Department of Finance Canada

Tax Fairness

Backgrounder

April 7, 2022

Budget 2022 proposes additional measures that will make the tax system more fair, and new steps to ensure that the federal government is delivering the effective programs and services that Canadians deserve.

Requiring Financial Institutions to Help Pay for the Recovery

While many sectors continue to recover from the COVID-19 pandemic, Canada's major financial institutions made significant profits during it, and have recovered faster than other parts of our economy—in part due to the federal pandemic supports for people and businesses that helped de-risk the balance sheets of some of Canada's largest financial institutions.

- Budget 2022 proposes to introduce a temporary Canada Recovery Dividend, under which banking and life insurers' groups (as determined under Part VI of the *Income Tax Act*) will pay a one-time 15-per-cent tax on taxable income above $1 billion for the 2021 tax year. The Canada Recovery Dividend will be paid in equal installments over five years.
- Budget 2022 also proposes to permanently increase the corporate income tax rate by 1.5 percentage points on the taxable income of banking and life insurance groups (as determined under Part VI of the *Income Tax Act*) above $100 million, such that the overall federal corporate income tax rate above this income threshold will increase from 15 per cent to 16.5 per cent.

Preventing the Use of Foreign Corporations to Avoid Canadian Tax

Currently, some people are manipulating the Canadian-controlled private corporation (CCPC) status of their corporations to avoid paying the additional refundable corporate income tax that they would otherwise pay on investment income earned in their corporations, including by moving a corporation into a foreign low-tax jurisdiction, by using foreign shell companies, or by moving passive portfolios to an offshore corporation.

- Budget 2022 proposes targeted amendments to the *Income Tax Act* to ensure that, for taxation years that end on or after April 7, 2022, investment income earned and distributed by private corporations that are, in substance, CCPCs is subject to the same taxation as investment income earned and distributed by CCPCs. This measure would increase federal revenues by $4.2 billion over five years starting in 2022-23.

Making Property Flippers Pay Their Fair Share

Property flipping—buying a house and selling it for much more than what was paid for it just a short time prior—can unfairly lead to higher housing prices, and some people who engage in property flipping may be improperly reporting their profits to pay less tax.

- To ensure profits from flipping properties are taxed fully and fairly, Budget 2022 proposes to introduce new rules so that any person who sells a property they have held for less than 12 months would be subject to full taxation on their profits as business income, applying to residential properties sold on or after January 1, 2023. Exemptions would apply for Canadians who sell their home due to certain life circumstances, such as a death, disability, the birth of a child, a new job, or a divorce.

Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime

Money laundering and terrorist financing threaten Canadians' safety, the integrity and stability of our financial sector, and the broader Canadian economy. Ensuring that Canada has the ability to detect these threats through a comprehensive AML/ATF Regime, as well as an equal ability to investigate and prosecute these offences is vital to protecting Canadians and safeguarding the rule of law in an increasingly complex financial world.

- Budget 2022 proposes to provide $89.9 million over five years, and $8.8 million ongoing, to support the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This amount represents a 24 per cent funding increase to FINTRAC's budget and a 13 per cent increase in new staff. This increased capacity will enable FINTRAC to implement new anti-money laundering and anti-terrorist financing requirements for crowdfunding platforms and payment service providers; support the supervision of federally regulated financial institutions; continue to build expertise related to virtual currency; modernize its compliance functions; and update its financial management, human resources, intelligence, and disaster recovery systems.

Strengthening the General Anti-Avoidance Rule

The general anti-avoidance rule (GAAR) is intended to prevent abusive tax avoidance transactions, while not interfering with legitimate commercial and family transactions. If abusive tax avoidance is established, the GAAR applies to deny the tax benefit that was unfairly created.

- Budget 2022 proposes to amend the *Income Tax Act* to provide that the GAAR can apply to transactions that affect tax attributes that have not yet been used to reduce taxes.
- The government intends to release in the near future a broader consultation paper on modernizing the GAAR, with a consultation period running through the summer of 2022, and with legislative proposals to be tabled by the end of 2022.

A Tax-Free First Home Savings Account

As home prices climb, so too does the cost of a down payment, which represents a major barrier for many looking to own a home—especially young people.

- Budget 2022 proposes to introduce the Tax-Free First Home Savings Account that would give prospective first-time home buyers the ability to save up to $40,000. Like an RRSP, contributions would be tax-deductible, and withdrawals to purchase a first home—including investment income—would be non-taxable, like a TFSA (tax-free in, tax-free out), providing an estimated $725 million in support over five years.

Cutting Taxes for Canada's Growing Small Businesses

Small businesses currently benefit from a reduced federal tax rate of 9 per cent on their first $500,000 of taxable income, compared to a general federal corporate tax rate of 15 per cent. A business no longer has access to this lower rate once its level of capital employed in Canada reaches $15 million. However, phasing out access to the lower tax rate too quickly—and then requiring a small business to pay more in tax—can discourage some businesses from continuing to grow and create jobs.

- Budget 2022 proposes to phase out access to the small business tax rate more gradually, with access to be fully phased out when taxable capital reaches $50 million, rather than at $15 million.

Doubling the Home Accessibility Tax Credit

Seniors and persons with disabilities deserve the opportunity to live and age at home, but renovations and upgrades that make homes safe and accessible can be costly. The Home Accessibility Tax Credit provides support to offset some of these costs.

- Budget 2022 proposes to double the qualifying expense limit of the Home Accessibility Tax Credit to $20,000 for the 2022 and subsequent tax years. This will mean a tax credit of up to $3,000—an increase from the previous tax credit of up to $1,500—for important accessibility renovations or alterations.

Multigenerational Home Renovation Tax Credit

Many Canadians have traditions of living together in multigenerational homes, with grandparents, parents, and children under one roof—which can be an important way for them to care for each other.

- To support these families, Budget 2022 proposes to introduce a Multigenerational Home Renovation Tax Credit, which would provide up to $7,500 in support for constructing a secondary suite for a senior or an adult with a disability, starting in 2023.