

TAX FLASH BULLETIN

Federal Economic and Fiscal Update 2021

On December 14, 2021, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, presented Canada's Economic and Fiscal Update 2021. New tax measures in the form of draft legislation accompanied the update documents. We have summarized highlights of the personal and small business tax measures.

INDIVIDUALS

Personal Tax Rates

There were no proposed changes to individual income tax rates for 2021 or 2022. The Canada Revenue Agency (CRA) released the federal 2022 tax brackets and personal amounts earlier this month at an index rate of 2.4%. The fiscal update did not include any changes to capital gains inclusion rates.

2021 Taxable Income	2022 Taxable Income	Tax Rates
\$0 to \$49,020	\$0 to \$50,197	15%
\$49,020 to \$98,040	\$50,197 to \$100,392	20.5%
\$98,040 to \$151,978	\$100,392 to \$155,625	26%
\$151,978 to \$216,511	\$155,625 to \$ 221,708	29%
Over \$216,511	Over \$221,708	33%

Based on known rates at December 14, 2021

Basic Personal Amount	2021	2022
Net income greater than amount at which the 33% bracket begins	\$12,421	\$12,719
Net income less than amount at which the 29% bracket begins	\$13,808	\$14,398

Extension of the Simplified Home Office Expense Deduction

The update extended the simplified home office expense deduction into the 2021 and 2022 tax years. When introduced as a temporary measure for 2020, the flat rate deduction maximum was \$400 per taxpayer working from home. The government will increase the temporary flat rate to \$500 for the 2021 and 2022 personal taxation years to reflect full calendar years since the pandemic began.

Introduction of Underused Housing Tax

The government provided draft legislation for the new national tax on underused Canadian residential housing owned by non-resident, non-Canadian citizens, and non-permanent residents. The tax is not payable if the property is occupied for 180 days or more in the calendar year.

Underused housing tax = 1% X property value X the ownership percentage for the calendar year

The property value is the greater of the provincial assessed value for property tax and the residential property's most recent sale price on or before December 31 of the calendar year. The property owner may elect to use the fair market value of the residential property on or after January 1 of the calendar year and on or before April 30 of the following calendar year.

The draft legislation exempts a residential property primarily occupied by the owner, the owner's spouse or partner, or a child of the owner or owner's spouse or partner, but only if that child is in Canada for the purposes of authorized study.

The government plans to bring forward an exemption for vacation/recreational properties, which would apply to an owner's interest in a residential property for a calendar year if the property:

(1) is located in an area of Canada that is not an urban area within either a census metropolitan area or a census agglomeration having 30,000 or more residents; and

(2) is personally used by the owner (or the owner's spouse or common-law partner) for at least four weeks in the calendar year.

CRA requires affected owners to file their initial 2022 Underused Housing Tax returns on or before April 30, 2023 and pay any tax due on or before that date. Owners eligible for an exemption must file an annual return to claim their exemption.

Enhanced Support for Teachers

The government proposes to increase the 15% Eligible Educator School Supply Tax Credit to 25% for up to \$1,000 in eligible expenses, starting in 2021. The measure broadens the rules to permit teachers to use the teaching supplies at home for online classroom learning. The proposal also expands the list of eligible supplies to include durable goods:

- calculators (including graphing calculators);
- external data storage devices;
- web cams, microphones and headphones;
- wireless pointer devices;
- electronic educational toys;
- digital timers;
- speakers;
- video streaming devices;
- multimedia projectors;
- printers; and

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- laptop, desktop and tablet computers, provided that the employer did not make these items available to the eligible educator for use outside of the classroom.

An eligible educator claiming expenses requires a certificate from their employer attesting to the eligible supplies, including the additional conditions with respect to laptop, desktop, and tablet computers.

BUSINESSES

The economic statement did not propose any changes to federal corporate income tax rates or the \$500,000 small business limit.

Federal Corporate Tax Rates

Corporate Income Type	2021
General corporate income	15.00%
Small business income	9.00%
CCPC* investment income	38.67%
Non-CCPC investment income	15.00%
Manufacturing & processing income	15.00%

**Canadian-controlled private corporation
Based on known rates at December 14, 2021
Rates represent calendar year rates*

Introduction of Small Business Air Quality Improvement Tax Credit

The government wants to encourage small businesses to invest in better ventilation and air filtration to improve indoor air quality by introducing a refundable tax credit for qualifying expenditures incurred between September 1, 2021 and December 31, 2022. The tax credit rate is 25% of up to a maximum of \$10,000 per qualifying location and a maximum of \$50,000 across all qualifying locations. Affiliated businesses would have to share the limits. Consistent with the general treatment of business tax credits, businesses would include the credit amounts in taxable income in the tax year the business claims the credit.

Eligible entities include unincorporated sole proprietors and Canadian-controlled private corporations with taxable capital employed in Canada of less than \$15 million, including associated corporations. Individual or corporate members of a partnership may also qualify.

Qualifying expenditures include the costs of purchase, installation, upgrades, or conversion of mechanical heating, ventilation, and air conditioning systems, and HEPA filters that would meet minimum efficiency reporting values. Routine repair and maintenance is not a qualifying expenditure.

Qualifying locations include properties used by an eligible business primarily in the course of its ordinary commercial activities in Canada (including rental activities), but excluding residences.

Return Fuel Surcharges to Farmers

The government proposes to return fuel charge proceeds directly to farming businesses in Ontario, Manitoba, Saskatchewan, and Alberta via a refundable tax credit starting for the 2021-22 fuel charge year. The credit will be available to corporations, individuals, partnerships, and trusts that are actively engaged in earning income from farming and incur total farming expenses of \$25,000 or more, attributable to the applicable provinces. The payment rate per \$1,000 in eligible farming expenses is \$1.47 for 2021 and \$1.73 for 2022.

Introduction of a Digital Services Tax

The update included draft legislation for the previously announced 3% Digital Services Tax (DST) on revenues from digital services that rely on data content contributions from Canadian users. The tax would apply to large businesses with gross revenue of 750 million Euros or more. It would apply as of January 1, 2024, but only if the OECD treaty implementing a multilateral agreement has not come into force by that time. In that event, the DST would be payable as of 2024 in respect of revenues earned as of January 1, 2022. The government hopes that the timely implementation of the new international system will make this unnecessary. Canada will continue to work with its international partners to implement the new international system.

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