Federal Budget 2023

On Tuesday March 28, 2023, Finance Minister Chrystia Freeland tabled the Liberal government's 2023-24 Federal Budget in Parliament, with the document subtitled: *"A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future".*

Note that a Budget is a statement of the governing party's intention. Until passed into law, its content is to be considered as proposals, particularly where the ruling party has a minority of the seats, as is the case presently.

This summary highlights provisions relevant to savings, investment and financial planning of individuals, families and small businesses. We begin with a summary of current tax rates, then turn to the Budget's themes:

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Federal Income Tax Brackets & Rates

Individual Bracket Indexing 2022 to 2023

There were no changes to personal income tax rates, other than normal annual indexing. Personal brackets have been indexed by 6.3% over 2022 levels. For 2023, the basic personal amount/credit is $15,000, incrementally reduced as income exceeds the 29% fourth bracket to $13,521 once income reaches the 33% bracket threshold.

2022 from	Tax rate	2023 from
$0	15.0%	$0
$50,197	20.5%	$53,359
$100,392	26.0%	$106,717
$155,625	29.0%	$165,430
$221,708	33.0%	$235,675

Corporations

The general rate remains 15%, and the small business rate remains 9% on the first $500,000 of taxable income.

Making Life More Affordable

Grocery Rebate

Groceries are more expensive today, and for many Canadians, higher prices on essential goods are causing undue stress.

Proposal – $2.5 billion in targeted inflation relief will be provided to Canadians who need it most, in the form of the Grocery Rebate. It is to be delivered through the Goods and Services Tax Credit (GSTC) to eligible individuals as a one-time additional amount equivalent to twice the amount received for January 2023. The Grocery Rebate would be paid as soon as possible following the passage of legislation, with maximum payments of:

- $153 per adult;
- $81 per child; and,
- $81 for the single supplement.

Junk Fees

Unexpected, hidden, and additional fees add up quickly. From internet overage charges, to roaming fees, to event fees, Canadians deal with junk fees every day.

Proposal – The government will work with regulatory agencies, provinces, and territories to reduce junk fees for Canadians. This could include higher telecom roaming charges, event and concert fees, excessive baggage fees, and unjustified shipping and freight fees.

Predatory Lending

The current criminal rate of interest under the Criminal Code, equivalent to 47% APR (annual percentage rate), can trap Canadians in a cycle of debt that they cannot afford and cannot escape.

Proposal – The government will introduce changes to the Criminal Code to lower the criminal rate of interest from the equivalent of 47% APR to 35% APR, and to adjust the payday lending exemption to require payday lenders to charge no more than $14 per $100 borrowed. It will then launch consultations on whether the criminal rate of interest should be further reduced.

Right to Repair

When it comes to broken appliances or devices, high repair fees and a lack of access to specific parts often mean Canadians are pushed to buy new products rather than repairing the ones they have.

Proposal – The government will work to implement a right to repair, with the aim of introducing a targeted framework for home appliances and electronics in 2024.

Common Chargers for Your Devices

Every time Canadians purchase new devices, they need to buy new chargers to go along with them, which drives up costs and increases electronic waste. Recently, the European Union moved towards mandating USB-C charging ports for all small handheld devices and laptops by the end of 2024.

Proposal – The federal government will work with international partners and other stakeholders to explore implementing a standard charging port in Canada, with the aim of lowering costs for Canadians and reducing electronic waste.

Automatic Tax Filing

Up to 12% of Canadians currently do not file their tax returns—the majority of whom are low-income, and would pay little to no income tax. Many of these low-income Canadians are missing out on valuable benefits and support to which they are entitled, such as the Canada Child Benefit and the Guaranteed Income Supplement.

Proposal – To ensure more low-income Canadians have the ability to quickly and easily auto-file their tax returns, the federal government will increase the number of eligible Canadians for File My Return to two million by 2025—almost triple the current number. As well, the CRA will pilot a new automatic filing service starting next year that will help vulnerable Canadians who currently do not file their taxes receive the benefits to which they are entitled.

Health and Dental

The New Canadian Dental Care Plan

Across Canada, millions of Canadians are avoiding the dental care they need because it costs too much—possibly choosing between taking care of their teeth and being able to pay the bills at the end of the month.

Proposal – The government will provide $13.0 billion over five years, starting in 2023-24, and $4.4 billion ongoing to Health Canada to implement the Canadian Dental Care Plan. The plan will provide dental coverage for uninsured Canadians with annual family income of less than $90,000, with no co-pays for those with family incomes under $70,000. The plan would begin providing coverage by the end of 2023.

Oral Health Access Fund

In addition to cost, other factors may also prevent Canadians from accessing the dental care they need, such as living in a remote community, or requiring specialized care due to a disability.

Proposal – The government will provide $250 million over three years, starting in 2025-26, and $75 million ongoing to Health Canada to establish an Oral Health Access Fund. The fund will complement the Canadian Dental Care Plan by investing in targeted measures to address oral health gaps among vulnerable populations and reduce barriers to accessing care, including in rural and remote communities.

Education and students

Making Life More Affordable for Students

Over 750,000 post-secondary students rely on federal assistance each year to help them afford the cost of tuition, housing, and everyday essentials. When COVID-19 disrupted students' lives, the government doubled the amount of income-tested support through Canada Student Grants. This support is set to expire on July 31, 2023.

Proposal – $813.6 million is to be made available in 2023-24 to enhance student financial assistance for the school year starting August 1, 2023, including:

- Increasing Canada Student Grants by 40%—providing up to $4,200 for full-time students.
- Raising the interest-free Canada Student Loan limit from $210 to $300 per week of study.
- Waiving the requirement for mature students, aged 22 years or older, to undergo credit screening in order to qualify for federal student grants and loans for the first time. This will allow up to 1,000 additional students to benefit from federal aid in the coming year.

Improving Registered Education Savings Plans

The cost of attending a post-secondary school has risen in recent years. Registered Education Savings Plans (RESPs) are an important part of saving for post-secondary education. At present, withdrawals in the early stage of education are limited to $5,000 for full-time students, and $2,500 for part-time students

Proposal – Rules for an RESP will be amended to permit education assistance payment (EAP) withdrawals of up to $8,000 in respect of the first 13 consecutive weeks of enrollment for beneficiaries enrolled in full-time programs, and up to $4,000 per 13-week period for beneficiaries enrolled in part-time programs. These changes would come into force on Budget Day.

At present, only spouses or common-law partners can jointly enter into an agreement with an RESP promoter to open an RESP. Parents who opened a joint RESP prior to their divorce or separation can maintain this plan afterwards, but are unable to open a new joint RESP with a different promoter.

Proposal – Divorced or separated parents will be allowed to open a joint RESP for one or more of their children, or to move an existing joint RESP to another promoter. This change would come into force on Budget Day.

Savings and retirement

Registered Disability Savings Plans

Where the contractual competence of an individual who is 18 years of age or older is in doubt, the RDSP plan holder must be that individual's guardian or legal representative as recognized under provincial or territorial law. A temporary measure, which is legislated to expire on December 31, 2023, allows a qualifying family member, who is a parent, spouse or common-law partner, to open an RDSP and be the plan holder for an adult.

Proposal – The temporary measure for a qualifying family member to be a plan holder is to extended by three years, to December 31, 2026. A qualifying family member who becomes a plan holder before the end of 2026 could remain the plan holder after 2026. As well, the definition of 'qualifying family member' will be broadened to include a brother or sister of the beneficiary who is 18 years of age or older.

Retirement Saving – Personal Support Workers

Personal support workers perform jobs that are mentally and physically exhausting, but they often do not enjoy the same job protections, compensation, and benefits as their peers in the health care sector.

Proposal – Starting in 2023-24 and continuing over five years, up to $50 million will be provided to Employment and Social Development Canada to develop and test innovative solutions to strengthen the retirement savings of personal support workers without workplace retirement security coverage.

Retirement Compensation Arrangements

Under the *Income Tax Act*, a retirement compensation arrangement (RCA) is a type of employer-sponsored arrangement that generally allows an employer to provide supplemental pension benefits to employees. When arranged by way of a letter of credit, the employer may not be able to recover a portion of the 50% refundable tax.

Proposal – An amendment to the *Income Tax Act* is proposed such that fees or premiums paid for the purposes of securing or renewing a letter of credit (or a surety bond) for an RCA that is supplemental to a registered pension plan will not be subject to the refundable tax. This change would apply to fees or premiums paid on or after Budget Day.

Lifestyle

Protecting Passenger Rights

When Canadians travel by air, their experience should be safe, dependable, and respectful of their rights.

Proposal – The government intends to amend the Canada Transportation Act to strengthen airline obligations to compensate passengers for delays and cancellations. These changes will align Canada's air passenger rights regime with those of leading international approaches and ensure that Canadians are fairly compensated for travel delays that are within airlines' control.

Proposal – Also, the the government intends to amend the Canada Transportation Act to make the Canadian Transportation Agency's complaint adjudication process more efficient, and to provide the Minister of Transport with the authority to impose a regulatory charge on airlines to help cover the costs of resolving air passenger complaints.

Air Travellers Security Charge

The Air Travellers Security charge (ATSC) came into effect in April 2002 to fund the air travel security system, including the Canadian Air Transport Security Authority (CATSA), which is the federal authority responsible for the security screening of air passengers and their baggage. The ATSC is generally paid by passengers when they purchase airline tickets.

Proposal – Budget 2023 proposes to provide $1.8 billion over five years, starting in 2023-24, to maintain and increase CATSA's level of service, improve screening wait times, and strengthen security measures at airports. To support this, ATSC rates will be increased by 32.85%. From May 2024 the domestic rates will be $9.94 and $19.87 for one-way and round trip respectively, $16.89 for transborder and $34.42 for other international.

Alcohol Excise Duty

Under the *Excise Act* and the *Excise Act, 2001*, alcohol excise duties are automatically indexed to total Consumer Price Index (CPI) inflation at the beginning of each fiscal year (i.e., on April 1).

Proposal – The government will temporarily cap the inflation adjustment for excise duties on beer, spirits and wine at 2%, for one year only, as of April 1, 2023. The excise duty rates for 2023-2024 under this cap will be $13.303 per litre of spirit alcohol, $0.702 per litre of wine, and $35.516 per hectolitre of beer.

Small business and workers

Deduction for Tradespeople's Tool Expenses

A tradesperson can claim a deduction of up to $500 of the amount by which the total cost of eligible new tools acquired as a condition of employment exceeds the amount of the Canada Employment Credit ($1,368 in 2023).

Proposal – Budget 2023 proposes to double the maximum employment deduction for tradespeople's tools from $500 to $1,000, effective for 2023 and subsequent taxation years.

Credit Card Fees for Small Businesses

Small businesses pay an "interchange fee" to card issuers fees to process credit card transactions.

Announcement – The government has secured commitments from Visa and Mastercard to lower fees for small businesses, while also protecting reward points for Canadian consumers offered by Canada's large banks. Small businesses will also benefit from free access to online fraud and cyber security resources from Visa and Mastercard to help them grow their online sales, while preventing fraud and chargebacks.

More details, including eligible businesses, will be released in the coming weeks.

Employee Ownership Trusts

An Employee Ownership Trust (EOT) is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to pay directly to acquire shares.

Proposal – Budget 2023 proposes new rules to facilitate the use of EOTs to acquire and hold shares of a business. The new rules would define qualifying conditions to be an EOT and propose changes to tax rules to facilitate the establishment of EOTs.

These changes would extend the capital gains reserve to ten years for qualifying sales to an EOT, create an exception to the current shareholder loan rule, and exempt EOTs from the 21-year deemed disposition rule that applies to certain trusts.

Family Business Transfers (Bill C-208)

A private member's bill from the 43rd Parliament (Bill C-208), introduced an exception to section 84.1, effective June 29, 2021, for certain share transfers from parents to corporations owned by their children or grandchildren. The government held up implementation of Bill C-208, to assure there were safeguards such that the new rules could not be used to convert corporate distributions ordinarily taxed as dividends into lower-taxed capital gains.

Proposal – To ensure that only genuine intergenerational share transfers are excluded from the application of section 84.1, additional conditions are proposed to be added. To provide flexibility, taxpayers who wish to undertake a genuine intergenerational share transfer may choose to rely on one of two transfer options:

- An immediate intergenerational business transfer (three-year test) based on arm's length sale terms; OR
- A gradual intergenerational business transfer (five-to-ten-year test) based on traditional estate freeze characteristics (an estate freeze typically involves a parent crystalizing the value of their economic interest in a corporation to allow future growth to accrue to their children while the parent's fixed economic interest is then gradually diminished by the corporation repurchasing the parent's interest).

Budget 2023 also proposes to provide a ten-year capital gains reserve for genuine intergenerational share transfers that satisfy the above proposed conditions.

These measures would apply to transactions that occur on or after January 1, 2024.

Tax compliance

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) is a parallel tax calculation that allows fewer deductions, exemptions, and tax credits than under the ordinary income tax rules, and that currently applies a flat 15% tax rate with a standard $40,000 exemption amount instead of the usual progressive rate structure.

Proposals – To better target the AMT to high-income individuals, Budget 2023 proposes several changes, all to come into force for taxation years that begin after 2023.

Broadening the AMT base

- Increase the AMT capital gains inclusion rate from 80% to 100%. Capital loss carry forwards and allowable business investment losses would apply at a 50% rate.
- 100% of the benefit associated with employee stock options would be included in the AMT base.
- 30% of capital gains on donations of publicly listed securities in the AMT base, mirroring the AMT treatment of capital gains eligible for the lifetime capital gains exemption.
- Currently, most non-refundable tax credits can be credited against the AMT. The government proposes that only 50% of non-refundable tax credits would be allowed to reduce the AMT, with some exceptions.

Raising the AMT exemption

The exemption amount is a deduction available to all individuals (excluding trusts, other than graduated rate estates) that is intended to protect lower and middle-income individuals from the AMT.

The government proposes to increase the exemption from $40,000 to the start of the fourth federal tax bracket. Based on expected indexation for the 2024 taxation year, this would be approximately $173,000. The exemption amount would be indexed annually to inflation.

Increasing the AMT rate

The government proposes to increase the AMT rate from 15% to 20.5%, corresponding to the rates applicable to the first and second federal income tax brackets, respectively.

General Anti-Avoidance Rule

The general anti-avoidance rule (GAAR) in the *Income Tax Act* is intended to prevent abusive tax avoidance transactions while not interfering with legitimate commercial and family transactions. If abusive tax avoidance is established, the GAAR applies to deny the tax benefit created by the abusive transaction. The government recently conducted a consultation on various approaches to modernizing and strengthening the GAAR.

Proposal – To respond to the issues raised during the consultation, Budget 2023 proposes to amend the GAAR by: introducing a preamble to help address interpretive issues; changing the avoidance transaction standard from a “primary purpose” test to a “one of the main purposes” test; introducing an economic substance rule; introducing a new penalty; and extending the reassessment period in certain circumstances. Interested parties are invited to express their views to the Department of Finance Canada by May 31, 2023.

For more information, please consult your financial advisor and tax professional.

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