

Canadian
Home Builders'
Association



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FEDERAL BUDGET 2023: WHAT YOU NEED TO KNOW

With CHBA National and MNP

PRESENTERS

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About MNP

- Founded in 1958, MNP is one of the largest national accounting, tax and business consulting firms in Canada.
- With 7,751+ team members in 117 offices in Canada, MNP is dedicated to delivering the right solutions for you.
- We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.





Political Context

- Economy sending mixed signals – e.g. inflation decreasing, but grocery prices still increasing; tight labour markets
- BoC expects inflation down to 3% mid-year, with zero growth
- Most economists predict a mild recession
- Budget positioned as “exercising fiscal restraint”, but with 3 major spending priorities:
 - dental care
 - help for rising cost of living, and
 - investments in clean technology.
- These will lead to rising deficit and debt to GDP metrics
- Vote on the Budget will pass with the support of the NDP (who are taking credit for the dental and making life more affordable measures through their Agreement w/ the Liberals).





CHBA Budget Priorities

- 1. Address issue with new Underused Housing Tax Act and Prohibition on Foreign Buyers Act**
- 2. Address Supply – Launch the Housing Accelerator Fund**
- 3. Avoid More Demand-Side Restrictions and Counter Rising Interest Rates**
- 4. Address the Skilled Trades Shortage and Supply Chain Challenges**
- 5. Avoid Adding Costs Through Codes and Regulations**

BUDGET: “An Affordable Place to Call Home”



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“Over the past year, the federal government has taken significant steps towards making housing more affordable for Canadians. These have included:

- Introducing a two-year **ban on non-resident, non-Canadians purchasing residential property** to help curb speculation and ensure that houses are used as homes for Canadians to live in, rather than as financial assets for foreign investors;
- Introducing a one per cent annual **underused housing tax** on the value of non-resident, non-Canadian owned residential property that is vacant or underused;
- Making sure that profits from **flipping properties** held for less than 12 months are **taxed fully and fairly**;
- Applying the **GST/HST to all assignment sales** of newly constructed or substantially renovated residential housing, to help address speculative trading in the housing market;
- Introducing a new **Tax-Free First Home Savings Account to allow Canadians** to save up to \$40,000, tax-free, to help buy their first home;
- **Doubling the First-Time Home Buyers' Tax Credit** to provide up to \$1,500 in direct support to home buyers to offset closing costs involved in buying a first home;
- Launching a new **\$4 billion Housing Accelerator Fund** to remove barriers and incentivize housing supply growth, with the goal of creating at least 100,000 net new homes across Canada;
- Introducing a new, refundable **Multigenerational Home Renovation Tax Credit**, which will provide up to \$7,500 in support for constructing a secondary suite for a senior or an adult with a disability, starting in 2023;
- Launching a \$200 million stream under the **Affordable Housing Innovation Fund** to develop and scale up rent-to-own projects;
- Launching a third round of the **Rapid Housing Initiative**, which is providing \$1.5 billion to create 4,500 new affordable housing units for Canadians in severe housing need, with 25 per cent of investments going towards housing projects targeted towards women;
- Delivering over \$500 million towards the government's goal of ending chronic homelessness, through **Reaching Home, Canada's Homelessness Strategy**;
- Delivering **a top-up to the Canada Housing Benefit** in December 2022, which provided low-income renters with a \$500 payment to help with the cost of housing.”

FEDERAL FOREIGN BUYERS BAN

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Amendments to the Prohibition on the Purchase of Residential Property by Non-Canadians Act's accompanying Regulations

Ottawa, Ontario, March 27, 2023



Politics

Federal government eases some restrictions on non-Canadians purchasing property

Changes intended to boost housing supply, minister says

- Regulations released December 21 – without the proper pre-publication period.
- Very serious unintended consequences for the home building and development industry in Canada.
- The Association was in continual meetings with government officials in the Housing Minister's office, the Finance Minister's office, and CMHC.
- Worked very closely with BILD-GTA given huge impact in GTA.
- **Key amendment was exception for properties purchased for development, and elimination of clause that prevented purchase of vacant land.**
- This is a **major victory for the Association**. Changes have been made in record time.

UNDERUSED HOUSING TAX ACT



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- All private corporations are now required to file a return (UT-2900) each year, for each completed unit owned as of Dec. 31.
- Major administrative and accounting burden for members.
- CHBA immediately engaged with Finance and Revenue Ministers' offices, CMHC and CRA officials
- CHBA has secured two very important interpretations greatly reducing the level of effort to complete the UHT tax return
 - **For exempted entities, no need to include taxable value if exempted from tax (so no assessed value is required)**
 - **Completed" means 90% completed or more on December 31**
- This interpretation changes from an accounting exercise to clerical exercise, saving significant effort and expense for members
- An "extension" of April 30th deadline, in that there will be no penalty for filing late up to October 31
- **Significant win** and CHBA continues to seek a full exclusion for industry but that will likely require a change to the legislation itself, which will take a longer period of time.



- The HAF formally announced in Budget 2022 but details only announced on March 17, 2023, leading into Budget 2023.
- Intention of the HAF is to incent municipalities to change their systems to enable more market-rate housing supply to come online faster.
- \$4 billion in funding to incent municipalities to fast-track creation of new homes.
- Application portal opens in June (exact date TBA) – but application reference guide has been released to enable municipalities to prepare submissions
- CHBA coordinating with its constituent associations to help ensure municipalities make the best use of these funds to make positive change.

HOUSING ACCELERATOR FUND - Details

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- To be eligible, municipalities must:
 - Present action plan with supply growth targets and specific initiatives to grow housing supply and speed up housing approvals
 - Commit to a housing supply growth target that increases annual growth by at least 10%. The growth rate must also exceed 1.1%
 - Agree to follow the program's reporting requirements (including micro-level permit data and confirmations of achieving growth targets)
 - Have a minimum of 7 initiatives in the action plan





Fund-recommended actions to support housing supply:

- As-of-right Zoning
- Increased density on lots, e.g. missing middle forms
- Accessory dwelling units
- Mixed-use redevelopment of city-owned properties
- Promoting infill development
- Revised parking requirements
- Clear, transparent, predetermined development and amenity charges
- Aligning development charges with the costs of infrastructure and servicing
- Implementing new/enhanced processes or systems (e.g. case management, e-permitting, delegating approvals)
- Reducing and streamlining design guidelines
- Other affordable housing actions, incl. inclusionary zoning that foster development

CHBA to launch Housing Supply social media campaign and support local/provincial associations as they engage their municipalities



- **New Tax-Free First Home Savings Account**
 - Announced in Budget 2022 – to be officially launched on April 1, 2023
 - Ability to save \$40,000 on a tax-free basis
- **Code of Conduct to Protect Canadians with Existing Mortgages**
 - To protect Canadians with mortgages who are facing exceptional circumstances with potential to extend amortizations, adjusting payment schedules, or authorizing lump-sum payments
- **Building More Affordable Housing**
 - Reallocate funding from National Housing Co-Investment Fund's repair stream to new construction stream to boost construction of affordable homes



- **Mortgage Rules and Demand-Side Measures**

- No mention of further tightening of mortgage rules, increasing of interest rates, or other demand-side measures that could additionally dampen new construction.
- CHBA continues to engage with government, the Bank of Canada, CMHC, and OSFI on this key area.

- **Building Codes**

- Previous budgets sought to put still more into Canada's building codes, further driving up costs, but nothing new in Budget 2023 on this front.
- CHBA continues to very actively and extensively engage on challenges with the codes, and to push for innovation to meet the challenges of the future without increasing costs for would-be buyers.
- Note: budget made significant commitments to clean electricity generation and increased grid transmission capacity



- **Skilled Trades**

- Budget highlighted targeted tax supports for Canadian tradespeople including:
 - the labour mobility deduction and
 - doubling of the deduction for tool expenses (new)
 - Apprenticeship Service
 - supports first-year apprentices in construction trades, which provides employers with \$5,000 for upfront costs like salary and training, or \$10,000 for members of underrepresented groups.
- CHBA continues to advocate with government to help address the skilled worker shortage
 - Budget reinforced Canada's commitment to welcome 500,000 immigrants per year, targeting key skill sets like those needed for the building trades.



- **Continued continual engagement with government officials and ministers on priorities, for example:**
 - Interest rate environment, Bank of Canada
 - Key asks like 30-year amortizations for first-time buyers,
 - Indexing of the GST/HST New Housing Rebate,
 - New Housing GST/HST rebate for NZr renovations
 - Ratcheting down the stress test (CHBA is participating in the OSFI consultation on the stress test B20 regulations)
 - Affordability as it pertains to building codes and standards
 - Labour force support, including immigration
 - Support to increase productivity in the sector
 - Working with provincial/local associations to support success of Housing Accelerator Fund
- CHBA Day on the Hill – May 8-10, 2023



2023 Federal Budget

Business and Personal Tax Highlights and Insights

March 28, 2023



Wherever business takes you

[MNP.ca](https://mnp.ca)



Business Tax Measures

Corporate Tax Rates

- No changes in Budget to corporate tax rates

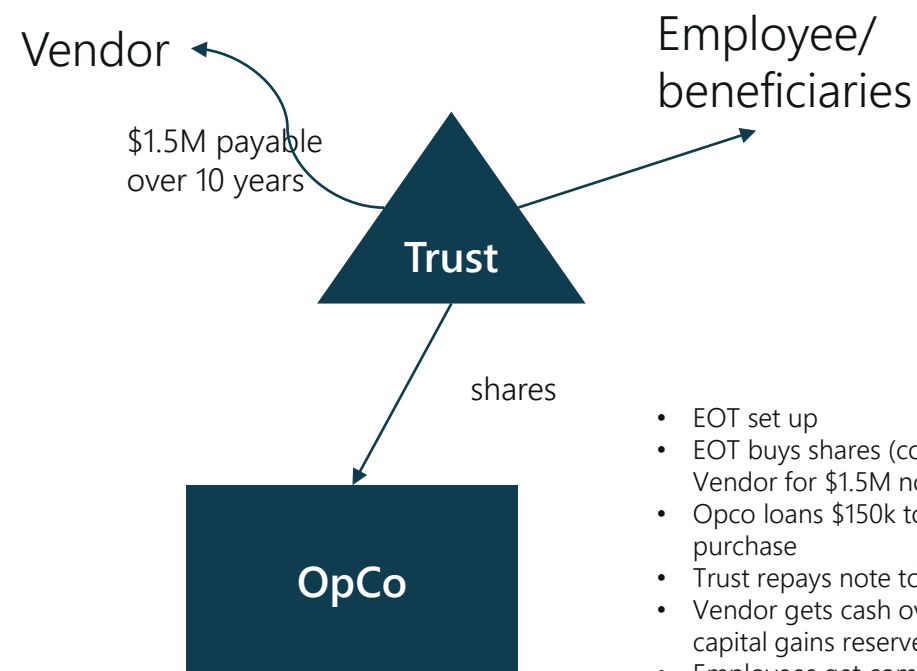
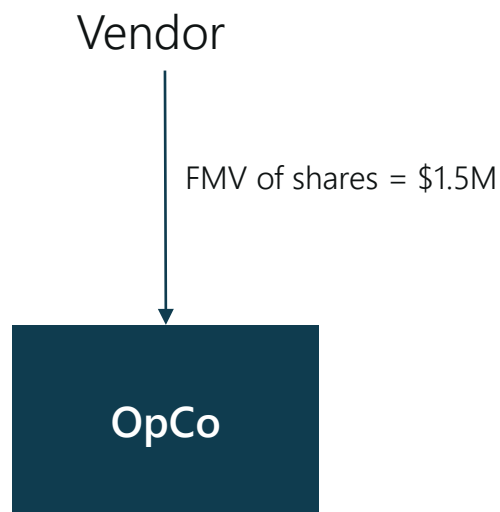
	2023	2024
General Corporate Rate	15.0%	15.0%
Small Business Rate	9.0%	9.0%

- ❖ There are lower tax rates for manufacturers of qualifying zero-emission technology

Employee Ownership Trusts

- Facilitate the purchase of businesses by employees
- Applies as of January 1st, 2024
- Trust must meet certain conditions
 - Example, must own a controlling interest in the business
- 10-year capital gains reserve for qualifying transfers
- 15-year repayment period on shareholder loans

Example: Employee Ownership Trusts



- EOT set up
- EOT buys shares (controlling interest) from Vendor for \$1.5M note payable over 10 years .
- Opco loans \$150k to Trust annually to fund purchase
- Trust repays note to Vendor with this cash
- Vendor gets cash over 10 years. Can claim capital gains reserve and pay tax over 10 years
- Employees get company without having to pay out immediate cash
- Trust still owes Opco \$1.5M after 15 years so that needs be dealt with

New Clean Energy Initiatives

Refundable Tax Credits

- Clean Electricity Credit (15%) for investments in specific electricity generating activities and equipment for transmission between provinces
- Clean Tech Manufacturing Credit (30%) for investments in new machinery and equipment to manufacture clean technologies and extract key critical minerals
- Clean Hydrogen Investment Tax Credit (15-40%) for project costs that produce clean hydrogen

Enhanced Clean Energy Initiatives

- Clean Tech Investment Tax Credit (30%) expanded to include geothermal systems
- Carbon Capture, Utilization and Storage Investment Tax Credit enhanced to add additional equipment
- Reduced corporate rates for zero-emission technology manufacturers extended
- Incentives for producers of lithium from brines (salt rich water) to issue flow-through shares

General Anti-Avoidance Rule

Proposals

1. Add a preamble in legislation to provide clarity on intention of GAAR

- GAAR applies to deny benefit if transaction is an abuse or misuse of Act but allows tax benefits contemplated by Act
- Balances a taxpayer's need for certainty and the government's need to protect the tax base and "fairness of tax system"
- GAAR can apply regardless of whether a tax strategy is foreseen.

2. "Avoidance transaction" test narrowed

- Currently not GAAR if transaction undertaken primarily for bona fide reasons other than to obtain tax benefit. Now avoidance transaction if "one of the main purposes" was to obtain a tax benefit.

General Anti-Avoidance Rule

3. Economic substance test

- Transaction will misuse or abuse if it “is significantly lacking in economic substance”. Factors that will be looked at include (i) no change in opportunity for gain, profit or loss, (ii) value of the tax benefit exceeds the non-tax economic return, (iii) whether the transaction is entirely tax motivated

4. New 25% penalty/extension of reassessment period

- GAAR transactions now subject to 25% penalty of the amount of tax benefit realized and 3 year extension on normal reassessment period unless transaction has been voluntarily or mandatorily disclosed to CRA.

5. Consultation on draft legislation

- Consultations on GAAR open until May 31, 2023 after which revised legislation will come out.

Tax on Public Company Share Buybacks

- 2% tax on net value of an entity's repurchase of equity
- Applies to public companies, real estate investment trusts (REITs), specified investments flow-through (SIFT) trusts; and SIFT partnerships
- Tax does not apply if gross repurchases of equity in a year are less than \$1 million

Personal Tax Measures

Personal Tax Rates

- No changes in Budget to personal tax rates

	2023	2024
Personal Top Rate	53.53	53.53

Intergenerational Transfers

- Bill C-208 framework remains in place
 - Allows for tax effective intergenerational transfer to occur
 - Bill C-208 legislation allows parents to succeed their business to their child in the same manner as a third party sale

Intergenerational Transfers

- Definition of “child” expanded to include extended family members
- Two transfer options:
 - Immediate intergenerational business transfer (3 years)
 - Gradual intergenerational business transfer (5-10 years)

Intergenerational Transfers

- Joint election required
- Child/children jointly and severally liable for any additional taxes payable by the transferor(s)
- Extension to the reassessment period:
 - 3 years for an immediate business transfer
 - 10 years for a gradual business transfer
- Option for a ten-year capital gains reserve
- Relieving provisions for subsequent third party sale or death/disability of the child

Alternative Minimum Tax

- Tax rate increased to 20.5% (from 15%)
- Limiting tax preferences in the AMT calculation
- AMT exemption to increase to \$173,000 in 2024 (estimated)
- Carryforward period will remain unchanged at 7 years
- Applicable for taxation years that begin after 2023

Registered Plans

Registered Education Savings Plans (RESP)

- Increased limits on withdrawals
- Divorced or separated parents will be allowed to open RESP for their children

Registered Disability Savings Plan (RDSP)

- Three-year extension (to December 31, 2026) allowing a qualifying family member (parent, spouse, or common-law partner) to open an RDSP for an adult who is not able to do so on their own
- Allows siblings to be a qualifying family member

Other Personal Tax Measures

Grocery Rebate

- One-time payment for GST credit recipients

Deduction for Tradesperson's Tools

- Doubled for 2023 and subsequent years

Final Thoughts

Closing remarks

- ✓ Targeted business incentives to work towards a clean economy
- ✓ More information released on business succession
- ✓ Full speed ahead on previously announced measures
- ✓ Ongoing stakeholder consultations on tax measures
- ✓ Subscribe for updates and insights at mnp.ca

Disclaimer

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