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Government programs to support first-time home buyers

One of the key focus areas in the 2022 federal budget (Budget 22) was to improve housing affordability, particularly for first-time buyers. Here is a summary of the new initiatives proposed in Budget 22, and the existing government programs to support first-time home buyers.

New proposals in Budget 22

First Home Savings Account

Budget 22 proposes a new tax-free First Home Savings Account (FHSA) for Canadian residents who are at least 18 years old and have not lived in a home that they owned at any time in the year that the account is opened or during the four preceding calendar years.

You can contribute up to $8,000 to your FHSA each year, with a total maximum contribution of $40,000. Unused annual contribution room cannot be carried forward to future years. Contributions are tax-deductible, and income earned within the FHSA accumulates tax free. Withdrawals from the plan to purchase a home are also not subject to tax, and the plan must be collapsed within a year of the first withdrawal to purchase a home.

The FHSA has a maximum term of 15 years. Any unused balance can be transferred to your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund, even if you do not have any RRSP contribution room. Any other withdrawal from the FHSA would be taxable. You will not be able to withdraw from both the FHSA and your RRSP under the Home Buyers' Plan (see below) in respect of the same home purchase. The government will be working with financial institutions to make FHSAs available for contributions in 2023.

First-Time Home Buyers' Tax Credit

First-time home buyers were able to receive tax relief of up to $750, based on the 15 per cent lowest income tax rate and a credit amount of $5,000. Budget 22 proposes to double the credit amount to $10,000 for a maximum tax savings of $1,500.

Existing programs

RRSP Home Buyers' Plan

The Home Buyers' Plan allows first-time homebuyers to withdraw up to $35,000 from their RRSP to buy a qualifying home. You can buy the home for yourself or for a related person with a disability, and the individual must intend to live in the home within one year after buying it. There are specific rules about who is a first-time home buyer, particularly dealing with the breakdown of a marriage or common-law relationship. The withdrawn amount must be paid back into the RRSP within 15 years. Repayments must start the second year after the withdrawal, and do not affect your regular RRSP contribution limit. Since the withdrawal is not added to your taxable income, these repayments are not deductible on your income tax return. If you fail to make a scheduled minimum repayment in any year, that amount is included in your taxable income for that year.

First-Time Home Buyer Incentive

This program can offer 5 or 10 per cent of a home's purchase price towards a down payment through a "shared-equity mortgage" held by the government. There is no interest charged on this mortgage, but when you sell the home or after 25 years of ownership you must pay back the same percentage of the home's value. The Incentive is available to first-time buyers if your total annual qualifying income is less than $120,000 ($150,000 if you are buying a home in Toronto, Vancouver or Victoria) and you meet certain borrowing requirements.

Provincial and municipal land transfer taxes

All provinces and territories impose a land transfer tax and possibly registration fees on the transfer of property within their boundaries. For example, in Ontario the land transfer tax for dwellings with one or two residences is calculated based on:

- 0.5 per cent on the first $55,000
- 1.0 per cent between $55,000 and $250,000
- 1.5 per cent between $250,000 and $400,000
- 2.0 per cent between $400,000 and $2,000,000
- 2.5 per cent on the value over $2,000,000

A few municipalities also impose their own land transfer tax – Toronto charges the same amount as Ontario, plus a registration fee of $83.

Most jurisdictions offer full or partial rebates of the land transfer tax for first-time buyers. Ontario's rebate is up to a maximum of $4,000, and Toronto's is limited to $4,475. These refunds would completely offset the land transfer tax for homes valued at $368,333 and $400,000 respectively.

GST / HST rebate on new homes

The GST / HST is generally only charged on the sale of new or substantially renovated homes. While not specifically for first-time home buyers, there may be a New Home Rebate for the GST or the federal portion of the HST, depending on where the home is located. Eligible new home buyers can claim a rebate for 36 per cent of the federal portion (5 per cent) of the sales tax for homes with a pre-tax purchase price of up to $350,000. The rebate is gradually clawed back so that it is completely eliminated when the purchase price exceeds $450,000. There may be rebates for the provincial portion of the HST as well. In Ontario, for example, the new home buyer can also claim a rebate on the 75 per cent of the Ontario portion of the HST (8 per cent), up to a maximum of $24,000. Eligible new home buyers cannot purchase the house with the intention to flip it or rent it out, and you or an immediate family member must use the home as their primary residence.

The eligibility criteria, including the definitions of who is considered a first-time home buyer, can be quite complex so you should seek professional advice.

Income tax measures in the 2022 Federal Budget

On April 7, 2022 the Honourable Chrystia Freeland introduced her second Budget (Budget 22). Here is a summary of the individual and corporate income tax changes that were included in the budget.

Personal income tax changes

Several of the tax changes affecting individuals dealt with improving house affordability for first-time home owners in particular. These are covered in the "Government programs to support first-time home buyers" article in this edition of *Business Matters*. Some additional measures were proposed to improve housing affordability in general.

Multigenerational Home Renovation Tax Credit

In addition to the support for first-time home buyers, Budget 22 proposes a new refundable credit for up to $50,000 of eligible expenses to renovate a home to create a secondary residential unit for a qualifying relative who is senior or person with a disability. The maximum tax savings would be $7,500 (15% times $50,000).

Home accessibility tax credit

The home accessibility tax credit is a non-refundable tax credit for up to $10,000 of eligible home renovation expenses to make a home more accessible for a person eligible to claim the Disability Tax Credit or who is 65 years or older at the end of the taxation year. Budget 22 proposes to double the annual renovation expense limit to $20,000, which will increase the maximum tax savings from $1,500 to $3,000. The increased limit will be effective for 2022 and subsequent years.

Residential property flipping rule

Budget 22 proposes a new deeming rule to ensure that profits from flipping residential real estate are always treated as business income. This means that profits are fully taxable, rather than capital gains that are 50 per cent taxable or offset by the Principal Residence Exemption.

The new rule will apply when you sell a residential property, including a rental property, that you owned for less than 12 months. Exceptions to this rule will be available when there are "life events" that necessitate the sale of the home. Examples of life events include death, marriage, separation, new baby or senior coming to live with you, a new job in a different location, insolvency, or a threat to personal safety. This new deeming rule would apply for all sales on or after January 1, 2023.

Labour Mobility Deduction for Tradespeople

Expenses associated with temporary relocations that are common in the construction industry often do not qualify for the current deductions for moving or travel expenses. Budget 22 proposes to introduce new Labour mobility deductions for tradespeople and apprentices who make such temporary locations to obtain or maintain employment in a construction activity at a particular work location in Canada. The relocation must be for a minimum of 36 hours and the temporary lodging must be at least 150 kilometres closer to the work location than the ordinary residence. Expenses eligible for this deduction include temporary lodging,

transportation and meal expenses for the tradesperson for one round trip from their ordinary residence, up to a maximum of $4,000 per year. This deduction would apply for 2022 and subsequent taxation years.

Medical Expense Tax Credit

The list of eligible expenses for the non-refundable Medical Expense Tax Credit is proposed to be expanded to include the reimbursement of medical expenses incurred by a surrogate mother or sperm, ova or egg donor. It would also include fees paid to fertility clinics or donor banks in Canada to obtain sperm or ova. These changes would be effective for 2022.

More changes to come for high-income Canadians

In addition to the personal tax changes noted above, Budget 22 announced a review of a new or amended minimum tax regime for high-income Canadians. More details are expected to be released in the 2022 fall economic and fiscal update.

Corporate tax changes

Expansion of the small business deduction

The small business deduction (SBD) allows small Canadian-controlled private corporations (CCPCs) to benefit from a lower corporate tax rate on the first $500,000 per year of qualifying active business income in the associated group of CCPCs. There are two "size" tests applied to the CCPC and its associated companies to ensure that the SBD targets small companies. The $500,000 limit is reduced on a straight-line basis when:

- The combined taxable capital employed in Canada is between $10 million and $15 million.
- The combined adjusted aggregate investment income is between $50,000 and $150,000.

When both business limit reductions apply, the lesser of the two amounts will apply. To make more mid-sized businesses eligible for the SBD, Budget 22 proposes to change taxable capital criteria so that it would continue to start reducing the SBD at $10 million, but not be fully eliminated at $50 million. Since the reduction is calculated on a straight-line basis, this means that each $1 million of taxable capital over the $10 million threshold would reduce the SBD limit by $12,500 instead of $100,000 under the current rules. This measure would apply to taxation years beginning on or after April 7, 2022.

Substantive CCPCs

CCPCs pay a refundable tax on investment income earned in the corporation; this tax is fully or partially refunded when taxable dividends are paid to the shareholders. This process, known as integration, is designed to ensure that income earned directly by an individual is taxed at approximately the same rate as if it was earned through a corporation.

Some taxpayers have attempted to manipulate status of private corporations to avoid being a "Canadian" corporation, and thereby avoid these refundable taxes. Budget 22 introduces the concept of "substantive CCPCs" that are in law or in fact controlled by Canadian-resident individuals. The taxation of substantive CCPCs would be aligned with the rules for actual CCPCs. This would be effective for taxation years that end on or after April 7, 2022.

Foreign resident corporations

Budget 22 proposes some changes to the way investment income earned by CCPCs and substantive CCPCs through foreign subsidiaries or affiliates is taxed. These changes would apply to taxation years beginning on or after April 7, 2022.

Canada Recovery Dividend

Budget 22 proposes to introduce a new one-time 15 per cent tax on the 2021 taxable income of bank and insurance company groups in excess of $1 billion for the taxation year ending in 2021. The proposed Canada Recovery Dividend would be calculated in 2022 and payable in equal instalments over five years.

Additional tax on banks and life insurers

The budget proposes an additional 1.5 per cent tax on bank and life insurer groups on taxable income in excess of $100 million. This would apply to taxation years ending after April 7, 2022, and would be prorated for taxation years that include that date.

Investment tax credit for carbon capture, utilization and storage

Budget 22 proposes a new refundable tax credit for the cost of purchasing and installing eligible equipment used in eligible projects where the captured carbon dioxide is used for eligible uses. Projects would be subject to a validation and verification process, and rates for expenses incurred after 2021 would vary from 60 per cent for equipment used in a direct air capture project, 50 per cent for all other capture equipment, and 37.5 per cent for transportation, storage and use equipment. Those rates would be halved for expenditures after 2030 and before 2040.

Clean technology tax incentives for air-source heat pumps

The capital cost allowance rules for investments in specified clean energy generation and energy conservation equipment provide accelerated deductions for these assets. Budget 22 proposes to expand the definition of these assets to include purchases of air-source heat pumps primarily used for space or water heating after April 7, 2022.

Budget 22 proposes that the tax rate reductions introduced in the 2021 budget for qualifying zero-emission technology manufacturing and processing income will be extended to include the manufacturing of air-source heat pumps and related components.

Critical Mineral Exploration Tax Credit

Flow-through share agreements allow corporations to renounce certain expenses to investors, who can deduct the expenses on their own tax returns. In addition to the deduction of the renounced expenses, a new Critical Mineral Exploration Tax Credit (CMETC) is proposed for companies that mine minerals used in the production of batteries and permanent magnets which are used in zero-emission vehicles. This credit will flow-through to the shareholder based on 30 per cent of the renounced exploration expenses, and apply to eligible flow-through share agreements entered into between April 7, 2022 and March 31, 2027. Eligible expenses will not be able to benefit from both the new CMETC and the existing 15 per cent flow-through Mineral Exploration Tax Credit.

Flow-through share for oil, gas and coal activities

The government proposes to eliminate the flow-through regime that allows shareholders to deduct renounced oil, gas and coal exploration and development expenses. This change is effective for flow-through share agreements entered into after March 31, 2023.

Anti-avoidance measures

Several changes are proposed in Budget 22 to address transactions that the government considers to be aggressive or abusive. The government proposes introducing specific changes to the *Income Tax Act* to prevent financial institutions from realizing artificial tax deductions through hedging and short selling Canadian shares. It is also proposing amendments that would specifically extend the general anti-avoidance rule (GAAR) to include tax attributes that had not yet been used to reduce taxes (a 2018 Federal Court of Appeal decision had limited the application of GAAR to circumstances where the tax attribute had been utilized). This change would be effective for notices of determination issued on or after April 7, 2022.

Future consultations

The budget included announcements on several consultation projects on tax legislation. These include the following:

- A review of the alternative minimum tax regime for individuals noted above.
- A review of how the rules to prevent people from converting taxable dividends into capital gains, which are taxed at a lower rate, can facilitate genuine intergenerational share transfers in a more targeted manner.

- Engaging with stakeholders on the development of tax rules for Employee Ownership Trusts – a new dedicated type of trust to support employee ownership of a business.
- Consulting with experts on the design of a new 30 per cent investment tax credit for investments in net-zero technologies, battery storage solutions and clean hydrogen.
- A review of the Scientific Research and Experimental Development program to improve program efficiency and effectiveness.
- A review of whether Canada should seek to adopt a "patent box" regime, which provides lower effective tax rates on income derived from intellectual property.

More details on many of these consultations are expected to be released in the fall economic and fiscal update.

Death and taxes: what to know about the financial impact

This article first appeared on CPA Canada's online news site.

There are lots of circumstances to be aware of when it comes to the way your assets will (or won't) be taxed after you pass away.

At some point, we will all have to deal with the death of a loved one, with all the emotional and psychological stress that entails. But, from a purely financial point of view, there are lots of questions to be answered.

Apart from legal costs, a deceased person's assets may be subject to two main types of levies: income taxes and probate taxes or fees.

As far as income tax is concerned, a deceased individual is generally deemed to have **disposed of their property at fair market value** at the time of death. However, if they had a spouse at the time of death, property can pass to the spouse (or common-law partner) on a tax-deferred basis.

Probate refers to a legal process in which the will is certified by the court as the last will of the deceased, thereby providing protection to the executor and anyone acting under that document.

The amount of the probate tax varies widely from **province to province**. Clark Craig, a lawyer and certified financial planner, explains that Alberta charges only a small flat fee while in other provinces, the charges are quite high. For example, in Ontario, the probate tax is 1.5 per cent for assets over $50,000. In B.C, it's 1.4 per cent, and in Nova Scotia it's 1.7 per cent. Most other provinces are in the area of 0.7 per cent. And, in Quebec, there are **no probate fees** for a notarial will and only $65 for a non-notarial will.

In most cases, when it comes to joint ownership and direct beneficiaries, marital status is a key factor in determining whether your assets are automatically subject to probate and how they will be taxed when you die.

Most spouses hold assets jointly or name their spouse as beneficiaries for insurance and savings plans such as an RRSP, which means the assets may not be subject to probate. Another factor is whether you had a will.

Here are some scenarios to consider.

Scenario 1: You leave a will and a surviving spouse

If you have a spouse and you die with a will in place, settling the finances can be comparatively straightforward – especially if your main assets are jointly held, your spouse is the beneficiary of the estate, or your spouse is the named beneficiary of your insurance and plans (such as an RRSP), says Bob Gore, CPA, principal of Robert Gore & Associates Chartered Professional Accountants. In such cases, those assets – which may include bank accounts, investment portfolios, RRSPs, cottages and the family home – are all rolled over to your spouse for income tax purposes.

Scenario 2: You leave a will, but no surviving spouse

If you die without a spouse or common-law partner, things aren't quite as simple, says Gore. That's partly because you are deemed to have sold or cashed in everything you own – from your family home to your investment portfolio – at fair market value the day before you passed away; the spousal rollover is not available. Taxable gains on those items or the value of an RRSP / RRIF are all added to your taxable income on the terminal return, along with any income you earned until the day you died.

But listing your assets on the return does not mean they are all treated the same for tax purposes, says Gore.

"Your residence [designated as principal residence], insurance policies and TFSA are all tax-exempt," he says. "But your stock portfolio, cottage [if not deemed as a principal residence], rental property or any business assets you might have are all taxable if they appreciated in value. That's because you are deemed to have sold those assets for more than you paid for them. The gain is taxable as a capital gain."

Gore adds that it also comes as a surprise to many people when they learn that their RRSPs will be deemed to be cashed in and fully taxed as income the day before they die – and depending on the value, the tax bill can be quite steep.

Timing can also become a problem. As Gore explains, "If you pass away on December 15, you have 11.5 months of income, plus RRSPs that are deemed to be cashed, a cottage (if you have one) that is deemed to be sold, plus any non-RRSP investments that are taxable. The tax bill can be large."

To mitigate the effects of that bill, it's definitely worth you doing some estate planning well in advance. "By the time you're gone, in most cases, it's too late for anyone else to do anything about your arrangements," he says.

Scenario 3: You die without a will

If you die intestate, says Craig, the tax consequences are often much the same as if you had a will. However, you are in the hands of the courts and **government legislation** in terms of how your estate is going to be distributed. For these reasons and more, it's extremely important that you have a will – and that you update it as your circumstances change – to ensure that your wishes are respected.

Have a big RRSP?

Plan for your estate to cover the tax bill if you die without a spouse

When you die, your RRSPs are treated the same as many other assets, says Bob Gore, principal of Robert Gore & Associates Chartered Professional Accountants. In other words, their total value is deemed to be cashed the day before you die (unless you have a surviving spouse or, if certain conditions are met, a dependent child or grandchild; in those cases, it can be rolled over to them tax-free).

If you have named beneficiaries in the RRSP, it's important to keep in mind that it's the estate that pays the tax on the deemed income. To illustrate, let's assume that the deceased owned a house as a principal residence and an RRSP at death and each is worth $1 million. "That means, if you die with a million-dollar RRSP and you live in Ontario, the tax bill could easily be $500,000," says Gore. However, no tax will be paid on the house due to the principal residence rules.

Gore points out that many people – even sophisticated investors – forget about the taxes when they are doing their planning. “They just think about the deductions they are getting over the years. Then, in their general planning, they just say, ‘I’m going to give the RRSP to my son and the house to my daughter.’”

“But it’s not that simple. The house isn’t taxable, but the RRSP is,” he says. “Who’s going to pay the tax on the RRSP? You need to consider the after-tax value of all your assets before you decide how they are going to be divided.” In the case mentioned above, the total value of property is $1.5 million after tax but the son will get $1 million as RRSP beneficiary while the daughter will only receive $500,000 as the estate has to pay the tax on the RRSP before it can pay the proceeds from the house to her. In this case, the will needed to take into account how the final taxes will be paid along with estate planning goals more generally.

Five tips for reducing the tax impact for your heirs

This article first appeared on CPA Canada’s online news site.

Taxes and other fees can take a big dent out of your assets when you die. So, consider using insurance and other vehicles in your estate planning.

You may have been putting considerable energy into saving for retirement, but what about estate planning? If you want your assets to pass through as easily as possible to your beneficiaries, it’s worth speaking to an advisor and doing some planning early on.

“There are many things to consider during the planning process,” says FCPA Bruce Ball, vice-president, taxation for CPA Canada. “You’ll want to consider if you have any desire to make charitable donations on death and assess how you’ll deal with ownership structuring and coordination with the will, among other things.” It’s also important to do some more basic things, such as clearly documenting where all of your property is held.

Here are some key things to consider.

1) Have powers of attorneys in place, along with a will

“Powers of attorney are important to have in place in case you become incapacitated. It’s often recommended that you have one drafted for financial matters and one for health,” says Ball. (Once you die, the powers of attorney cease, and the will takes over.) Also, if your affairs are particularly complex, you might want to add a statement of wishes supplement that explains why you have written your will in a particular way. “You can’t really put your ‘whys’ in a will, only the ‘whats,’” says Bob Gore, principal of Robert Gore & Associates Chartered Professional Accountants.

2) Name your executors carefully

As Gore explains, the first person you name might no longer be capable of fulfilling the role when the time comes. You can name as many people as you want, but first consider their values and their life, judgement

and financial experience. And be sure to check with them beforehand to make sure they accept. It can be a significant task and there may be reasons why they may have to decline. Also, if at all possible, do not appoint a non-resident executor (or someone who may become non-resident), as this may create financial and tax concerns. There is also the option to appoint a trust company, or an individual and a trust company, suggests Ball.

3) Consider the use of joint accounts

For situations where they may not already have access to your bank accounts and one of whom may also be the executor. “That way, they can pay the bills until the will gets probated,” says Gore. Inform your financial institution in writing about this intention and make it clear in your will that this transfer to joint ownership has been done only to facilitate estate planning and management, and that there is no beneficial ownership change in the account. Keep in mind that transfers to a joint account may not be reversible, so the decision should be considered carefully. It may be possible to pay for some expenses with a deceased’s bank account, so it may be worth determining what can and can’t be done after death before a new account is set up.

4) Determine if life insurance is needed

Life insurance can help deal with two factors in estate planning – creating an estate to support your heirs after you are gone and preserving an existing estate if costs such as tax will arise on death. In either case, an evaluation should be done to establish the estate that you want to leave and determine if insurance is needed to bridge any gap. “If there will be a significant amount of funds in the estate and your heirs are not in need of specific financial assistance, then life insurance may not be necessary as the costs over the years may outweigh the benefits,” says Ball. One key issue to consider is whether there will be assets that will not be liquidated after death and, at the same time, unpaid taxes. If there will not be enough funds to pay the tax, this may be a good situation to consider life insurance to make up the difference.

As an example, “you might have a cottage that you would like to leave to your children,” says Gore. “You might have paid only $200,000 for it, but it’s now worth $4 million. When you die (and if your spouse predeceased you), the deemed disposition of the cottage will trigger a capital gains tax assuming it is not designated as a principal residence. An insurance policy can put the cash into the estate to pay the tax bill.” Otherwise, it may be necessary to sell the cottage. Similar issues arise for those in business where business ownership will be transferred on death within the family.

5) Consider a trust

It can be created on death as part of your will or in advance. “A trust could be useful in a number of circumstances, such as where a beneficiary may not be competent with money, they are a minor or there are children from a previous marriage where a spousal trust may make sense,” says Ball.

The funds generally will be held in trust until the trust is no longer needed. Using a spousal trust as an example, the property can be held in trust during the surviving spouse’s lifetime, allowing him or her to benefit from the income earned on the property while naming children from an earlier marriage as residual capital beneficiaries. The tax treatment of trusts can vary significantly depending on when and how they are set up, how long they will remain in place and who the intended beneficiaries are. Specific tax advice is highly recommended.

Plan ahead

However you arrange your affairs, remember that you should do it as early as possible, and ensure everything is well documented and easy to find. It is also important to get legal advice when creating a will and powers of attorney. Financial and tax advice is also recommended. As Gore explains, “There’s really no such thing as retroactive tax planning. You cannot say, ‘We bought this cottage for $100,000 and now it’s worth $1

million. Can we just transfer it into a trust for the kids?' No, you cannot, because the transfer is assumed to take place at market value."

Gore adds that it's fine to give cash gifts to your children while you are still alive. "But, for assets that gain in value, such as businesses or shares, you will pay capital gains tax on the gift because a gift is considered the same for tax purposes as selling it at fair market value," he says. "You need to be planning way ahead." Also, care should be taken to ensure that you don't give away too much money too soon. It's much safer to keep more than you think you'll need and then distribute what's left as part of your will.

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Authors:

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