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Federal

Budget 2024

Deputy Prime Minister and Minister of Finance Chrystia Freeland presented Canada's federal budget (Budget 2024) on April 16, 2024. Titled Fairness For Every Generation, Budget 2024 is centered around three pillars aimed at supporting the middle class:

Housing

Budget 2024 announces numerous measures aimed at building more homes and making it easier for Canadians to rent or own a home. Canada's Housing Plan outlines how the federal government intends to tackle the country's housing crisis, including calling on other levels of government and homebuilders to roll up their sleeves to help achieve the goal of building 3.87 million homes by 2031. It also proposes more tax incentives to save for a down payment and the option to include rental payment history in their credit scores.

Affordability

As cost-of-living challenges continue to strain Canadians' pocket books, Budget 2024 proposes measures to enhance the country's social safety net, like the launch of a national pharmacare plan, enhancements to the Canada Pension Plan, and the creation of a youth mental health fund. Budget 2024 also aims to take action on rising food prices through the introduction of a national school food program.

Economic growth

Growing Canada's economy is a focus in Budget 2024, which proposes measures aimed at increasing investment, enhancing productivity, and encouraging innovation. It invests in Canada's tech sector to build capacity in artificial intelligence (AI) for computing capabilities and technological infrastructure. Budget 2024 also continues to support the green economy by delivering key components of the government's $160 billion investment in clean growth measures announced since 2015. Additionally, it introduces the Canadian Entrepreneurs' Incentive to support Canadian entrepreneurs who sell all or part of their company.

Our experienced tax professionals summarize the key tax measures to help Canadian businesses and individuals understand what may impact them.

Our analysis addresses the following:

Our economy

Growth in Canada's economy is outperforming expectations. Canada's national gross domestic product (GDP) rose by 1.1% in 2023, driven by strong demand for Canadian exports, as well as increased household spending on goods and services; the first quarter of 2024 is on track for around 3.5% annualized growth.

Budget 2024 proposes $52.9 billion in new spending over five years. It sticks to the fiscal objectives from the 2023 Fall Economic Statement, setting both deficits and the federal debt burden on a slight downward track. The projected deficit is forecasted to improve to $40 billion (from the $40.1 billion projection for 2023-24 in Budget 2023). This is projected to improve further to a $20 billion deficit by 2028-29.

Budget 2024 boasts about a historically low unemployment rate, marking the fastest jobs recovery since the pandemic in the G7, and higher wages. It also touts progress made to lowering inflation to 2.8% (as of February 2024), but acknowledges that progress remains uneven due to cost-of-living increases, specifically in housing and grocery costs.

Housing tax measures

Home buyer's plan

Budget 2024 increases the home buyer's plan (HBP) withdrawal limit to $60,000 (from $35,000). In addition, first-time home buyers who withdraw money from their Registered Retirement Savings Plan (RRSPs) under the HBP between January 1, 2022 and December 31, 2025 could receive an extended grace period before repayments are required. Minimum repayments must be made annually starting in the fifth year after the withdrawal (up from the second year).

The HBP allows eligible first-time home buyers to make tax-free withdrawals from their RRSPs to buy or build qualifying homes, up to a maximum limit, provided certain conditions are met. Withdrawals must be repaid over 15 years after the initial grace period.

The proposed changes are effective as of April 16, 2024.

Accelerated capital cost allowance for apartments

Budget 2024 introduces a temporary accelerated capital cost allowance (CCA) rate of 10% (up from 4%) for eligible new purpose-built rental projects. Qualifying purpose-built rental projects include residential complexes with at least four private apartment units or 10 private rooms or suites, where at least 90% of the units are held for long-term rental. Costs incurred to convert non-residential properties into a residential complex that meets these conditions will also qualify. The existing accelerated investment incentive will apply to this new accelerated rate. To be eligible, construction must begin between April 16, 2024 and January 1, 2031, and the building must be available for use before 2036.

Vacant land tax

Budget 2024 announces that the government will consider introducing a new tax on residentially zoned vacant land, with consultations to be launched later this year. In response to Canada's housing crisis, the government has expressed concern over situations where landowners are holding onto otherwise developable land.

Business tax measures

Capital gains inclusion rate for corporations and trusts

Budget 2024 increases the capital gains inclusion rate to 66.7% (from 50%) for corporations and trusts. Unlike the proposed capital gains inclusion rate increase for individuals (see personal tax measures section for details), there's no threshold available for corporations and trusts; any capital gains realized on or after June 25, 2024, would be subject to the new inclusion rate.

The federal government notes that it will provide further details in coming months.

Temporary immediate expensing of productivity-enhancing assets

Budget 2024 introduces a temporary 100% first-year deduction for new additions of property eligible for the following CCA classes:

→ Class 44 – patents or rights to use patented information

→ Class 46 – data network infrastructure equipment and related systems software

→ Class 50 – general-purpose electronic data-processing equipment and systems software

This accelerated deduction is proposed to apply for property that's acquired on or after April 16, 2024, and which becomes available for use before January 1, 2027. Used equipment would also qualify provided it wasn't previously owned by the taxpayer or a non-arm's-length party and wasn't acquired on a tax-deferred basis. In the case of property that becomes available for use in a short tax year, the amount of deduction is prorated by the shortened year and no further accelerated CCA would be available on that property.

Canada Carbon Rebate for small businesses

Budget 2024 introduces a new Canada Carbon Rebate for small businesses, which applies to Canadian-controlled private corporations (CCPCs) below a certain size Specifically, the proposed rebate would apply to CCPCs with employees located in provinces that participate in the federal backstop pollution pricing fuel charge, commonly known as the federal carbon tax. The rebate, which will be in the form of an automatic refundable tax credit, will be determined based on the number of people employed in the various participating provinces. Presently those provinces are Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador.

To qualify, corporations must have fewer than 500 employees in Canada in the calendar year in which the fuel charge year begins. Furthermore, CCPCs must file their tax return for their 2023 tax year by July 15, 2024 to be eligible for the rebate related to the 2019 - 2023 fuel charge years.

The federal government will determine the payment rate for each province for each fuel charge year. That payment rate will then be multiplied by the number of employees the CCPC employed in that province for that year.

Clean Electricity Investment Tax Credit

Budget 2024 provides additional details on the Clean Electricity Investment Tax Credit previously announced in Budget 2023. Pertaining to eligible entities, this tax credit would be available only to Canadian corporations including:

- Taxable Canadian corporations
- Provincial and territorial Crown corporations (that are in designated jurisdictions after complying with specific conditions around their commitment to net-zero goals and the passing of the benefit to ratepayers)
- Corporations owned by municipalities
- Corporations owned by Indigenous communities
- Pension investment corporations

Any corporation exempt from tax would be required to agree to be subject to the provisions of the Income Tax Act related to the tax credit, including provisions concerning audit, enforcement, and collection.

Corporations that are partners of a partnership will be allowed to claim their share of the partnership's Clean Electricity Investment Tax Credit, in a manner similar to the rules proposed for the Clean Technology Investment Tax Credit, contained in Bill C-59 (which is currently before Parliament). In situations where property of a partnership is eligible for both tax credits, partners may claim their share of either credit, but not both, in respect to the same property.

Eligible property for the Clean Electricity Investment Tax Credit includes (with certain specific limitations):

- Equipment used to generate electricity from solar, wind, or water energy (more specifically those described in subparagraphs (d)(ii), (v), (vi), or (xiv) of CCA Class 43.1 of Schedule II of the Income Tax Regulations (ITR) but with no capacity limitation in the case of hydro-electric installations)
- Concentrated solar energy equipment used to generate electricity
- Nuclear fission equipment used to generate electricity or both electricity and heat
- Geothermal energy equipment used to generate electricity or both electricity and heat described in subparagraph (d)(vii) of Class 43.1
- Equipment that generates electricity or electricity and heat from specified waste materials (as described in the 2023 Fall Economic Statement)
- Stationary electricity storage equipment described under subparagraph (d)(xviii) of Class 43.1 and equipment used for pumped hydroelectric energy storage described under subparagraph (d)(xix), excluding equipment that uses any fossil fuel in operation
- Equipment that's part of an eligible national gas energy system that generates electricity or electricity and heat from fuel that is all or substantially all natural gas and uses a carbon capture system to limit emissions to within certain specified emission intensity levels
- Equipment and structures used for the transmission of electricity between provinces and territories

Refurbishments to existing facilities will be included in qualifying expenditures for this credit.

Budget 2024 proposes that the Clean Electricity Investment Tax Credit provide a 15% credit on the capital cost of eligible property expenditures provided the currently proposed labour requirements contained in Bill C-59 are met; otherwise, the credit is reduced to 5%. The proposals include repayment obligations if the property ceases to be used for an eligible purpose, is exported or disposed of within a specified timeframe.

This tax credit will apply to new eligible properties that are acquired and become available for use on or after April 16, 2024 and before 2035, provided no part of the project began construction before March 28, 2023. There's an exception for certain preliminary approval and assessment work. Other timing requirements apply for provincial and territorial Crown corporations relating to the requirements for designation.

This tax credit can't be claimed by an eligible corporation in combination with any of the other various "green" investment tax credit programs for the same particular property; however, it can be claimed in combination with the Atlantic investment tax credit if the expenditure so qualifies under that program.

Polymetallic extraction and processing

Budget 2024 amends the previously proposed Clean Technology Manufacturing investment tax credit for projects that produce multiple metals. These changes are intended to provide greater clarity on the eligibility of the credit for projects which include in some proportion (but not exclusively) the metals and mineral materials eligible under the Clean Technology Manufacturing investment tax credit. Under this proposal, investments in eligible property for projects that are expected to produce 50% or more of the financial value of output from qualifying minerals will qualify for the tax credit. Further, Budget 2024 proposes a safe-harbour rule to allow for an averaging of mineral prices under certain conditions to mitigate the effects of market price volatility when evaluating potential recapture of the tax credit.

These changes are proposed to apply for property acquired and available for use on or after January 1, 2024.

EV supply chain investment tax credit

Budget 2024 introduces a new electric vehicle (EV) supply chain investment tax credit that will provide a 10% credit on the cost of buildings used in the following segments of the EV supply chain:

- → **Electric vehicle assembly**
- → **Electric vehicle battery production**
- → **Cathode active material production**

For costs to qualify for the credit, the taxpayer (or member of a group of related taxpayers) must also claim the Clean Technology Manufacturing Tax Credit in all three segments or claim the tax in two of the segments and hold at least a qualifying minority interest in an unrelated corporation that claims the credit in the third segment.

The budget proposes to reduce the credit to 5% in 2033 and 2034 and completely phase it out thereafter.

This credit will be available for property that is acquired or becomes available for use after December 31, 2023. The federal government notes that it will provide further details in the 2024 Fall Economic Statement.

Interest deductibility limits and purpose-built rental housing

Budget 2024 introduces an elective exemption from the currently proposed excessive interest and financing expense limitations (EIFEL) in respect of arm's-length financing that's used to build or acquire eligible purpose-built rental housing in Canada. The EIFEL rules, which were first proposed under Budget 2021 and are currently before Parliament in Bill C-59, limit the deductibility of net interest and financing expenses of certain corporations and trusts. The proposed exemption will apply to applicable interest and financing expenses incurred before January 1, 2036.

This change would apply to taxation years that begin on or after October 1, 2023.

Mutual fund corporations

Budget 2024 narrows the definition of mutual fund corporations to limit the number of corporations entitled to preferential tax rules, such as allocating capital gains to its investors and avoiding mark-to-market taxation. Budget 2024 proposes to change the definition of a mutual fund corporation to exclude a corporation that's controlled by or for the benefit of a corporate group where that corporate group owns shares with an aggregate fair market value of more than 10% of all the issued shares of the corporation. A corporation can currently meet the definition of a mutual fund corporation where one of its classes is listed on a designated stock exchange, allowing some corporate groups to maintain control and beneficial interest in these mutual fund corporations with only a small percentage of the corporations' shares being publicly listed.

This measure would apply to taxation years that begin on or after January 1, 2025.

Synthetic equity arrangements

Budget 2024 amends the anti-avoidance rule for synthetic equity arrangements to remove the exception where no tax-indifferent investor has all or substantially all of the economic exposure. Synthetic equity arrangements are related to certain dividend rental arrangements where a taxpayer compensates another investor for dividends received on certain investments. The taxpayer generally benefits from a deduction equal to the dividends received as well as a deduction of the compensation paid to another investor, resulting in two deductions with respect to the same dividend.

This measure is proposed to apply to dividends received on or after January 1, 2025.

Avoidance of tax debt rules

Budget 2024 introduces additional rules that would widen the scope of the avoidance of tax debt rules. The proposed changes would include making taxpayers who assist in tax debt avoidance planning jointly and severely liable for the amount of the tax debt and the amount of the fees that they charged with respect to the planning. Tax debt planning within these expanded rules would also be subject to penalties equal to the lesser of 50% of the tax avoided or $100,000 plus any amount receivable in respect of the planning.

This measure is proposed to apply to transactions or a series of transactions that occur on or after April 16, 2024.

Debt forgiveness for bankrupt corporations

Budget 2024 eliminates the exemption from the general debt forgiveness rules for bankrupt corporations. These general debt forgiveness rules act to reduce certain tax attributes being carried forward where commercial debt has been forgiven. Once all tax attributes have been reduced to nil, any remaining forgiven debt is partially brought into income with an offsetting deduction available for insolvent corporations. The proposed change will extend these debt forgiveness rules to bankrupt corporations to address tax loss trading that can otherwise occur.

This measure would apply to bankruptcy proceedings that commence on or after April 16, 2024.

Personal tax measures

Lifetime capital gains exemption

Budget 2024 increases the lifetime capital gains exemption (LCGE) limit on the sale of qualified small business corporation (QSBC) shares and qualified farm and fishing property (QFFP) to $1.25 million. Currently, the LCGE limit is indexed to inflation every year and the 2024 LCGE limit on the sale of QSBC shares and QFFP is $1,016,836.

This measure would apply to dispositions on or after June 25, 2024. Indexation of the LCGE will resume in 2026.

Capital gains inclusion rate for individuals

Budget 2024 increases the capital gains inclusion rate for individuals to 66.7% (from 50%) on the amount of capital gains that exceed $250,000 in a year.

The $250,000 annual limit is applied against capital gains realized by an individual, either directly or indirectly through a partnership or trust, net of current year capital losses, capital losses from prior years applied in current year, and capital gains for which the LCGE, employee ownership trust exemption, or Canadian Entrepreneurs' Incentive is claimed.

Additionally, under the proposed rules, individuals can claim a deduction of 50% of stock option benefits up to a combined limit of $250,000 for both employee stock options and capital gains. The deduction is reduced to 33.3% of the stock option benefit for any amount that exceeds the limit.

This proposed inclusion rate applies to capital gains realized on or after June 25, 2024. The annual $250,000 limit isn't prorated in 2024 and can be fully used against net capital gains realized on or after June 25, 2024. For tax years that begin before and end on or after June 25, 2024, the amount of capital gains and losses realized before the effective date and those after the effective date must be tracked separately, as they'll be subject to different capital gains inclusion rates. The capital losses incurred prior to the rate change would fully offset the same amount of capital gains realized after the rate change.

The federal government notes that it will provide further details in the coming months. See see business tax measures section for details on how this measure affects corporations and trusts). "Business measures " for capital gains measures for corporations and trusts.

Canadian Entrepreneurs' Incentive

Budget 2024 introduces the Canadian Entrepreneurs' Incentive. This incentive reduces the regular capital gains inclusion rate on the sale of qualifying shares by half, up to a lifetime limit of $2 million capital gains realized per individual. Specifically, the capital gains inclusion rate under this incentive is 33.3% for qualifying dispositions, as compared to 66.7% under the proposed capital gain inclusion rate rules discussed above. The lifetime limit will be phased in by $200,000 per year starting on January 1, 2025, and will reach $2 million by 2034. This measure would apply in addition to the LCGE.

To be eligible for the Canadian Entrepreneurs' Incentive, a claimant's corporation must meet the following requirements:

- At the time of sale, it was a small business corporation owned by the claimant.
- In the 24 months immediately before the sale, it was a CCPC and more than 50% of the fair market value of its assets were used principally in an active business primarily carried out in Canada by the CCPC or 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 of the corporation and held its shares for at least five years before sale.
- The claimant owned more than 10% of votes and value of the shares of the corporation from the initial share subscription to the time immediately before the sale.
- Throughout five years immediately before the sale, the claimant was actively engaged on a regular, continuous, and substantial basis in the business.
- The share doesn't represent a direct or indirect interest in:
  - a professional corporation
  - a consulting or personal care services business
  - a corporation whose principal asset is the reputation or skill of one or more employees, or
  - certain other corporations operating in the finance, insurance, real estate, food and accommodation, arts, recreation, or entertainment sectors.
- The shares were obtained for fair market value.

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

Alternative minimum tax

Budget 2024 makes several amendments to the alternative minimum tax (AMT) proposals, including the tax treatment of charitable donations. The amendments include the following changes to:

- → Allow individuals to use 80% (instead of 50%) of the donation tax credit on eligible charitable donations to reduce any AMT payable.
- → Allow deductions for the guaranteed income supplement, social assistance, and workers' compensation payments when calculating AMT.
- → Allow individuals to claim the federal logging tax credit under AMT.
- → Exempt employee ownership trust (EOT) from AMT.
- → Allow certain denied credits under the AMT to be eligible for the AMT carry-forward.

These amendments would apply to taxation years that begin on or after January 1, 2024, like the previous AMT proposals.

Furthermore, Budget 2024 proposes to exempt Indigenous settlement and community trusts that meet certain criteria from the AMT rules. The stakeholders' consultation period will end on June 28, 2024.

Employee ownership trusts

Budget 2024 provides further details on the $10 million capital gains exemption on the sale of a business to an EOT, previously proposed in the 2023 Fall Economic Statement.

Budget 2024 announces that the $10 million exemption will generally be available to an individual (other than trust) on the sale of shares to an EOT if 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 (other than a professional corporation).
- → The sale is a qualifying business transfer in which the purchasing trust is not already an EOT (or similar trust with employee beneficiaries) (see our EOT tax alert for details).
- → In the 24 months immediately before the 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 more than 50% of the value of the corporation's assets were used principally in an active business.
- → Any time prior to the transfer, the individual (or their spouse or common-law partner) was actively engaged in the qualifying business on a regular and continuous basis for at least 24 months.
- → Immediately after the transfer, at least 90% of the beneficiaries of the EOT are Canadian residents.

However, if multiple individuals disposing of their shares to an EOT as part of a qualifying business transfer meet the conditions, the $10 million exemption must be shared. Such individuals must all agree with the exemption allocation.

The exemption claimed would be retroactively denied if within 36 months of the qualifying business transfer:

- → The trust loses its EOT status, or
- → Less than 50% of the value of the qualifying business' shares is attributable to assets used principally in an active business at the beginning of two consecutive tax years.

Budget 2024 notes that the EOT (and any corporation owned by the EOT) and the individual must elect to be jointly and severally, or solidarity, liable for any tax payable if the exemption is denied within the first 36 months.

If these disqualifying events happen after 36 months following the transfer, the EOT would be deemed to realize a capital gain equaling to the total amount of the exemption claimed. The trust would be solely liable for any taxes owing as a result of this.

In addition, 30% of the exempted capital gains would be included in the AMT base for calculating the individual's AMT payable. Budget 2024 also extends the normal reassessment period of an individual in respect of this exemption by three years.

This $10 million exemption is proposed to apply to qualifying dispositions that occur between January 1, 2024 and December 31, 2026.

Furthermore, Budget 2024 expands the qualifying business transfers to include the sale to a worker cooperative corporation that meets the definition under the Canada Cooperatives Act, provided certain conditions are met.

Mineral exploration tax credit

Budget 2024 extends the mineral exploration tax credit for flow-through shares investors for an additional year, until March 31, 2025.

Certain flow-through shares allow resource companies to renounce or "flow-through" Canadian exploration expenses and development expenses to investors, who can deduct these expenses from their taxable income. In addition to the income deduction, the mineral exploration tax credit provides a 15% non-refundable tax credit for eligible exploration expenses incurred in Canada and renounced to flow-through share investors (unless the 30% critical mining exploration tax credit is being claimed instead). This credit can be carried back three years and carried forward 20 years.

Canada child benefit

Budget 2024 extends the period to receive the Canada child benefit (CCB) in respect of a deceased child. The budget proposed to allow individuals to receive the CCB for six months after a child's death (from one month), provided all other eligibility criteria are met. The CCB entitlement during the six months is determined by the child's age in each month as if the child was still alive, among other factors. Under the proposed change, the CCB recipient is still required to notify the CRA of the child's death before the end of the month following the month of their child's death. The extended period would also apply to the child disability benefit that is paid with the CCB.

This measure would apply for a child's death that occurs after 2024.

Disability supports deduction

Budget 2024 expands the list of expenses eligible for the disability supports deduction, subject to certain conditions. A complete list of newly added eligible expenses is included in the official budget documents. Under the proposed rules, individuals can choose to claim either the medical expense tax credit or the disability supports deduction on their expenses for service animals.

Individuals with an impairment in physical or mental functions can deduct eligible expenses that are specified in the Income Tax Act and prescribed or certified by a medical practitioner if certain conditions are met.

This measure would apply to 2024 and subsequent tax years.

Charities and qualified donees

Budget 2024 allows a foreign charity to register as a qualified donee for a temporary 36-month period (up from 24 months). In addition, foreign charities will be required to submit an annual information return to the CRA that will be publicly available. This information return will ask these charities to disclose the total amount of receipts issued to Canadian donors, the total amount of gifts received from qualified donees, and information on how those funds were used.

This extension would apply to foreign charities registered after April 16, 2024. The new reporting requirement would apply to tax years beginning after April 16, 2024.

Budget 2024 also makes several changes to help modernize CRA services with registered charities. This includes allowing electronic communications and changes to the process for revocation of registration and requirement for certain objections. Budget 2024 also simplifies the issuance of official donation receipts issued by registered charities and qualified donees, including removing certain information requirements and expressly permitting electronic receipts, if certain requirements are met.

The administrative changes would apply upon Royal Assent.

Deduction for tradespeople's tool expenses

Budget 2024 expands deductions available to tradespersons for travel expenses. Tradespersons' deductions for travel are currently limited to the lesser of $4,000 and their eligible relocation expenses per year. Budget 2024 announces the government's intention to allow tradespersons to deduct unlimited travel expenses if they're required to work at a job site more than 120 km away from the place of their residence. This proposal aligns with a private members' bill introduced in June 2023.

Qualified investments for registered plans

Budget 2024 asks stakeholders for submissions related to modernizing and harmonizing the definition of qualified investments for registered plans, such as 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). Currently, each of these plans have slightly different definitions of qualified investments and don't specify whether crypto-backed assets are qualified investments.

Stakeholders are invited to submit comments by July 15, 2024.

Volunteer firefighters' and search and rescue volunteers' tax credits

Budget 2024 doubles the volunteer firefighters' tax credit and the search and rescue volunteers' tax credit to $6,000 (from $3,000), which will provide up to $900 in tax savings annually for eligible volunteers.

A taxpayer can claim either of these tax credits, but not both, if they meet both of the following conditions:

- → 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 (other than a professional corporation).
- → The sale is a qualifying business transfer in which the purchasing trust is not already an EOT (or similar trust with employee beneficiaries) (see our EOT tax alert for details).

This increase is proposed to apply to 2024 and subsequent tax years.

Sales tax and excise measures

GST rebate for student residence construction

Budget 2024 expands the eligibility for the temporary enhanced GST rental rebate on the construction of qualifying new purpose-built rental housing to include the construction of certain student housing. Specifically, student residences built by not-for-profit universities, public colleges, and school authorities now qualify for the recently announced 100% GST rebate. However, the institutions must choose to follow the general rules for builders of rental units, requiring them to self-assess GST/HST at the end of the construction period. In addition, adjustments will be made to the requirement that the first lease be for a period of at least 12 months for student residences, given the nature of student rentals.

Construction must begin on or after September 14, 2023 and before 2031, and be completed before 2036 to qualify.

GST/HST on face masks and face shields

Budget 2024 will eliminate the temporary tax relief for face masks and shields. The supply of certain face masks and shields was temporarily zero-rated beginning in 2020 when the use of face coverings was recommended by public health officials as part of the COVID-19 pandemic measures.

This measure is proposed to apply as of May 1, 2024.

Excise duty on tobacco and other related measures

Budget 2024 increases the excise duty rate on tobacco by $4 per carton of 200 cigarettes (in addition to the $1.49 increase that was effective April 1, 2024), along with corresponding increases to other tobacco products. Certain manufacturers, importers, wholesalers, and retailers are required to pay an additional duty of 2 cents per cigarette by June 30, 2024 to account for the $4 increase (with certain exceptions), effective April 17, 2024.

Budget 2024 proposes a new prescribed limit of up to 2,500 grams of packaged raw leaf tobacco for importation for personal use. While there are exemptions permitting the import of tobacco products for personal consumption and use up to certain quantity limits (i.e., five cartons of 200 cigarettes), there currently are no similar restrictions or limits for imports of raw leaf tobacco for personal use.

Budget 2024 also announces additional measures to improve the reporting and efficacy of certain exemptions as it relates to qualifying exports of tobacco products and to filing information returns for tobacco products to be in line with similar filing obligations for vaping products.

Increased excise duties will apply to vaping products effective July 1, 2024, along with the introduction of the coordinating vaping product taxation regime for Ontario, Quebec, the Northwest Territories, and Nunavut.

Indigenous taxation

Indigenous child and family services settlement

Budget 2024 exempts from taxable income any amounts resulting from the First Nations Child and Family Services, Jordan's Principle, and Trout Class Settlement Agreement. This exemption from income ensures that recipients won't be taxed on the proceeds from this settlement agreement and affirms that income from this settlement agreement doesn't limit any other federal social benefits and social assistance benefits.

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

Fuel, alcohol, cannabis, and tobacco sales tax framework

Budget 2024 announces the federal government's intention to amend the First Nations Goods and Services Tax Act (FNGST). These changes are intended to provide for new legislation to allow Indigenous organizations and communities to opt-in to a new fuel, alcohol, cannabis, tobacco, and vaping (FACT) sales tax framework. This framework builds on the First Nations Tax (FNT) on alcohol, fuel, and tobacco. Under these proposals, the FACT would be limited to fuel, alcohol, cannabis, tobacco, and vaping products, but would also provide the flexibility to the Indigenous governments to levy the FACT sales tax on some or all of the products. Where the FACT applies, the federal GST would not apply.

The federal government notes that additional agreements, consultations, and negotiations are underway and required prior to implementation.

International tax measures

Common Reporting Standard

Budget 2024 makes amendments to the Common Reporting Standard (CRS) to:

- → Broaden the scope of the CRS to encompass specified electronic money products and central bank digital currencies and ensure effective coordination between the CRS and the crypto-asset reporting framework to limit duplicative reporting.
- → Add reporting requirements in respect of financial accounts and account holders to strengthen the due diligence procedures financial institutions (FIs) must follow.
- → Remove labour-sponsored venture capital corporations from the list of non-reporting FIs. Non-registered accounts held in one of these corporations will be treated as an excluded account provided annual contributions to the account do not exceed US$50,000.
- → Update the anti-avoidance provision to clarify that it applies when an individual or any entity engages in a practice or arrangement for the primary purpose of avoiding an obligation under the CRS.

The amendments are based upon recommendations by the OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes. The proposed measures would apply to the 2026 and subsequent calendar years such that the first reporting and exchange of information would take place in 2027.

Crypto-asset reporting framework

Budget 2024 proposes to implement the crypto-asset reporting framework in Canada. This framework was developed by the OECD to ensure appropriate reporting of crypto-assets, which can be transferred or held without interacting with a traditional financial intermediary and are not currently subject to the CRS.

This proposed measure imposes a new annual reporting requirement on Canadian residents and persons carrying on business in Canada who provide services effectuating exchange transactions in crypto-assets (excluding central bank digital currencies and specified electronic money products reported under the CRS). The measures are meant to apply to crypto-assets service providers, such as crypto-asset automated teller machines, crypto exchanges, and crypto-asset brokers.

Under the proposed rules, the crypto-asset service provider is required to report the annual value of the following to the CRA for each customer and in respect of each crypto-asset:

- → Exchanges between the crypto-asset and fiat currencies
- → Exchange for other crypto-assets
- → Transfers of the crypto-assets, including reporting information in respect of a customer of a merchant where the crypto-asset service provider processes payments on behalf of the merchant and the customer has transferred crypto-assets to the merchant in exchange for goods or services with a value exceeding US$50,000

Budget 2024 also announces that crypto-asset service providers will be required to obtain and report the name, address, date of birth, jurisdiction of residence, and taxpayer identification number of each of their customers. If the customer isn't a natural person, the same information will need to be collected and reported in respect of the natural person who exercises control over the entity.

The proposed measure in respect of the CRS and the crypto-asset reporting framework are proposed to apply to the 2026 and subsequent calendar years, with the first reporting and exchange of information taking place in 2027.

Withholding for non-resident service providers

Budget 2024 provides the CRA with expanded legislative authority to waive the withholding requirements in regulation 105 of the ITR.

Currently, payments made to a non-resident in respect of services rendered in Canada are subject to a 15% withholding tax, which must be withheld and remitted to the CRA by the payor on behalf of the non-resident. This isn't a definitive tax but rather an instalment to be applied against the non-resident's ultimate tax liability. However, such service income is often exempt from Canadian tax (e.g., the business income isn't considered to be from a business carried on in

Canada, is exempt from Canadian tax under one of Canada's tax treaties, or is otherwise exempt from tax). Where no tax is owed, the non-resident can recover the tax withheld by filing a tax return. Alternatively, the non-resident can apply to the CRA for an advance waiver of some or all the withholding requirement for a specific planned transaction where the circumstances support the activity giving rise to income that would be subject to Canadian tax.

To address non-residents choosing not to recover the withholding tax and pass on the cost to Canadian payers, the proposed measures will allow the CRA to waive the withholding requirements in respect of service payments to a non-resident for multiple transactions over a specified period if either of the following conditions are met:

- The non-resident would be exempt from Canadian income tax on the payment because of the treaty between Canada and the service provider's country of jurisdiction, or
- The service income qualifies as exempt income from international shipping or operating an aircraft in international traffic.

The new measure will come into force on Royal Assent.

Other notable measures

HOUSING

Budget 2024 introduces several new measures to address Canada's housing crisis by building more homes and making it easier to own or rent a home. This includes measures to:

- → Invest in several housing initiatives, such as implementing the Public Lands for Homes Plan, providing $15 billion in additional loans through the Apartment Construction Loan program, launching Canada Builds to combine federal low-cost loans and provincial/territorial investments for rental home constructions, increasing funding for Indigenous housing, providing $1 billion for the Affordable Housing Fund, and launching a $1.5 billion Canada Rental Protection Fund.
- → Allow first time home buyers who obtain insured mortgages and buy a newly-built home to choose up to a 30-year amortization period (up from a maximum of 25 years) starting on August 1, 2024.
- → Provide further support to borrowers facing financial hardship, including making permanent mortgage relief measures available in certain situations.
- → Introduce a Secondary Suite Loan program to provide up to $40,000 in low-interest loans to homeowners to add a secondary suite to their homes.
- → Work with the mortgage industry to develop a tool for verifying borrower income through CRA.

Budget 2024 also proposes to restrict the ability of large corporate investors to purchase existing single-family homes. The federal government plans to provide more details in the 2024 Fall Economic Statement, after a consultation period.

SOCIAL BENEFITS

Budget 2024 launches the following new programs to provide social benefits and supports for Canadians:

- → **National pharmacare plan** – provide $1.5 billion over five years in the new National Pharmacare Plan
- → **Canada disability benefit** – provide $6.1 billion over six years, and $1.4 billion ongoing in the new Canada Disability Benefit program
- → **National school food program** – provide $1 billion over five years to expand access to school food programs
- → **Child care expansion loan program** – provide $1 billion in low-cost loans and $60 million in non-repayable contributions to build more child care spaces and renovate existing spaces

Budget 2024 also makes technical amendments to the Canada Pension Plan, including providing a top-up to the Death Benefit for certain contributors, introducing a partial children's benefit for certain part-time students, extending eligibility for the disabled contributors children's benefit beyond the age of 65 and ending eligibility for survivor pensions for people as soon as people are legally separated.

PRODUCTIVITY AND BUSINESS GROWTH

Budget 2024 includes investments in the following initiatives to increase productivity, encourage innovation, and strengthen business growth:

- → Launch a second phase of consultations on the Scientific Research & Experimental Development (SR&ED) tax credit policy parameters to explore how to expand eligibility for Canadian public companies and further invest $600 million over four years for program enhancements.
- → Invest over $2.4 billion in targeted AI support, including launching a new AI Computer Access Fund and Canadian Sovereign Computer Strategy.
- → Invest $3.5 billion to enhance Research Support and Federal Research grant.
- → Provide an estimated $57.3 billion in support of infrastructure projects across the country from 2023-24 to 2028-29.
- → Invest $60 million over five years in Futurpreneur Canada to provide young entrepreneurs with financing and support to grow their business.
- → Provide $350 million over 5 years to Indigenous Financial Institutions.

EXPANDED CRA ENFORCEMENT

Budget 2024 also expands the CRA's ability to obtain information to facilitate tax debt collection:

- → **Notice of non-compliance** – allows the CRA to issue a notice of non-compliance to a taxpayer who hasn't complied with a requirement or notice to provide information or assistance to the CRA. Consequences include:
  - A penalty of $50 per day the notice is outstanding to a maximum of $25,000.
  - An extension of the normal reassessment period for the taxpayer and any non-arm's length person, equal to the amount of time the notice is outstanding.
- → **Penalty for compliance orders** — imposes a new penalty where the CRA obtains a compliance order from the court for a taxpayer who hasn't provided requested information. The penalty only applies if taxes owing in at least one tax year that the information relates to exceeds $50,000 and is calculated as 10% of the aggregate taxes payable by the taxpayer for all relevant tax years. Budget 2024 also proposes to allow the CRA to seek a compliance order with respect to relevant information or documents located outside of Canada.
- → **Questioning under oath** – permits the CRA to require information be provided under oath, affirmation, or affidavit with respect to a notice of non-compliance or a compliance order.
- → **Changes to the reassessment limitation clock** – extends the reassessment period where a taxpayer has sought action through the courts with respect to a CRA audit or enforcement action. The proposed changes would apply to any requirement or notice issued by the CRA to a taxpayer (or a non-arm's length person).

Budget 2024 proposes these expanded enforcement abilities apply to the Income Tax Act and other tax statues administered by the CRA, such as:

- → Excise Tax Act
- → Air Travelers Security Charge Act, Excise Act, 2001
- → Underused Housing Tax Act
- → Select Luxury Items Tax Act

These measures will be effective on Royal Assent of the relevant legislation.

Have questions? Let's talk. Contact your local advisor or reach out to us here.

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