PERSONAL **Newsletter**

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2021 Federal Budget — Changes for Individuals

The 2021 federal Budget ("Budget 2021") was presented on April 19, 2021. This was the first federal budget since March 2019 and since the pandemic began. Though Budget 2021 announced no significant personal tax changes, there various minor changes that could be relevant to you. All the tax changes pertaining to individuals are summarized below.

Tax Treatment of COVID-19 Benefits

If an individual repays a taxable benefit received due to COVID-19, the amount is deductible for income tax purposes in the year of repayment. Consequently, the individual may be subject to tax on the benefit in the year of receipt, but only be entitled to a tax deduction in the year of repayment, which could be a future year. In such situations, individuals must repay potentially thousands of dollars in COVID-19 benefits, pay tax now on those benefits that they effectively never received, and will receive a tax refund from the repayment deduction in a future year—an onerous result.

Budget 2021 proposes to provide individuals with the option to claim a deduction for the repayment of a COVID-19 benefit amount in the year the individual received the benefit amount rather than the year of repayment. This option is available for benefit amounts repaid at any time before 2023.

Under this proposal, applicable COVID-19 benefits are:

- Canada Emergency Response Benefits/Employment Insurance Emergency Response Benefits;
- Canada Emergency Student Benefits;
- Canada Recovery Benefits;
- Canada Recovery Sickness Benefits; and
- Canada Recovery Caregiving Benefits.

Individuals may only deduct benefit amounts once they are repaid. Where an individual receives the benefit and files their income tax return for the year but subsequently makes a repayment, that individual can request for an adjustment to the return for that year.

Budget 2021 also proposes to ensure that the COVID-19 and similar provincial or territorial benefit amounts noted above, are included in the taxable income of a non-resident individuals (for income tax purposes) who otherwise reside in Canada.

Disability Tax Credit

Budget 2021 proposes several changes that will ease access to the Disability Tax Credit ("DTC").

To be eligible for the DTC, an individual must have a certificate confirming they have a severe and prolonged impairment in physical or mental functions. The effects of the impairment must be such that, even with appropriate devices, medication, and therapy, the individual is blind or is:

- markedly restricted in their ability to perform a basic activity of daily living or would be so restricted were it not for certain therapy ("extensive life-sustaining therapy"); or
- significantly restricted in their ability to perform more than one basic activity of daily living where the cumulative effect of those restrictions is comparable to being markedly restricted in a basic activity of daily living.

The *Income Tax Act* recognizes mental functions necessary for everyday life as one of the basic activities of daily living. Under current rules, these include:

- memory;
- problem-solving, goal-setting, and judgement; and
- adaptive functioning.

Budget 2021 proposes that "mental functions necessary for everyday life" be expanded to include:

- attention;
- concentration;
- memory;
- judgement;
- perception of reality;
- problem-solving;
- goal-setting;
- regulation of behaviour and emotions;
- verbal and non-verbal comprehension; and
- adaptive functioning.

Under the current rules, "extensive life-sustaining therapy" is therapy that:

- is essential to sustain a vital function;
- is required to be administered at least three times each week for a total duration averaging not less than 14 hours a week; and
- cannot reasonably be expected to be of significant benefit to an individual who does not have a severe and prolonged impairment in physical or mental functions.

Budget 2021 proposes to:

- allow reasonable time spent determining dietary intake and/or physical exertion to be considered part of the therapy where this information is essential to and is undertaken for the purpose of determining the dosage of medication that must be adjusted daily;
- clarify that the exclusion of time for medical appointments does not apply to appointments to receive therapy or determine the daily dosage of medication;
- provide that the exclusion of time for recuperation after therapy does not apply to medically required recuperation; and
- in the case of therapy that requires the daily consumption of a medical food or formula to limit intake of a particular compound to levels required for the proper development or functioning of the body, allow reasonable time spent on activities directly related to the determination of the amount of the compound that can be safely consumed to be considered part of the therapy.

Budget 2021 also proposes to count the time reasonably required by another person to assist an individual in performing and supervising the therapy, where the individual is incapable of performing their therapy on their own due to the impacts of their disability.

Budget 2021 further proposes to reduce the required number of therapy sessions per week from three to two (however, the 14 hour per week requirement would remain unchanged).

Canada Workers Benefit

Budget 2021 proposes to enhance the Canada Workers Benefit (CWB). These changes will ultimately put more money into the pockets of recipients.

First, the regular CWB will be improved by increasing:

- the phase-in rate from 26% to 27% for single individuals with no dependants and for families;
- the phase-out threshold from $13,194 to $22,944 for single individuals with no dependants and from $17,522 to $26,177 for families; and
- the phase-out rate from 12% to 15%.

The CWB Disability supplement is also improved by making changes to the phase-in and reduction rates, and reduction threshold. More specifically, the supplement is phased out at a rate of 7.5% for each individual in a couple where both of them receive the disability supplement, and a rate of 15% in other cases. The reduction threshold is increased to align with the point where the base benefit is fully phased out (i.e., from $24,815 under the existing rules to $32,244 for singles individuals with no children and from $37,548 to $42,197 for families).

Budget 2021 also proposes a special rule called "secondary earner exemption" for individuals with an eligible spouse. The rule allows the spouse or common-law partner with the lower working income to exclude up to $14,000 of such income to compute their adjusted net income for the purpose of phasing out the CWB.

These measures will apply to the 2021 and subsequent taxation years. The indexation of CWB amounts will continue after 2021.

COVID-19 Recovery Benefits Extended

In February 2021, the government increased the number of weeks available under the Canada Recovery Benefit and the Canada Recovery Caregiving Benefit by 12 weeks to a total of 38 weeks, the number of weeks available under the Canada Recovery Sickness Benefit from 2 weeks to 4 weeks, and the number of weeks of EI regular benefits available by 24 weeks up to a maximum of 50 weeks.

Budget 2021 proposes to further extend the Canada Recovery Benefit by 12 weeks to a maximum of 50 weeks. The first four of these additional 12 weeks will be paid at $500 per week. As the economy reopens over the coming months, the government intends that the remaining 8 weeks of this extension will be paid at a lower amount of $300 per week claimed. All new Canada Recovery Benefit claimants after July 17, 2021 would also receive the $300 per week benefit, available up until September 25, 2021.

Budget 2021 also proposes to extend the Canada Recovery Caregiving Benefit an additional 4 weeks, to a maximum of 42 weeks, at $500 per week, in the event that caregiving options, particularly for those supporting children, are not sufficiently available in the interim as the economy begins to safely reopen.

Old Age Security Increase for Canadians 75 and Over

Budget 2021 proposes to meet the immediate needs of this group of seniors by providing a one-time payment of $500 in August 2021 to OAS pensioners who will be 75 or over as of June 2022.

Budget 2021 also proposes to introduce legislation to increase regular OAS payments for pensioners 75 and over by 10 per cent on an ongoing basis as of July 2022. This would increase the benefits for approximately 3.3 million seniors, providing additional benefits of $766 to full pensioners in the first year, and indexed to inflation thereafter.

Student Loans Relief

Budget 2021 proposed several beneficial changes to federal student loans.

The government proposes to introduce legislation that would extend the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023.

The federal government provides repayment assistance to borrowers with income of $25,000 per year or less. However, Budget 2021 proposes to increase the threshold for repayment assistance to $40,000 for borrowers living alone, so that nobody earning $40,000 per year or less will need to make any payments on their student loans.

Recognizing that many students lost their source of income due to the pandemic, the federal government recently doubled the Canada Student Grants for the 2020-2021 school year. Budget 2021 proposes to extend the doubling of these grants until the end of July 2023.

The Canada Student Loans Program supports students and borrowers with permanent disabilities through enhanced grants and repayment assistance. But these supports are not available to students whose disabilities are not lifelong. Accordingly, Budget 2021 proposes to extend disability supports under the Canada Student Loans Program to recipients whose disabilities are persistent or prolonged, but not necessarily permanent. This change will benefit an estimated 40,000 recipients with non-permanent disabilities each year through access to up to $22,000 in grants, in-study supports, and specialized repayment assistance on their loans.

Tax on Unproductive Use of Canadian Housing by Foreign Non-Resident Owners

Budget 2021 announces the government's intention to implement a national, annual 1% 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.

Tax on Luxury Goods

Budget 2021 proposes to introduce a tax on the retail sale of new luxury cars and personal aircraft priced over $100,000, and boats priced over $250,000. For vehicles, aircraft and boats sold in or imported to Canada, the tax would apply at the point of purchase if the final sale price paid by a consumer (excluding of GST/HST or provincial sales tax) is above the price threshold.

All new passenger vehicles typically suitable for personal use, including coupes, sedans, station wagons, sports cars, passenger vans and minivans equipped to accommodate less than 10 passengers, SUVs, and passenger pick-up trucks would be subject to the tax.

The following vehicles will be excluded:

- Motorcycles and certain off-road vehicles, such as all-terrain vehicles and snowmobiles;

- Racing cars;
- Motor homes, off-road, construction, and farm vehicles as well as certain commercial (e.g., heavy-duty vehicles such as some trucks and cargo vans) and public sector (such as buses, police cars and ambulances) vehicles and hearses would not be subject to the tax.

The tax would also apply to new boats such as yachts, recreational motorboats and sailboats, typically suitable for personal use. Smaller personal watercraft (e.g., water scooters) as well as floating homes, commercial fishing vessels, ferries, and cruise ships would fall outside the scope of the tax.

For vehicles and aircraft priced over $100,000, the amount of the tax would be the lesser of 10 per cent of the full value of the vehicle or the aircraft, or 20 per cent of the value above $100,000. For boats priced over $250,000, the amount of the tax would be the lesser of 10 per cent of the full value of the boat or 20 per cent of the value above $250,000.

The tax would generally apply at the final point of purchase of new luxury vehicles, aircraft and boats in Canada. In the case of imports, application would generally be either at the time of importation or at the time of the final point of purchase in Canada following importation.

These rules would be effective as of January 1, 2022. Further details will be announced in the coming months.