2023 Federal Budget Tax Highlights

On March 28, 2023, the Honourable Chrystia Freeland tabled her third budget as federal Minister of Finance and Deputy Prime Minister. In last year's budget, the federal government had predicted a deficit for 2022-23 of $52.8 billion. In today's budget, this amount was revised down to $43 billion. A deficit of $47 billion is predicted for 2023-24, falling to $21.4 billion for 2027-28.

Some of the key tax changes announced today, which take effect on varying dates, are summarized below. Please see the Department of Finance Canada's budget documents for details of these changes, and watch for updates on CPA Canada's Canadian tax news webpage.

Corporate and business tax changes

Tax on share buybacks – Budget 2023 provided more details on the proposed 2 per cent tax on the net value of public company share repurchases of $1 million or more of equity. For applicable transactions after 2023, the new tax will generally apply to Canadian resident corporations traded on a designated stock exchange.

Environmental measures – Budget 2023 proposes to introduce several new investment tax credits (ITC) and provides more details on previously announced tax measures to encourage a clean economy. These include:

- expanding eligible activities that qualify for the reduced corporate tax rates on eligible zero-emission technology manufacturing and processing income to include certain nuclear manufacturing and processing activities for tax years beginning after 2023
- including lithium as a qualifying mineral resource to allow corporations that undertake certain exploration and development activities to issue flow-through shares and renounce expenses to their investors
- expanding eligibility for the ITC for critical mineral exploration to include lithium from brines

- introducing a 15 per cent refundable ITC for clean electricity (available as of 2024 Budget Day for projects that did not begin construction before the day of Budget 2023) and a refundable 30 per cent ITC for clean technology manufacturing for property that is acquired or becomes available for use after January 1, 2024
- introducing a refundable ITC for clean hydrogen for property that is acquired and that becomes available for use on or after March 28, 2023, and phased out starting in 2034
- expanding eligibility for the 30 per cent refundable ITC for clean technology to include geothermal energy systems eligible for capital cost allowance classes 43.1 and 43.2 and extending the credit's phase-out to 2034 (instead of 2032)
- enhancing the ITC for carbon capture, utilization and storage to include additional design elements
- providing details on the labour requirements for the ITCs for clean technology, clean hydrogen and clean electricity, with details to follow on the labour requirements for the ITC for carbon capture, utilization and storage

Dividend received deduction by financial institutions – Budget 2023 proposes to deny the dividend received deduction for dividends received by financial institutions after 2023 on shares that are mark-to-market property.

Income tax and GST/HST treatment of credit unions – To avoid unforeseen income tax and GST/HST issues for certain credit unions, Budget 2023 proposes to eliminate the revenue test from the Income Tax Act's definition of "credit union" for 2017 and later tax years.

Scientific Research and Experimental Development program review – The government is continuing its review, first announced in Budget 2022, of this program to ensure its effectiveness in encouraging research and development and commercializing the results. A patent box regime remains under consideration.

Personal tax changes

Intergenerational business transfers – Bill C-208 follow up – Bill C-208, now enacted, is a private member's bill that provided an exception from the application of section 84.1 on intergenerational transfers of businesses. For transactions occurring in 2024 or later tax years, the budget would introduce additional conditions that must be met to qualify as a genuine intergenerational share transfer.

To provide flexibility, taxpayers would be able to use one of two intergenerational transfer options:

- an immediate intergenerational business transfer (three-year test) based on arm's length sale terms

- a gradual intergenerational business transfer (five-to-ten-year test) based on traditional estate freeze characteristics

To allow the Canada Revenue Agency (CRA) the ability to monitor compliance, the limitation period for reassessing the transferor's liability would be extended by three years for an immediate business transfer and by 10 years for a gradual one.

Alternative Minimum Tax (AMT) – The AMT rate is proposed to rise to 20.5 per cent (from 15 per cent), and the AMT exemption to increase from $40,000 to about $173,000 (i.e., the lower threshold of the fourth federal tax bracket for 2024). Measures that would broaden the AMT base for 2024 and later tax years include:

- increasing the AMT capital gains inclusion rate to 100 per cent (from 80 per cent), and the rate for capital loss carryforwards and allowable business investment losses would apply at 50 per cent
- including in the AMT base 30 percent of capital gains on donations of publicly listed securities and the full benefit from certain employee stock option donations
- disallowing 50 percent of employment expenses (unless incurred to earn commission income), moving expenses, childcare expenses and other deductions and expenses
- allowing only 50 percent of certain non-refundable tax credits to reduce the AMT

Employee Ownership Trusts – Further details are provided on Employee Ownership Trusts (EOT), which are designed to facilitate the purchase of a business by its employees without requiring them to pay directly to acquire shares. The proposals include qualifying conditions for EOTs and changes to tax rules to facilitate their establishment. The EOT rules will come into force as of January 1, 2024.

Grocery rebate – Budget 2023 proposes to provide a one-time Grocery Rebate to low- and modest-income families by increasing the maximum Goods and Services Tax Credit amount for January 2023. Eligible individuals will receive twice the amount they received for January. The rebate would be paid as soon as possible after the measure is enacted.

Registered plans – Changes announced to tax-assisted registered plans include:

- increasing annual withdrawal limits for beneficiaries of Registered Education Savings Plans (RESP) to $8,000 for eligible full-time programs and to $4,000 for eligible part-time programs
- allowing divorced or separated parents to open joint RESPs

- extending to 2026 the temporary measure that allows a qualifying family member (parent, spouse or common-law partner) to open a Registered Disability Savings Plan (RDSP) and be the plan holder for certain adults whose capacity to enter into an RDSP contract is in doubt, and extending the measure to qualifying siblings

Retirement compensation arrangements – Proposed changes would address refundable tax recovery problems for employers with unfunded plans.

Deduction for tradespersons tools – The maximum employment deduction for tradespeople's tools is increased from $500 to $1,000, for 2023 and later tax years.

International and other income tax changes

Budget 2023 provides an update on Canada's participation in the Organisation for Economic Co-operation and Development/Group of 20 Inclusive Framework on Base Erosion and Profit Shifting two-pillar plan for international tax reform.

Pillar One – Reallocation of taxing rights – This pillar is intended to ensure that large global corporations, including large digital corporations, pay a fair share of tax in the jurisdictions where their users and customers are located. Participating countries aim to complete negotiations so that the convention to implement Pillar One can be signed by mid-2023, and enter into force in 2024.

Digital Services Tax (DST) – The federal government will continue to advance legislation for a DST but hopes that the timely implementation of the new multilateral convention for Pillar One will make the DST unnecessary. If Pillar One is not in force, the DST could be imposed as of January 1, 2024, and payable as of 2024 for revenues earned as of January 1, 2022.

Pillar Two – Global minimum tax – Budget 2023 reaffirms Canada's intention to introduce legislation implementing the Pillar Two global minimum tax. Certain rules, including a domestic minimum top-up tax, would take effect for fiscal years of multinational corporations starting on or after December 31, 2023.

General anti-avoidance rule (GAAR)

Strengthening the GAAR – Budget 2023 released for consultation draft legislative proposals to strengthen the GAAR by:

- introducing a preamble to help address interpretive issues and ensure that the GAAR applies as intended
- changing the avoidance transaction standard from a "primary purpose" test to a "one of the main purposes" test

- introducing a rule requiring transactions to have economic substance considered as part of applying the “abuse or misuse” analysis
- introducing a penalty equal to 25 per cent of the amount of the tax benefit, or nil where the tax benefit involves a tax attribute that has not yet been used to reduce tax (the penalty will not apply if the transaction is reported to the CRA voluntarily or under the proposed mandatory disclosure rules)
- extending the reassessment period in some cases by three years beyond the normal reassessment period (unless the transaction has been disclosed to the CRA)

GST/HST and other indirect tax changes

GST/HST treatment of payment card clearing services – Payment card services by a payment card network operator will be excluded from the GST/HST definition of “financial service” to ensure that these services generally continue to be subject to GST/HST. The rule would apply to a service rendered under an agreement for a supply if any consideration for the supply becomes due, or is paid without becoming due, after March 28, 2023.

About Chartered Professional Accountants of Canada

Chartered Professional Accountants of Canada (CPA Canada) works collaboratively with the provincial, territorial and Bermudian CPA bodies, as it represents the Canadian accounting profession, both nationally and internationally. This collaboration allows the Canadian profession to champion best practices that benefit business and society, as well as prepare its members for an ever-evolving operating environment featuring unprecedented change. Representing more than 220,000 members, CPA Canada is one of the largest national accounting bodies worldwide.

CPA
CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA

277 WELLINGTON STREET WEST
TORONTO, ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
WWW.CPACANADA.CA