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# Budget 2023: **What to expect**





For many Canadians, 2022 was a turbulent time as interest rates climbed, household debt increased and inflation soared. While the inflation rate has been easing gradually, it comes at the cost of several interest rate hikes from the Bank of Canada and the possibility of an upcoming economic slowdown.

## However, Canadians should remain optimistic.

In this year's federal budget (Budget 2023), we may see the federal government extend certain benefits from 2022 to assist with the high cost of living, housing affordability and the uncertain economic landscape. Finance Minister Chrystia Freeland announced that Budget 2023 will prioritize spending on health care and have a renewed focus on sustainability measures, including new green incentives. Canada will likely look to boost its efforts on the green energy transition to remain competitive with the US' push to encourage green investments and reduce carbon emissions.

The federal government will also be tasked with finding ways to balance the costs of extending existing benefits and introducing new ones. We expect more details on Canada's plans for an alternative minimum tax, a tax on share buybacks and other measures previously announced in 2022. In addition, the federal government has alluded to increasing taxes for Canada's top earners, which could take the form of a new wealth tax. Another option could be changes to the goods and services tax (GST)/harmonized sales tax (HST), such as an increased rate or applying the tax to more goods and services. We're anticipating that the federal government will continue taking steps to combat aggressive tax planning and avoidance, through changes to the general anti-avoidance rule (GAAR).

The federal government will consider the feedback it received in its pre-budget consultations, which closed on February 10, 2023. Even though the federal government has not yet set a budget date, here's a closer look at what could be in Budget 2023.



# Measures that could impact Canadian businesses



## Relief to address inflation and labour shortages

[CPA Canada's pre-budget](#) submission recommends that the federal government include proactive steps to reduce the regulatory and compliance burden on small and medium-sized businesses in Budget 2023. This type of support could help businesses that may be disproportionately impacted by labour shortages and increased costs due to inflation. The federal government previously broadened the scope for the small business tax rate to allow more medium-sized businesses to qualify for the relief in [Budget 2022](#).

## Green tax incentives

Fighting climate change is a priority for the federal government. Canadian businesses may see additional green tax incentives in Budget 2023 to support the Liberal government's [climate plan](#), in line with several other sustainability initiatives enacted over the last few years. We could see the federal government introduce new measures based on the Green Budget Coalition's recommendations in its 2023 pre-budget consultation submission. These recommendations include:

- Introducing an investment tax credit to support clean electricity including renewables, energy storage technologies; and zero-carbon hydrogen;
- partnering with the provinces to upgrade the efficiency of residential buildings, low-income households, and Indigenous communities; and
- increasing the funding for skills development for the retrofit economy to boost the labour market.

## Amendments to Bill C-208

The upcoming budget may amend the intergenerational family business transfer rules that were enacted in [Bill C-208](#). These rules, which came into effect in 2021 and are intended to provide tax relief for certain transfers of family farms, fisheries, and small businesses. The federal government announced its intention to make amendments to the existing legislation in [Budget 2022](#) to help ensure the rules only apply to genuine transfers of business and prevent "surplus stripping".



## Updates to GST and other indirect taxes

Changes to Canada's GST/HST for the purpose of raising more funds and to balance spending could be on the horizon. Changes could include an increase to the rate or a widening of the base to subject more goods and services to the GST/HST.

There is also speculation that the federal government could modify tax measures related to housing affordability in Budget 2023. Canadians may have noticed an increasing trend from the federal government of introducing additional indirect taxes, such as the [luxury tax](#) and [Underused Housing Tax \(UHT\)](#).

## Tax on share buybacks

Budget 2023 may include a new 2% corporate tax on the net value of all share buybacks (i.e., share repurchases) by public corporations. The federal government announced its plan to tax share buybacks effective January 1, 2024 in the [2022 Fall Economic Statement \(FES 2022\)](#).

## GAAR reform

Long-awaited changes that would modernize and strengthen the GAAR are likely. These changes would combat aggressive tax planning and avoidance by individuals and businesses. Some possible changes include updates to:

- Address mixed purpose transactions to prevent an abusive avoidance transaction which results in a tax benefit being achieved through transactions with a non-tax purpose;
- clarify how to determine the object, spirit, and purpose of provisions to help courts prove the existence of abusive tax avoidance; and
- add an explicit economic substance rule to ensure that courts consider the economic substance of transactions.

The federal government stated that GAAR reform is a priority in a December 2021 [mandate letter](#) and issued a [consultation paper](#) on August 9, 2022 outlining significant possible changes and invited comments up to September 30, 2022.

## SR&ED program

Businesses could see changes to modernize and simplify Canada's [Scientific Research and Experimental Development \(SR&ED\)](#) in Budget 2023. The federal government previously announced their review of the SR&ED program in [Budget 2022](#). We hope this review may introduce a new patent box regime to provide a lower tax rate on income derived from patents or intellectual property, revise and expand eligibility criteria, and reduce red tape to allow more small businesses to access the SR&ED program.

## Employee ownership trusts

Following in the footsteps of other countries, the federal government may introduce a new dedicated employee ownership trust (EOT) under the Income Tax Act to encourage and support employee ownership of a business. An EOT allows employees to become shareholders without paying directly for their shares, as shares are held in trust and owners receive compensation for selling a portion of their company out of company profits. This measure was previously proposed in [Budget 2022](#).





# Measures that could impact Individuals

## Relief to address inflation and labour shortages

The federal government may announce additional benefits or credits for 2023 to help individuals cope with the rising cost of living. This could involve extending some of the benefits from 2022, such as:

- enhancing the Canada Workers Benefit (CWB)
- an increase to Old Age Security (OAS)
- additional one-time top-up to the Canada Housing Benefit
- doubling the GST credit
- increasing climate action incentive payments.

With national labour shortages, Canadians may see measures announced to grow the workforce, such as introducing a career extension tax credit. The federal government announced in [Budget 2022](#) that it would engage with experts to potentially create a tax credit to encourage seniors who want to continue working later in life.

## Wealth tax

Canadian individuals and businesses could see the introduction of a wealth tax, which has been introduced in several countries and is being considered in the US. The federal government has remained steadfast on increasing taxes for Canada's top earners, as we've seen with the adoption of the recent luxury tax, which affects owners of certain vehicles, aircraft and boats.

The federal government hasn't taken a firm position on implementing a wealth tax. However, the Liberal Party has reached an agreement with the New Democratic Party (NDP) to implement certain policies and procedures in exchange for their support until 2025. The NDP previously stated that it would implement a wealth tax if elected. In addition, the Canadians for Tax Fairness have continued to advocate for a wealth tax and in their [2023 pre-budget consultation submission](#), proposed changes to:

- increase the capital gains inclusion rate to 75%
- reduce the dividend tax credit
- reduce interest deductibility for large corporations.

## Alternative minimum tax

The federal government may outline updates to the alternative minimum tax (AMT) in Budget 2023. The federal government announced its intention to examine a new AMT regime in both [Budget 2022](#) and [FES 2022](#), as the current AMT hasn't updated the regime since it was established in 1986. The Liberal Party's 2021 election campaign proposed a 15% minimum tax that would apply to taxpayers in the top tax bracket, in addition to the existing AMT.

# The path forward

The global economy is changing—and Canada's plan for 2023 will need to be versatile. We expect Budget 2023 will include tax changes to help Canadian businesses and individuals cope with the high cost of living, housing affordability, and the uncertain economic landscape. However, wealthy individuals and large corporations may see their taxes increase to support these measures and pay down the debt incurred from programs launched during the pandemic. It's likely we'll see an emphasis on green incentives to meet global environmental targets and remain competitive with the US.

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