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CHARTERED PROFESSIONAL ACCOUNTANTS

2021 FALL ECONOMIC UPDATE SUMMARY – FEDERAL

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INTRODUCTION

On December 14, 2021, Canada's Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented the 2021 Fall Economic Update. This update proposes new measures including the introduction of the Small Businesses Air Quality Improvement Tax Credit, expanding the Eligible Educator School Supply Tax Credit, a new Underused Housing Tax, and enhancing the Home Office Expense Deduction.

Here are the highlights of the 2021 fall economic update.

MEASURES PERTAINING TO INDIVIDUALS

Help for Guaranteed Income Supplement Recipients and Students Affected by CERB Payments

Since this emergency support is calculated towards their income benefits, many low-income seniors who receive Guaranteed Income Supplement (GIS) or Allowance benefits have seen a decline in their benefit amount for 2021-22. Additionally, some students applied for and received the Canada Emergency Response Benefit (CERB) despite not being eligible and could find themselves facing potentially significant repayments.

The government proposes to provide one-time payments to alleviate the financial hardship of GIS and Allowance recipients who received CERB or the Canada Recovery Benefit (CRB) in 2020.

Additionally, the government proposes to provide debt relief to students who received, but were ineligible for, the CERB but were eligible for the Canada Emergency Student Benefit (CESB) by allowing their CERB-related debt to be offset by the amount they would have received from CESB during the same benefit period.

Enhancing the Home Office Expense Deduction

In 2020 the government permitted workers to use a temporary flat rate method to calculate their deduction for home office expenses.

The government will extend the simplified rules for deducting home office expenses and increase the temporary flat rate to $500 annually. These rules will apply to the 2021 and 2022 tax years.

Enhanced Support for Teachers

Under current rules, teachers and early childhood educators may claim a 15-per-cent refundable tax credit based on an amount of up to $1,000 in expenditures made in a taxation year for eligible supplies.

The 2021 Fall Economic Statement proposes to increase the rate of the refundable tax credit to 25 per cent. Additionally, this measure would clarify and broaden the rules regarding the locations where teaching supplies are permitted to be used by removing the requirement that teaching supplies must be used in a school or regulated child care facility to be eligible. This measure would also expand the list of eligible durable goods to include certain electronic devices.

The following items would be added to the list of prescribed durable goods:

- calculators (including graphing calculators);
- external data storage devices;
- web cams, microphones and headphones;
- wireless pointer devices;
- electronic educational toys;
- digital timers;
- speakers;
- video streaming devices;
- multimedia projectors;
- printers; and

> laptop, desktop and tablet computers, provided that none of these items are made available to the eligible educator by their employer for use outside of the classroom.

At the request of the Minister of National Revenue, an eligible educator making a claim would be required to provide a certificate from their employer attesting to the eligible supplies, including the additional conditions with respect to laptop, desktop and tablet computers.

This measure would apply to the 2021 and subsequent taxation years.

MEASURES PERTAINING TO BUSINESSES

Small Businesses Air Quality Improvement Tax Credit

The Government proposes to introduce a temporary Small Businesses Air Quality Improvement Tax Credit. The refundable tax credit would be available to eligible entities in respect of qualifying expenditures attributable to air quality improvements in qualifying locations incurred between September 1, 2021 and December 31, 2022.

Tax Credit Rate and Limits

The tax credit would be refundable and have a credit rate of 25 per cent that would apply to an eligible entity's qualifying expenditures. Qualifying expenditures would be limited to a maximum of $10,000 per qualifying location and a maximum of $50,000 across all qualifying locations. The limits on qualifying expenditures would need to be shared among affiliated businesses. Credit amounts would be included in the taxable income of the business in the taxation year the credit is claimed.

Eligible Entities

Eligible entities for a taxation year would include unincorporated sole proprietors and Canadian-controlled private corporations with taxable capital employed in Canada of less than $15 million in the taxation year immediately preceding the taxation year in which the qualifying expenditure is incurred. For this purpose, the taxable capital of associated corporations is also counted.

The credit would also be available where qualified expenses are incurred by a partnership. The credit could only be claimed by members of the partnership that are qualifying corporations or individuals (other than trusts), and would be based on their proportionate interest in the partnership. Special rules would apply to calculate a partner's credit entitlement where a partnership interest is held indirectly through one or more partnerships.

Qualifying Expenditures

Qualifying expenditures would include expenses directly attributable to the purchase, installation, upgrade, or conversion of mechanical heating, ventilation and air conditioning systems, as well as the purchase of devices designed to filter air using high efficiency particulate air filters, the primary purpose of which is to increase outdoor air intake or to improve air cleaning or air filtration.

Qualifying expenditures would exclude, in particular, an expense:

> made or incurred under the terms of an agreement entered into before September 1, 2021;
> related to recurring or routine repair and maintenance;
> for financing costs in respect of a qualifying expenditure;
> that is paid to a party with which the eligible entity does not deal at arm's length; or

> that is salary or wages paid to an employee of the eligible entity.

A qualifying expenditure would be reduced by the amount of any government assistance received in respect of that expense.

Qualifying Locations

Qualifying locations would include properties used by an eligible entity primarily in the course of its ordinary commercial activities in Canada (including rental activities), excluding self-contained domestic establishments (i.e., a place of residence in which a person generally sleeps or eats).

Timing

The tax credit would be available in respect of qualifying expenditures incurred between September 1, 2021 and December 31, 2022.

The taxation year for which an eligible entity would claim the tax credit would depend on when the qualifying expenditure was incurred.

Qualifying expenditures incurred before January 1, 2022 would be claimed by an eligible entity for its first taxation year that ends on or after January 1, 2022.

Qualifying expenditures incurred on or after January 1, 2022 would be claimed by an eligible entity for the taxation year in which the expenditure was incurred.

Returning the Proceeds from the Price on Pollution Directly to Farmers

Under the federal carbon pollution pricing system, the government applies a price on pollution in jurisdictions that do not have their own system.

The government proposes to return fuel charge proceeds directly to farming businesses in backstop jurisdictions (currently Alberta, Saskatchewan, Manitoba and Ontario) via a refundable tax credit, starting for the 2021-22 fuel charge year.

Eligible Farming Businesses

The return of fuel charge proceeds would be available to corporations, individuals and trusts that are actively engaged in either the management or day-to-day activities of earning income from farming (i.e., the raising of animals and harvesting of plants in a controlled environment) and incur total farming expenses of $25,000 or more, all or a portion of which are attributable to backstop jurisdictions. This would include where they carry on business through a partnership.

Credit determination

The credit amount would be equal to the eligible farming expenses attributable to backstop jurisdictions in the calendar year when the fuel charge year starts, multiplied by a payment rate. Credit amounts would be included in the taxable income of the business in the taxation year the credit is claimed.

Eligible Farming Expenses

Eligible farming expenses are amounts deducted in computing income from farming for tax purposes, excluding any deductions arising from mandatory and optional inventory adjustments and transactions with non-arm's length parties.

Where taxation years do not align with the calendar year, eligible farming expenses would be allocated to each calendar year based on the number of days in each calendar year over the total days in the taxation year, and subjected to the applicable payment rate for the calendar year.

To be eligible farming expenses, expenses must also be attributable to one or more backstop jurisdictions.

Payment Rates

Businesses can claim these refundable tax credits through their tax returns that include the 2021 and 2022 calendar years.

Payment Rates for Farmers, as Specified by the Minister of Finance

	2021	2022
Amount per $1,000 in eligible farming expenses	$1.47	$1.73

MEASURES PERTAINING TO COMMODITY TAXES

Luxury Tax

Budget 2021 proposed to introduce from January 1, 2022 a tax on the sales, for personal use, of luxury cars and personal aircraft with a retail sales price over $100,000, and boats, for personal use, over $250,000.

Draft legislation, including details on coming-into-force, will be released in early 2022.

OTHER MEASURES

Digital Services Tax

As an interim measure, Budget 2021 proposed to implement a Digital Services Tax (DST). The DST would apply at a rate of 3 per cent on revenue earned by large businesses from certain digital services that rely on data and content contributions from Canadian users.

The government announced on October 8, 2021, that it would move ahead with legislation to enact the DST. This one would be imposed as of January 1, 2024, but only if the treaty implementing the new multilateral tax regime has not come into force by that time. In that event, the DST would be payable as of 2024 in respect of revenues earned as of January 1, 2022.

Underused Housing Tax

In Budget 2021, the Government announced its intention to implement a national, annual 1-per-cent tax on the value of non-resident, non-Canadian owned residential real estate in Canada that is considered to be vacant or underused (the “Underused Housing Tax”).

In addition to exemptions described in the consultation paper, which was held through the Department of Finance in 2021, it is proposed that an owner’s interest in a residential property would be exempt from the Underused Housing Tax for a calendar year if a residence that is part of the residential property is, in respect of the calendar year, the primary place of residence of:

> the owner;
> the owner's spouse or common-law partner; or
> an individual that is the child of the owner or of the owner's spouse or common-law partner, but only if the child is in Canada for the purposes of authorized study and the occupancy relates to that purpose.

Furthermore, the government plans to bring forward an exemption for vacation/recreational properties, which would apply to an owner's interest in a residential property for a calendar year if the property:

> is located in an area of Canada that is not an urban area within either a census metropolitan area or a census agglomeration having 30,000 or more residents; and
> is personally used by the owner (or the owner's spouse or common-law partner) for at least four weeks in the calendar year.

An owner eligible for either of the above exemptions would claim the exemption in the annual return that they would be required to file with the Canada Revenue Agency (CRA) in respect of the residential property.

It is proposed that the Underused Housing Tax be effective for the 2022 calendar year and the initial Underused Housing Tax returns would be required to be filed with the CRA on or before April 30, 2023. Any tax payable would be required to be remitted on or before that date.

Extend the Credit Support for Businesses

The government is extending the Highly Affected Sectors Credit Availability Program to March 31, 2022. This program was set to expire on December 31, 2021.

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*Thanks to CPA Quebec for their assistance with this economic update summary.