PERSONAL **Newsletter**

Q4 2021 **Issue 58**

IN THIS ISSUE

Recent Personal Tax Developments

There were a usually high number of personal tax developments in the final weeks of 2021. These notably include the federal government's 2021 Economic and Fiscal Update, and a mandate letter that outlines the government's planned tax changes. This article will attempt to summarize all of these key tax changes that might be relevant to you.

Government's Future Tax Policies Outlined in Mandate Letter

Prime Minister Justin Trudeau recently sent Deputy Prime Minister and Minister of Finance Chrystia Freeland a new mandate letter. The letter outlines the government's future tax commitments. Relevant personal tax changes described in the letter are outlined below:

- the creation of a minimum 15% tax rule for top-bracket earners;
- the introduction of a tax on luxury cars, boats, and planes;
- increasing the Eligible Educator School Supply Tax Credit to 25%, expanding eligibility to include tech devices, and ensuring that teaching supplies purchased for employment duties are eligible no matter where those duties are performed;
- to address labour shortages and help businesses grow, introducing a Labour Mobility Tax Credit of up to $600 per year for workers in the building and construction trades in eligible travel and temporary relocation expenses, and a Career Extension Tax Credit of up to $1,650 per year for seniors who want to stay in the workforce;
- to extend the life of home appliances, introducing a 15% tax credit of up to $500 to cover the cost of repairs performed by technicians;
- supporting first-time home buyers with the introduction of legislation to double the First-Time Home Buyers' Tax Credit;
- working with financial institutions to create a tax-free First Home Savings Account;
- support homeowners by introducing legislation to double the Home Accessibility Tax Credit and to establish a new Multigenerational Home Renovation tax credit;
- introducing a one-time income tax deduction for health care professionals who are just starting out in their careers to help with the costs of setting up their practice in a rural community;
- implementing a national tax on vaping products;
- expand the Medical Expense Tax Credit to include costs reimbursed to surrogate mothers for IVF expenses.

- converting the Canada Caregiver Credit into a refundable tax-free benefit, allowing caregivers to receive up to $1,250 a year.

Also, to improve the supply of affordable housing, the letter calls on the Minister to

- introduce amendments to the *Income Tax Act* to require landlords to disclose in their tax filings the rent they receive pre- and post-renovation and to pay a proportional surtax if the increase in rent is excessive;
- establish an anti-flipping tax on residential properties, requiring properties to be held for at least 12 months;
- implement a tax on non-resident, non-Canadian owners of vacant, underused housing, and subsequently include foreign-owned vacant land within large urban areas; and
- review and consider possible reforms to the tax treatment of Real Estate Investment Trusts, reviewing the down-payment requirements for investment properties, and developing policies to curb excessive profits while protecting small independent landlords.

It seems likely that we will see the government implementing at least some of these measures in 2022.

2021 Federal Economic and Fiscal Update

Chrystia Freeland, Deputy Prime Minister and Minister of Finance, presented the Economic and Fiscal Update 2021 (the "Update") on December 14, 2021. Several new personal tax measures were announced in the update.

Extending the Home Office Deduction

In 2020, the government introduced a temporary flat rate method to calculate a deduction for home office expenses for Canadians who were required to work from home during the pandemic. The government announced that they will extend the simplified rules for deducting home office expenses and increase the temporary flat rate to $500 annually for the 2021 and 2022 tax years.

Expanding the Eligible Educator School Supply Tax Credit

Under current rules, teachers and early childhood educators may claim a 15% refundable tax credit based on an amount of up to $1,000 in expenditures made in a taxation year for eligible supplies. The 2021 Fall Economic Statement proposes to increase the rate of the refundable tax credit to 25%.

Additionally, this measure would clarify and broaden the rules regarding the locations where teaching supplies are permitted to be used by removing the requirement that teaching supplies must be used in a school or regulated child care facility to be eligible. This measure also expands the list of eligible durable goods to include certain electronic devices.

The following items would be added to the list of prescribed 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
- laptop, desktop, and tablet computers, provided that none of these items are made available to the eligible educator by their employer for use outside of the classroom.

These measures apply to the 2021 and subsequent taxation years. Proposed legislation that would implement these changes are included in an NWMM released on December 14, 2021.

Northern Residents Deduction

The government plans to implement changes to the Northern Residents Deduction that were initially proposed by Budget 2021. These amendments expand access to the travel component of the deduction. Accordingly, a taxpayer can claim, in respect of each of the taxpayer and each eligible family member, up to

- the amount of employer-provided travel benefits the taxpayer received in respect of travel by that individual; or
- a $1,200 standard amount that may be allocated across eligible trips taken by that individual.

A maximum of two trips would be eligible for the deduction for non-medical personal travel; there is no trip limit for medical purposes.

Help for Guaranteed Income Supplement Recipients and Students Affected by CERB Payments

To compensate low-income individuals who have seen a decline in their Guaranteed Income Supplement (GIS) or Allowance payments in 2021 as a result of having received Canada

Emergency Response Benefits (CERB) or Canada Recovery Benefits (CRB) in 2020, the government is proposing to pay a one-time payment to compensate them for their loss of all or a portion of their benefit.

The government is also proposing to provide debt relief to some students who received CERB payments in error and are now required to repay that amount, by allowing their CERB-related debt to be applied to their entitlement under the Canada Emergency Student Benefit (CESB) for the same benefit period.

New Underused Housing Tax

In Budget 2021, the Government announced its intention to implement a national annual 1% tax on the value of non-resident, non-Canadian owned residential real estate in Canada that is considered to be vacant or underused (the "Underused Housing Tax"). A consultation was held, through the Department of Finance, from August 6 to September 17, 2021, and, where appropriate, feedback received from stakeholders has been taken into consideration as part of the final design of the proposed taxation framework.

The introduction of this new tax was confirmed in the Update which included, notably, an NWMM with the text of the proposed legislation.

It is proposed that the Underused Housing Tax be effective for the 2022 calendar year. The initial Underused Housing Tax returns, for the 2022 calendar year, would be required to be filed with the Canada Revenue Agency on or before April 30, 2023 and any tax payable would be required to be remitted on or before that date.

The Economic and Fiscal Update underlined that in addition to exemptions described in the consultation paper, it is proposed that an owner's interest in a residential property would be exempt from the Underused Housing Tax for a calendar year if a residence that is part of the residential property is, in respect of the calendar year, the primary place of residence of: (1) the owner; (2) the owner's spouse or common-law partner; or (3) an individual that is the child of the owner or of the owner's spouse or common-law partner, but only if the child is in Canada for the purposes of authorized study and the occupancy relates to that purpose.

Furthermore, the government plans to add 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.

An owner eligible for either of the above exemptions would claim the exemption in the annual return that they would be required to file with the Canada Revenue Agency in respect of the residential property.

Luxury Tax Update

Budget 2021 proposed to implement a tax on the sale of luxury cars and aircraft over $100,000 and boats over $250,000, if acquired for personal use. The Update provided a brief update on the status of this proposed tax. The Department of Finance is currently integrating feedback results from the recent stakeholder consultation into the proposed framework. Draft legislation, including the effective date, will be released in early 2022.

Employer-Provided Automobile Allowances

The limit on the deduction of tax-exempt allowances paid by employers to employees who use their personal vehicle for business purposes in the provinces will increase by two cents to 61 cents per kilometre for the first 5,000 kilometres driven, and 55 cents for each additional kilometre. For the territories, the limit will also increase by two cents to 65 cents per kilometre for the first 5,000 kilometres driven, and 59 cents for each additional kilometre. This change may affect your automobile allowance or your taxable benefit, if applicable.

The general prescribed rate used to determine the taxable benefit of employees relating to the personal portion of automobile expenses paid by their employers will be increased by two cents to 29 cents per kilometre. For people who are employed principally in selling or leasing automobiles, the rate used to determine the employee's taxable benefit will be increased by two cents to 26 cents per kilometre. This change may affect your taxable benefit, if applicable.

CRA Indexation

The CRA published its annual indexation figures which are applicable to 2022 amounts. The indexation increase was 2.4%. Many personal tax amounts are eligible for indexation. For a complete list of indexed amounts, see https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html.