



2021 Federal Budget Analysis

The 2021 federal budget was tabled on April 19, 2021. The following analysis covers these subject areas:

- tax policy and digital tax
- sustainability and climate change
- data and the digital economy
- skills, the future of work and immigration
- anti-money laundering
- building back better
- responsible fiscal management

Budget 2021 is the first federal budget in two years, arriving 13 months after the start of the COVID-19 pandemic. It includes continuing support for Canadians and businesses, along with major investments for a post-pandemic rebuild. There are many historic commitments intended to build back better for a greener economy and a more resilient and inclusive economy and society.

Here is how Budget 2021 measures up from CPA Canada's perspective. CPA Canada's recommendations are from our pre-budget submission or other submissions to government.

Tax policy and digital tax

CPA Canada Recommendations	2021 Budget
<p>Over the near-term, focus on the following key themes for tax policy and administration, as the country recovers from the pandemic:</p> <ul style="list-style-type: none"> • tax simplification • be disciplined when considering future tax increases • principled decision-making framework for tax changes generally • consider specific tax changes to support the recovery 	<p>Some of the key tax and tax-related measures announced in Budget 2021 include:</p> <ul style="list-style-type: none"> • COVID-19 support and recovery measures <ul style="list-style-type: none"> ○ Extending and adjusting certain COVID-19 support programs, including the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS), and Lockdown Support. ○ Introducing a new Canada Recovery Hiring Program (CRHP) for eligible smaller employers with hard-hit businesses. ○ Proposing to allow the immediate expensing of up to \$1.5 million annually of eligible capital expenditures for Canadian-controlled private corporations (CCPCs), effective for property acquired after April 19, 2021, and put into use before 2024. • Announcing interest deductibility restrictions that would apply to larger corporations, trusts, partnerships and branches. • Other changes have been proposed in the areas of corporate and business taxation, personal taxes, GST/HST and other indirect taxes, in addition to some administration changes. <p>Further details on these and other specific tax measures announced in the budget can be found in CPA Canada's 2021 <u>Federal Budget Tax Highlights</u>.</p>
<p>Undertake to do the following in response to the tax challenges of the digitalization of the economy:</p> <ul style="list-style-type: none"> • Change the GST rules so that non-resident vendors collect the tax on intangible property and services. • Remain committed to and actively contribute to the OECD process to develop an agreed-upon, principles-based global framework for tax in a digitalized world. 	<p>The federal government confirmed that proposals to apply the GST/HST to certain e-commerce transactions will go forward on July 1, 2021.</p> <p>Budget 2021 reaffirms the government's intention to implement a three per cent digital services tax for large businesses on January 1, 2022, which will apply until an acceptable multilateral approach to taxation in the digital economy comes into effect.</p>

Comments:

CPA Canada agrees with the extension of key COVID-19 support programs to help protect Canadians' health, jobs and the economy.

Canada's tax system is a major policy lever for rebuilding the Canadian economy, as it recovers from the COVID-19 pandemic. Tax changes and processes must be simple, principled and disciplined regarding any rate increases and support the economic recovery and rebuilding efforts.

CPA Canada supports extending the GST/HST to digital platforms involving foreign suppliers. We need to level the digital playing field for Canadians versus non-residents and ensure that online business activities are taxed in a fair, efficient and growth-friendly way. However, we have raised both legislative and administrative issues about the regime as originally proposed because it includes a very tight timeline for implementation that does not

provide sufficient time for businesses to prepare for these highly complex new rules. Some issues were addressed in the budget. We continue to discuss administrative issues with the CRA.

On the subject of a digital services tax, we understand that this new tax on corporations will apply until such time as an acceptable multilateral approach to tax digital profits comes into effect. Discussions are underway at the international level toward finding a consistent global approach. That makes the most sense in terms of efficiency and fairness for all countries involved, including Canada.

Sustainability and climate change

CPA Canada Recommendations	2021 Budget
<ul style="list-style-type: none"> Map Canada’s long-term path to a low-emissions, climate-smart economy. Implement, to the degree it can, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). 	<p>Highlights include:</p> <ul style="list-style-type: none"> A commitment of \$5 billion over seven years to increase funding for the Strategic Innovation Fund’s Net Zero Accelerator for projects that will help reduce domestic greenhouse gas emissions across the Canadian economy. A variety of incentives to support cleantech businesses, including a reduction – by 50 per cent – of the general corporate and small business income tax rates for businesses that manufacture zero-emission technologies. An investment tax credit for capital invested in carbon capture, utilization and storage (CCUS) projects, as well as investments to support research, development and demonstrations that would improve the commercial viability of CCUS technologies. The government will engage with the provinces and territories on adoption of climate disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD). Canada’s Crown corporations will adopt the TCFD standards. Measures to support climate change adaptation and resilience as well as preparedness for climate-related disasters.

Comments:

Budget 2021 significantly advances the transition to a cleaner economy. Importantly, much of the spending is directed to innovation, technology and encouraging business investment. It builds on the extensive measures proposed in the government’s updated climate plan, *A Healthy Environment and a Healthy Economy*, introduced in December 2020.

CPA Canada is particularly pleased to see the intention to engage provinces and territories on adoption of the TCFD framework, something that requires implementation at both levels. As well, CPA Canada has long recommended that the government develop a national adaptation plan, so it is worth noting that the updated climate plan includes a proposal to develop Canada’s first-ever National Adaptation Strategy in collaboration with other jurisdictions and stakeholders. CPA Canada strongly supports this proposal and looks forward to contributing to its development.

One of the smaller but more intriguing announcements is the plan to undertake Canada’s first-ever census of the environment. CPA Canada has voiced the need for more decision-useful climate data and has also done work on improving understanding of natural capital. A census of the environment could provide foundational data to advance both of those areas of work.

Data and the digital economy

CPA Canada Recommendations	2021 Budget
<ul style="list-style-type: none">• Continue the work outlined in Canada's Digital Charter to modernize legislation and regulatory frameworks to build trust in the digital economy and ensure sound data governance.• Accelerate efforts to close Canada's gaps in providing broadband access to all homes and businesses.	<p>Budget 2021 proposes to:</p> <ul style="list-style-type: none">• Establish a Canada Digital Adoption Program, intended to help up to 160,000 small and medium-sized businesses adopt digital technologies. It will provide micro-grants to eligible businesses to offset the costs of going digital. A second stream will provide more comprehensive support to qualifying businesses, including technology planning and financing options.• Further incentivize businesses to transition to a more productive, knowledge-intensive economy, by allowing immediate expensing of up to \$1.5 million of eligible investments by Canadian-controlled private corporations.• Allocate an additional \$1 billion over six years to the Universal Broadband Fund to support a more rapid rollout of broadband projects.• Devote funding to the establishment of the office of a Data Commissioner, as promised during the 2019 election, and to continue the work of the Standards Council of Canada on data governance.

Comments:

The budget provides a range of supports to small and medium-sized enterprises, including funding for technology adoption, skills training, advice, and research and development of customized technology solutions. These measures should incentivize business investment that will improve productivity and competitiveness. Additional money for the Universal Broadband Fund is welcome, and we encourage the government to continue to address the challenge of connectivity gaps in rural and isolated communities.

Skills, the future of work and immigration

CPA Canada Recommendations	2021 Budget
<ul style="list-style-type: none"> • Ensure Canadians are equipped with marketable skills and able to pivot to meet evolving labour market needs. • Re-imagine Employment Insurance and access to certain benefits to align them with the changing nature of work. 	<p>Budget 2021 proposes numerous skills-related measures targeted at different groups:</p> <ul style="list-style-type: none"> • Support Indigenous students and indigenous post-secondary institutions during the Covid-19 pandemic. • Investments to help connect youth and students with employers and provide them with job opportunities and work-integrated learning placements. • Creation of the new Sectoral Workforce Solutions Program, which would help design and deliver training that is relevant to the needs of businesses and to their employees. • Development of a new Skills for Success program to help Canadians at all skill levels improve their foundational and transferable skills. • Funding for a Community Workforce Development Program, which will help communities identify high potential growth organizations and connect them with training providers who will offer programs to upskill and reskill jobseekers to fill jobs in demand. • Investment for an initiative to scale-up proven industry-led, third-party delivered approaches to upskill and redeploy workers to meet the needs of growing industries. <p>The government intends to establish a federal minimum wage of \$15 per hour, rising with inflation.</p> <p>There will be changes to make Employment Insurance (EI) more accessible and simple over the coming year. Looking to the longer term, the government will consult on potential reforms of the system and examine systemic gaps faced by self-employed and gig workers, individuals in seasonal industries as well as workers experiencing different life events.</p> <p>On immigration, Budget 2021 commits to introduce accelerated pathways to permanent residence for certain workers and international graduates, to enhance the Temporary Foreign Worker Program, and to streamline Canada's Express Entry system to help select candidates who best meet Canada's labour market needs.</p>

Comments:

CPA Canada welcomes the extensive suite of commitments to help a wide variety of Canadians acquire new skills and credentials that are relevant to the needs of businesses and employers. Highly sought-after skills will be key to enable individuals to meet evolving labour market needs and adapt to the post-COVID economy.

We strongly encourage the government to ensure that funded training programs are accessible to the Canadians that were the most impacted by the pandemic. A premium should be put on promoting and increasing the awareness of existing and new training opportunities amongst low-wage workers, women, racialized Canadians, people with disabilities and Indigenous peoples.

The commitments to improve the EI program and to look into systemic gaps and the impacts of the changing nature of work are welcome.

Canada relies heavily on immigration to help meet the demand for highly skilled workers, to counter the aging of our population, and to help grow the economy. In this regard, the different measures proposed in Budget 2021 are welcome and timely to help Canada reach its ambitious three-year immigration targets.

Anti-money laundering

CPA Canada Recommendations	2021 Budget
The CPA profession supports beneficial ownership transparency, a national framework for whistleblowing, and an enhanced ability for public and private-sector partners in the regime to share information.	Budget 2021 proposes to provide: <ul style="list-style-type: none">• \$2.1 million over two years to Innovation, Science and Economic Development Canada to support the implementation of a publicly accessible corporate beneficial ownership registry by 2025.• \$4.6 million over four years, starting in 2022-23, for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), including to build its expertise, and develop and administer a cost recovery scheme for its compliance activities.

Comments:

CPA Canada supports increased corporate beneficial ownership transparency. In implementing a publicly accessible registry, we will watch for the government to incorporate our recommendations such as tiered access to the information, and taking a phased-in approach to creating the registry by centralizing information first before moving to a public registry with tiered access.

Building back better

CPA Canada Recommendations	2021 Budget
<p>CPA Canada will look for budget measures that contribute to development of a more sustainable, digitally enabled and competitive economy.</p>	<p>Budget 2021 includes numerous measures that are intended to “build back better.” Among them are proposals for:</p> <ul style="list-style-type: none"> • supporting the digital transformation of SMEs, including immediate expensing of eligible investments in digital and other assets (see details above) • investing in a green recovery and toward a net-zero emissions economy (see details above) • establishing a national childcare system that will assist women to return to the workforce post-pandemic • a new hiring program for eligible smaller employers with businesses hard hit by the pandemic • increasing a benefit for low-wage workers to lift more people out of poverty • an historic investment in Indigenous communities and reconciliation • fighting systemic racism

Comments:

While immediate attention must focus on COVID-19 and its fallout, the over 700-page budget plan makes it clear the government is looking to prepare Canadians and the economy for a different post-pandemic world. There are measures and funding aimed at keeping the country competitive, innovative and sustainable in an increasingly data-driven and carbon-conscious economy. Commitments toward inclusion, resilience and equality figure prominently in this plan to rebuild.

The government intends to monitor its progress in building back better. It will refer to a newly proposed quality of life framework for Canada, which will go “beyond GDP” and include measures of well-being.

Responsible fiscal management

CPA Canada Recommendations	2021 Budget
<p>CPA Canada supports a balanced fiscal anchor (“fiscal framework”) that considers both the benefits/drawbacks of various measures/anchors. The fiscal anchor should be defined in Budget 2021.</p>	<p>Budget 2021 states that the federal government is committed to unwinding COVID-related deficits and reducing the federal debt as a share of the economy over the medium-term.</p> <p>The deficit projections are as follows:</p> <p>2020 to 2021: -\$354.2 billion</p> <p>2021 to 2022: -\$154.7 billion</p> <p>2022 to 2023: -\$59.7 billion</p> <p>2023 to 2024: -\$51.0 billion</p> <p>2024 to 2025: -\$35.8 billion</p>

Comments:

The accounting profession appreciates that support measures continue to be required during these challenging times, while cognizant of the work ahead to manage the nation's finances.

CPA Canada has been strongly encouraging the government to adopt a fiscal anchor framework to address mounting pandemic-related debt and to achieve sustainable planning going forward. In addition, the International Monetary Fund, in its annual report, warned Canada of the importance of clearly specifying a medium-term fiscal anchor to guard against a potential weakening of credibility in the fiscal framework.

In the budget, the government proposes a new fiscal anchor of reducing the federal debt as a share of the economy over the medium-term, without setting a range of limits or targets for that anchor. The budget forecasts a slight and gradual downward track in the federal debt-to-GDP ratio to 49 per cent in 2025 to 2026 and a declining deficit-to-GDP ratio over the same time period.

CPA Canada would welcome further details to reassure Canadians, businesses and investors that Canada has a long-term plan for managing its debt and deficits in light of variables affecting economic growth and fiscal health.

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