



## 2022 FEDERAL BUDGET HIGHLIGHTS

### PERSONAL

- No changes to personal tax rates were announced.
- Beginning in 2023, a new Tax-Free First Home Savings Account (FHSA) will be implemented, allowing certain individuals who are 18 years and older to make a tax-deductible contribution of up to \$8,000 per year into the FHSA for a maximum lifetime amount of \$40,000. The income earned in the FHSA and the withdrawals from the FHSA made to purchase a first home would be tax-free.
- The First-Time Home Buyers' Tax Credit will increase from \$750 to a maximum of \$1,500 for first time home buyers that acquire a qualifying home on or after January 1, 2022.
- Beginning in 2023, a new refundable tax credit will be available for qualifying renovations to create a secondary dwelling unit so as to accommodate a senior or an adult with a disability to live with a relative. Individuals will be able to claim a tax credit equal to the lesser of \$7,500 and 15% of eligible expenses incurred.
- The annual expense limit for renovations that gives rise to the 15% Home Accessibility Tax Credit is increased from \$10,000 to \$20,000 for expenses incurred on or after January 1, 2022.

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## PERSONAL (cont'd)

- Beginning in 2023, a new anti-flipping rule will apply to deem profits derived from the disposition of residential real estate owned for less than 12 months to be fully taxable business income. Exceptions will apply for certain life events such as death, separation, household additions, personal safety, disability, change of employment status, insolvency and involuntary dispositions. As the amount is not a capital gain, the principal residence exemption cannot be claimed.
- A new Labour Mobility Deduction will be introduced in 2022 of up to \$4,000 of eligible expenses per year for tradespersons or apprentices in the construction sector who have to temporarily relocate at least 150 kilometres closer to their work location in Canada for a minimum period of 36 hours.
- Starting in 2022, qualifying expenses for the Medical Expense Tax Credit (METC) will include medical expenses incurred for surrogate mothers, sperm donors, ova donors and embryo donors that the taxpayer reimbursed or paid. The fees paid to fertility clinics and donor banks to obtain donor sperm or ova will also qualify for the METC.

## CORPORATE

- No changes to corporate tax rates were announced.
- A one-time tax of 15% will be levied on banks and life insurers in 2022 on taxable income in excess of \$1 billion that will be payable in equal payments over five years. An additional tax of 1.5% will apply for members of bank and life insurer groups on annual taxable income in excess of \$100 million.
- For agreements entered into after March 31, 2023, the flow-through share regime will be eliminated for oil, gas and coal activities by no longer allowing oil, gas and coal exploration or development expenditures to be renounced to a flow-through investor.
- For taxation years that begin on or after April 7, 2022, the small business deduction will be extended to Canadian Controlled Private Corporations ("CCPCs") with an aggregate taxable capital employed in Canada («TCEC») in the associated group of corporations of up to \$50 million, with a gradual reduction when the TCEC exceeds \$10 million.
- For taxation years ending on or after April 7, 2022, "Substantive CCPCs" will be subject to the same income tax regime as CCPCs for their investment income. A Substantive CCPC would be a private company resident in Canada (other than a CCPC) that is ultimately controlled in law or in fact by Canadian resident individuals. It would include a corporation that would have been a CCPC but for the fact that a non-resident or public corporation has a right to acquire its shares or because it was incorporated in a foreign jurisdiction.

## CORPORATE (cont'd)

- For taxation years beginning on or after April 7, 2022, the tax deferral advantage available to CCPCs and their shareholders earning investment income through controlled foreign affiliates ("CFAs") will be eliminated. This will be accomplished through a complex computation that will reduce the deductions associated with the underlying taxes being paid by CFAs. The result will be an overall corporate tax rate on such income of 52.63% with the after-tax amount distributable to shareholders on a tax-free basis through amendments made to the definition of a company's capital dividend account.

## CHARITIES

- For taxation years starting on or after January 1, 2023, the disbursement quota (DQ) for registered charities will increase from 3.5% to 5% for the portion of property not used for charitable activities or administration that exceeds \$1 million. In addition, administration and management fees will not be considered qualifying expenditures for the purposes of satisfying a charity's DQ. A charity may, in certain circumstances, apply to the CRA and request relief from the DQ requirement.
- Under certain conditions, upon Royal Assent, charities will be allowed to make gifts to certain organizations that do not issue official donation receipts.

## OTHER MEASURES

- Legislative amendments will be made to expand the application of the General-Anti Avoidance Rule to transactions that generate tax attributes that have not yet been utilized.

## INTERNATIONAL MEASURES

- A reporting mechanism will be implemented for digital platform operators in respect of certain activities in Canada, such as personal services rendered, rental of commercial or residential property, rental of means of transportation and sale of goods through digital platforms. This measure is applicable to calendar years starting in 2024, with the first reporting obligation occurring in 2025.
- Amendments will be made to the withholding tax rules on interest to ensure that withholding tax is not avoided on a debt owed to a non-arm's length non-resident person, by interposing an intermediary as the interest recipient in order to access a favourable treaty withholding tax rate or exemption. Subject to certain exceptions, this measure is applicable to interest accrued on or after Budget Day.

## GST/HST

- The assignment of an agreement to purchase a new home from a builder will be subject to sales tax whether or not the individual originally entered into the agreement with the builder for the purpose of occupying the new home as a place of residence. Applicable for assignments entered into one month after budget date.

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