Dusanj + Wirk CHARTERED PROFESSIONAL ACCOUNTANTS

2021 Federal Budget Update

On April 19, 2021 the federal government tabled their budget. The budget does not include any changes to tax rates or capital gains. However, there are extensions and changes to the COVID-19 programs as well as other tax changes.

The following summaries the changes that were announced that may affect your business.

COVID-19 Support Programs

Canadian Emergency Wage Subsidy (CEWS)

The CEWS program has been extended until September 25, 2021. The program will be gradually phased out with the rate of the program decreasing rates each period. A greater than 10% decline in revenue will be required on the period commencing on July 4, 2021.

Canadian Emergency Rent Subsidy (CERS)

Similar to the CEWS program, the CERS program and lockdown support is extended to September 25, 2021. The program will also have a decreasing rate, which will gradually phase out this program, and also require a 10% decline in revenue as of July 4, 2021.

Canada Recovery Hiring Program (CRHP) - proposed

The new CRHP is an alternative to the CEWS program and encourages hiring certain employees between June 6, 2021 and November 20, 2021. The key items to note for this program are as follows:

- The subsidy is based on the incremental renumeration paid to eligible employees between June 6, and November 20, 2021. The increase in renumeration is calculated from the baseline period of March 14, 2021 to April 10, 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 per cent for the first three periods, declining for the final three periods to 40 per cent, 30 per cent and 20 per cent.
- Eligible weekly remuneration is limited to $1,129 per eligible employee.
- The CEWS revenue decline test of 10% would apply to determine qualification, along with other conditions.
- Applications must be made within 180 days after the end of the qualifying period.

Corporate Income Tax Changes

Immediate Expense of Capital Expenditures

A new rule would allow Canadian Controlled Private Corporations (CCPC) to immediately expense certain capital expenditures, effective 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.

The eligible property would include any capital property subject to CCA rules except for property that would be added to Classes 1 to 6, 14.1, 17, 47, 49, and 51.

Interest Deductibility Restrictions

For corporations, trusts, partnerships and branches, the budget announced a restriction on the deduction of interest expenses as a percentage of earnings before interest, taxes, depreciation, and amortization (EBITDA) as determined on a tax basis.

This is intended to address circumstances where excessive interest deductions are being created. Exemptions apply for CCPCs and associated groups with taxable capital of less than $15 million and for groups of corporations with an aggregate net interest expense of $250,000 or less.

The maximum deduction will be limited to 40 percent of EBITDA taxation years beginning on or after January 1, 2023 but before January 1, 2024, and this will be reduced to 30 percent for subsequent years.

Personal Income Tax Changes

Taxation of Covid-19 Benefits

The budget proposes to allow individuals to claim COVID-19 benefit repayments as a deduction in either the year they received the benefit or the year they repaid it. Where a return has already been filed, the recipient can ask the Canada Revenue Agency to adjust their return. This option would be available for benefit amounts repaid at any time before 2023.

Non-Resident Owned Housing Tax

The Budget proposes to implement a new 1% tax on the value of non-resident owned real estate effective January 1, 2022. Further, beginning in 2023, all owners of residential property in Canada (other than Canadian citizens and permanent residents) will be required to file annual declarations with the CRA. This will be similar to the speculation and vacancy tax introduced provincially. An exemption from the tax will be available for the property leased for a minimum period in the calendar year.

Other Personal Tax Changes

- Changes to the requirements for the disability tax credit that appear to provide more clarity on certain aspects of the credit;
- Increasing OAS for Canadians 75 and over with a one-time $500 payment and a 10% increase to regular, ongoing OAS payments;
- Extension of the Canada Recovery Benefit (CRB) for an additional 12 weeks;
- Expanding the travel component of the Northern Residents Deductions; and
- Expanding the Canada Workers Benefit by increasing phase-out threshold and phase-in rates, and by adding an exemption for secondary income earners

Indirect Tax Changes

Tax on Select Luxury Goods

A new tax on luxury goods, such as vehicles, aircrafts over $100,000 and boats over $250,000 is proposed.

For vehicles and personal aircraft, the amount of the tax would be the lower of 10% of the total value or 20% of the amount above $100,000. For boats, the amount of the tax would be the lower of 10% of the total value or 20% of the amount above $250,000.

Imported vehicles, aircraft and boats will be subject to the tax.

This will be effective January 1, 2022.

If there any questions on the budget or on how it may impact your business, please reach out to our team.

Regards,

Dusanj & Wirk

Dusanj & Wirk

www.dusanjwirk.com