnings before interest, taxes, depreciation and amortization (EBITDA) determined on a tax basis.
- The maximum deduction will be limited to 40% of EBITDA for taxation years beginning on or after January 1, 2023 but before January 1, 2024. The maximum deduction will be limited to 30% for later years.
- Exemptions for CCPCs/associated groups with taxable capital of less than \$15 million and for groups of corporations and trusts with an aggregate net interest expense of \$250,000 or less.

**Digital services tax** — Implementing a 3% digital services tax for large businesses on January 1, 2022, which will apply until an acceptable multilateral approach comes into effect.

**Support for individuals:**

- 1) Canada Recovery Benefit (CRB) and Related Programs have been extended:
  - Extending CRB by twelve weeks to a maximum of 50 weeks. The first four weeks will yield \$500 a week, while the final eight will be paid \$300 per week.
  - CRCB will be extended by an additional four weeks to a maximum of 42, at \$500 per week.
- 2) COVID-19 benefit repayment – An option to claim a deduction in respect of the benefit repayment in the year when the benefit was received, rather than the year of the repayment.
- 3) Changes to the requirements for the disability tax credit to provide more clarity.
- 4) Expansion of the Canada Workers Benefit by increasing phase-out thresholds and phase-in rates, and by adding an exemption for secondary income earners.
- 5) The budget earmarks \$30 billion to bring average fees down by 50% for early learning and childcare within five years.
- 6) OAS pensioners who will be 75 or over by June 2022 will receive a one-time payment of \$500 in August 2021. Budget 2021 also proposes to boost regular OAS payments for pensioners 75 and over by 10% as of July 2022.
- 7) The doubling of the Canada Student Grant (a maximum of \$6,000 for full-time students and \$3,600 for part-time students) will be extended to the end of July 2023.

**Other proposed changes for individuals:**

**Tax on Luxury Goods** – Effective January 1, 2022, exemptions and more details to be announced:

- For vehicles and aircraft priced over \$100,000, the tax would be the lesser of 10% of the full value of the vehicle, or the aircraft and 20% of the value above \$100,000.
- For boats priced over \$250,000, the tax would be the lesser of 10% of the full value of the boat, or 20% of the value above \$250,000.

**Foreign Owner's Tax on Real Estate:** A new national 1% tax on the value of vacant or underused real estate owned by non-resident would be introduced. The tax would be levied annually beginning in 2022. Annual filings would be required as of 2023.

**Increased excise duties** - on tobacco and implementing excise duties on vaping products.