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Budget 2021: What it means for you...

Presented by CHBA National & MNP LLP



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Budget 2021

What it means for:

- Our Industry**
- Your Business (Corporate Tax)**
- You (Personal Tax)**

Budget 2021 & Our Industry

A different Budget Day...



Political Context

- First federal budget since the COVID-19 pandemic began in January 2020
- Potentially a pre-election budget given the tendency of minority governments to last no more than 2 years
- Focused primarily on social programs (childcare) and climate change

From Budget 2021:

"Some parts of our economy, and workers in those sectors – people who work in forests, banks and technology companies, **building homes and selling them**, for example – are already doing better than they were before the pandemic struck. **All of us admire their ingenuity and are grateful for their resilience.**"

"**Getting Canadians back to work** means giving workers in all sectors—from energy, to manufacturing, **to construction**, to customer service—the skills they need for good jobs."

From the Finance Minister

“And a growing country needs to build. **We need to build housing.** We need to build public transit. We need to build broadband. We need to build infrastructure. And we will.

We will invest \$2.5 billion and reallocate \$1.3 billion in existing funding to help build, repair and support 35,000 existing housing units.

And we will support the conversion to housing of the empty office space that has appeared in our downtowns, by reallocating \$300 million from the Rental Construction Financing Initiative.

Houses should not be passive investment vehicles for offshore money. They should be homes for Canadian families. So, on January 1st, 2022, our government will introduce Canada's first national tax on vacant property owned by non-resident, non-Canadians.”



Loans (and Grants) for energy retrofits

- to help homeowners complete deep home retrofits through interest-free loans worth up to \$40,000
 - 4.4 billion on a cash basis (\$778.7 million on an accrual basis over five years, starting in 2021-22, with \$414.1 million in future years) to CMHC
- Available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment
- Companion program to the Green Homes Grant program
 - \$5,000 grant program; free EnerGuide assessments
- CHBA is engaged with NRCan on the Green Homes Grant program and will engage with CMHC on the loans.

Rapid Housing Initiative

- An additional \$1.5 billion will be provided for the Rapid Housing Initiative in 2021-22
- At least 25 per cent of this funding would go towards women-focused housing projects, and units would be constructed within 12 months of when funding is provided to program applicants.
- CHBA was consulted on the design of the RHI and has been supportive of the RHI, but is concerned with the construction timelines, especially in the face of ongoing supply chain issues.

Rental Construction Financing Initiative

- \$300 million in funding in 2021-22 and 2022-23 from the Rental Construction Financing Initiative will be re-allocated to support the conversion of vacant commercial property into housing .

GST New Housing Rebate Changes

- Budget 2021 proposes to remove the condition requires two or more individuals buying a home together must all be doing so use as their primary place of residence or the primary place of residence of a relation.
- Intended to address situations such as where a person seeks to purchase a home with a guarantor
- Currently, there are circumstances where a New Housing Rebate will be denied because a guarantor is listed in the purchase agreement or on title as an owner, with no intention to use the home as such.
- The new rules now permit two or more individuals buy a new home together to be eligible for the rebate, as long as the new home is acquired for use as the primary place of residence of any one of the purchasers or their relations.

Foreign Buyers Vacancy Tax

- Budget 2021 announces the government's intention to implement a national, annual 1 per cent tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused, effective January 1, 2022.
- The tax will require all owners, other than Canadian citizens or permanent residents of Canada, to file a declaration as to the current use of the property, with significant penalties for failure to file. |
- It is estimated this measure will increase federal revenues by \$700 million over four years, starting in 2022-23.
- CHBA will work to ensure the implementation only targets unproductive housing demand and does not stifle much needed new housing supply.

Skilled Trades – Apprenticeship Service

- Budget 2021 proposes to provide \$470 million over three years, beginning in 2021-22, to Employment and Social Development Canada to establish a new Apprenticeship Service
- The Apprenticeship Service would help 55,000 first year apprentices in **construction** and manufacturing Red Seal trades connect with opportunities at small and medium-sized employers
- **Employers would be eligible to receive up to \$5,000** for all first-year apprenticeship opportunities to pay for upfront costs such as salaries and training.
- The incentive doubles to **\$10,000** for employers who hire those underrepresented groups (including women, racialized Canadians, and persons with disabilities).

Extending the Canada Emergency Wage Subsidy

- Budget 2021 proposes to extend the wage subsidy until September 25, 2021.
- It also proposes to gradually decrease the subsidy rate, beginning July 4, 2021, in order to ensure an orderly phase-out of the program as vaccinations are completed and the economy reopens.
- It is estimated that the extension of the wage subsidy will cost \$10.1 billion in 2021-22.
- The Canada Emergency Business Account (CEBA) was recently extended outside of Budget 2021.
- *New: Canada Recovery Hiring Benefit*

Canada Emergency Rent Subsidy and Lockdown Support

- Budget 2021 proposes to extend the rent subsidy and Lockdown Support until September 25, 2021.
- It also proposes to gradually decrease the rate of the rent subsidy, beginning July 4, 2021, in order to ensure an orderly phase-out of this program as vaccinations are completed and the economy reopens.

Other Items

- No capital gains tax on primary residences
- Note on the OSFI stress test – uninsured mortgages
 - No move on insured mortgages
 - CHBA engaged in both
- No major moves on “cooling the market”
- Limited mention of First-time Home Buyer Incentive
- Recognition of supply chain issues
- Recognition of housing supply – new CMHC CEO

Budget Highlights

Budget 2021 Highlights

- Focus on transition from emergency response to recovery
- COVID program supports
 - Extension of CEWS and CERS
 - New Canada Recovery Hiring Program
- Immediate deductions and interest deductibility limitations
- New measures introduced for consultation

Emergency Business Supports

Emergency Business Supports

Overview

- Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) extended until September 25, 2021
- Subsidy rates will gradually decline over July to September periods
- Government may add additional qualifying periods to November 20, 2021, if considered necessary
- CEBA not extended beyond June 30, 2021
- Lockdown support for CERS extended to September 25, 2021 at current 25 percent rate

Emergency Business Supports

Canada Recovery Hiring Benefit (CRHB)

- New program provides eligible employers with subsidy up to 50 percent on incremental remuneration paid to employees between June 6, 2021, and November 20, 2021
- Eligible employers can claim either CRHB or CEWS for a particular period, but not both
- Employers qualify for CRHB if they have a drop in revenue (computed the same as for CEWS)
- Initial baseline period is March 14 to April 10, 2021

Emergency Business Supports

Other Announcements

- Number of weeks Canadians can apply for Canada Recovery Benefit(CRB) extended from 38 to 50 weeks
 - First four weeks paid at \$500 per week; remaining 8 weeks paid at \$300 per week
 - All new claimants after July 17, 2021 would receive \$300 per week benefit, available until September 25, 2021
- Number of weeks Canadians can apply for Canada Recovery Caregiving Benefit extended from 38 to 42 weeks; payments remain \$500 per week
- Potential extension of CRB and associated benefits, as well as regular EI benefits, until no later than November 20, 2021

Corporate Tax Measures

Corporate Tax Measures

2021 Combined Corporate Income Tax Rates

	Small Business Rate		General Rate	
	Rate	Threshold	Non-M&P	M&P
Federal	9.00%	\$500,000	15.00%	15.00%
British Columbia	11.00%	\$500,000	27.00%	27.00%
Alberta	11.00%	\$500,000	23.00%	23.00%
Saskatchewan	9.00%/15.00%	\$500,000/\$600,000	27.00%	25.00%
Manitoba	9.00%	\$500,000	27.00%	27.00%
Ontario	12.20%	\$500,000	26.50%	25.00%
Quebec	13.00%	\$500,000	26.50%	26.50%
New Brunswick	11.50%	\$500,000	29.00%	29.00%
Nova Scotia	11.50%	\$500,000	29.00%	29.00%
Prince Edward Island	11.00%	\$500,000	31.00%	31.00%
Newfoundland and Labrador	12.00%	\$500,000	30.00%	30.00%

Corporate Tax Measures

Immediate Deduction

- Budget 2021 proposes temporary immediate deduction of newly acquired property, other than certain property such as buildings and goodwill, by a Canadian-Controlled Private Corporation (CCPC)
- Available for “eligible property” acquired by a CCPC on or after April 19, 2021, and becomes available for use before January 1, 2024, up to a maximum of \$1.5M per taxation year
- Immediate deduction only in the year property becomes available for use
- \$1.5M to be shared among associated members of a group of CCPCs

Corporate Tax Measures

Interest Deductibility Limitations

- Budget 2021 introduces rules to limit amount of net interest expense that a corporation may deduct in computing taxable income → limited to no more than fixed ratio of “tax EBITDA”
- Measures to be phased in, with fixed ratio of 40 percent for taxation years beginning on or after January 1, 2023, but before January 1, 2024, and 30 percent for taxation years beginning on or after January 1, 2024
- Measure will apply to existing as well as new borrowings

Corporate Tax Measures

Interest Deductibility Limitations

- These rules will also apply to trusts, partnerships and Canadian branches of non-resident taxpayers
- Exemptions from rule available for:
 - CCPCs that, together with any associated corporations, have taxable capital employed in Canada of less than \$15M; and
 - Groups of corporations and trusts whose aggregate net interest expense among Canadian members is \$250,000 or less
- Interest denied under rule may be carried forward up to 20 years or carried back up to 3 years → denied interest may be carried back to taxation years that begin prior to effective date of this rule

Corporate Tax Measures

Compliance and Reporting

- Budget 2021 launches public consultations on proposals to enhance mandatory disclosure rules
 - Will address changes to ITA's reportable transaction rules, a new requirement to report notifiable transactions, and a new requirement for specified corporations to report uncertain tax treatments
- Budget 2021 also builds on previous investments with new measures to combat tax evasion and aggressive tax avoidance

Corporate Tax Measures

Other Announcements

- Budget 2021 proposes to fund Innovation, Science and Economic Development Canada to support implementation of publicly accessible corporate beneficial ownership registry by 2025
- Government intends to introduce legislation to establish a federal minimum wage of \$15 per hour, rising with inflation, unless provincial or territorial minimum wages are higher

Personal Tax Measures

Personal Tax Measures

2021 Combined Personal Top Marginal Income Tax Rates

	Other Income	Capital Gains	Canadian Dividends	
			Eligible	Non-Eligible
Federal	33.00%	16.50%	24.81%	26.64%
British Columbia	53.50%	26.75%	36.54%	48.89%
Alberta	48.00%	24.00%	34.31%	42.30%
Saskatchewan	47.50%	23.75%	29.64%	42.29%
Manitoba	50.40%	25.20%	37.78%	46.67%
Ontario	53.53%	26.76%	39.34%	47.74%
Quebec	53.51%	26.65%	40.11%	48.02%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Nova Scotia	54.00%	27.00%	41.58%	48.27%
Prince Edward Island	51.37%	25.69%	34.22%	45.23%
Newfoundland and Labrador	51.30%	25.65%	42.61%	44.59%

Personal Tax Measures

- Tax treatment of COVID-19 benefit amounts
 - Allows individuals the option to claim a deduction for repayment of a COVID-19 benefit amount in computing income for the year in which benefit was received, rather than the year repayment was made
- Budget 2021 proposes a tax on registered investments held by a limited number of investors
- Enhance Canada Workers Benefit by increasing phase-in and phase-out rates and threshold, and introduced “secondary earner exemption” for individuals with eligible spouse

Personal Tax Measures

- Expand eligibility for Disability Tax Credit
- Expand access to travel component of Northern Residents Deduction
- Include postdoctoral fellowship income in “earned income” for RRSP purposes
- Provide one-time payment of \$500 in August 2021 to OAS pensioners over the age of 75 as of June 2022 and increase regular OAS payments for pensioners 75 and over by 10 percent on an ongoing basis as of July 2022

Indirect Tax Measures

Indirect Tax Measures

- Application of GST/HST to E-commerce
 - Clarification and qualifications added to legislation introduced in 2020 Fall Economic Statement
- Digital Services Tax
 - Tax on foreign and domestic corporations earning revenue from engagement with online users in Canada → application January 1, 2022
- Documentation requirement thresholds for input tax credits increased from \$30-\$150 to \$100-\$500, allowing increased flexibility for taxpayers in supporting ITC claims

Indirect Tax Measures

- GST New Housing Rebate
 - Removes condition where two or more individuals must buy new home together as primary residence for both → now only must be primary residence of one of the individuals
- Excise Duty - Tobacco
 - Increase of tobacco excise duty rate by \$4 per carton of 200 cigarettes; an inventory tax of \$0.02 per cigarette (with certain exemptions) applies effective April 20, 2021
- Excise Duty – Vaping Products
 - Implementation of tax on vaping products in 2022; consultation process announced

Indirect Tax Measures

- Tax on Luxury Goods
 - New tax on retail sale of new luxury cars and personal aircraft priced over \$100,000 and boats priced over \$250,000, effective January 1, 2022
 - Tax will be lesser of 10 percent of full value of vehicle or aircraft, or 20 percent of value above \$100,000
 - For boats priced over \$250,000, tax will be lesser of 10 percent of full value or 20 percent of value above \$250,000
 - Tax will apply at final point of purchase; GST/HST will apply to final sale price, inclusive of proposed tax

Indirect Tax Measures

- Tax on Unproductive Use of Canadian Housing by Foreign Non-resident Owners
 - New national 1 percent tax on value of non-resident, non-Canadian owned residential real estate considered to be vacant or underused
 - Tax will be levied annually beginning in 2022
 - Beginning in 2023, all owners of residential property in Canada, other than Canadian citizens or permanent residents of Canada, will be required to file an annual declaration for the prior calendar year with CRA in respect of each Canadian residential property they own

Other Tax Measures

Other Measures

International Tax

- Hybrid Mismatch Arrangements
 - Budget 2021 proposes rules where payments made by Canadian residents under hybrid mismatch arrangements would not be deductible for Canadian income tax purposes to extent they give rise to further deduction in another country or not included in ordinary income of non-resident recipient
 - Rules will align Canadian income tax treatment with that in other countries
 - Rules will be implemented in two separate legislative packages with stakeholder comment beginning later in 2021 on the first package

Other Measures

- Government will engage with stakeholders to examine barriers that exist to creating employee ownership trusts
- Delivery of Climate Action incentive payments to change from refundable credit annually on personal income tax returns to quarterly payments made through benefit system, beginning in 2022
- Extension of certain timelines for Canadian Film or Video Production Tax Credit and Film or Video Production Services Tax Credit

Final Thoughts

Closing remarks

- ✓ Budget focused on transition from emergency response to recovery
- ✓ A number of new measures introduced for consultation – MNP will monitor and engage in the consultation process and provide future updates
- ✓ Make sure to check out our COVID-19 advice centre and website
- ✓ Speak to your local MNP Advisor for follow up
- ✓ Subscribe for updates at mnp.ca



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Home Building Week in Canada Housing Economic Outlook Panel



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May 3, 2021 11:00am to 12:30pm EDT
Register at www.chba.ca/webinars