

# Federal Budget 2021

## “A Recovery Plan for Jobs, Growth, and Resilience” \*

On Monday April 19, 2021, Finance Minister Chrystia Freeland tabled the Liberal government’s 2021-22 Budget in Parliament. On a positive historic note, Freeland is the first female Finance Minister to table a Budget in the 154 years since Confederation.

However, this Budget is also historic in size, and with the COVID-19 pandemic hitting in 2020, it’s been over two years since March 2019 that an official budget has been tabled. Last year’s confirmed \$354 billion deficit plus this year’s \$154 billion projected deficit will take the national debt over \$1 trillion for the first time ever.

Much of the Budget deals with plotting a path toward recovery from the pandemic. This summary includes selected parts of those broad strokes, and otherwise highlights individual and small business tax, and initiatives targeted at the individual and small business level that may affect financial planning decisions.

[Note that the Budget is a statement of intention of the governing party. Until passed into law, its content is to be considered in the nature of a proposal.]

### 1. Federal Income Tax Rates & Brackets

#### Individual bracket indexing 2020 to 2021

There were no changes to personal income tax rates. The basic personal amount (credit) is \$13,808. Personal brackets were indexed by 1.0% over their 2020 levels.

2020 from	Tax rate	2021 from
13,229	15.0%	13,808
48,535	20.5%	49,020
97,069	26.0%	98,040
150,473	29.0%	151,978
214,368	33.0%	216,511

#### Corporate tax rates

There were no changes to the general corporate tax rate, which remains 15%.

There were no changes to the small business tax rate for corporations, which remains 9%.

\* This is the government’s name for the Budget.

## 2. Early Learning and Child Care

### Establishing a Canada-wide Early Learning and Child Care System

The Budget outlines how COVID-19 has affected all Canadians, but with disproportionate effect on women. In the labour market, women were hit earlier and harder, and their jobs continue to recover more slowly. Child care is critical to enabling parents, and women in particular, to fully participate in the economy.

Budget 2021 highlights the success of the Quebec child-care system, proposing new investments totaling up to \$30 billion over the next 5 years, and \$8.3 billion ongoing. The government proposes to transfer funding to provinces and territories to establish a Canada-wide Early Learning and Child Care system, targeted to achieve:

- A 50% reduction in average fees for regulated early learning and child care in all provinces outside of Quebec, to be delivered before or by the end of 2022.
- An average of \$10 a day by 2025-26 for all regulated child care spaces in Canada

### Accessible Child Care Spaces

To make immediate progress for children with disabilities, Budget 2021 proposes to provide \$29.2 million over two years, starting in 2021-22. This could benefit over 400 child-care centres, supporting improvements such as the construction of ramps and accessible doors, washrooms, and play structures.

### Addressing the Needs of Indigenous Families and Communities

Budget 2021 proposes an investment of \$2.5 billion over the next five years in Indigenous Early Learning and Child Care, creating up to 3,300 new spaces.

## 3. Seniors

### Increasing Old Age Security for Canadians 75 and Over

During the pandemic, many seniors have faced economic challenges as they took on extra costs to stay safe. Additionally, many seniors are living longer and relying on monthly benefits to afford retirement.

Budget 2021 proposes to increase Old Age Security (OAS) benefits for seniors age 75 and older, in two steps:

- A one-time payment of \$500 in August 2021 to OAS pensioners who will be 75 or over as of June 2022.
- A 10% increase in the maximum benefits payable to Old Age Security pensioners age 75 or older effective July 1, 2022. This would affect about 3.3 million seniors, providing additional benefits of \$766 to full pensioners in the first year, and indexed to inflation thereafter.

### Helping Seniors Age Well at Home

Seniors want to stay at home, in the communities that support them, for as long as possible. But that can become difficult as they age.

Budget 2021 proposes to provide \$90 million over three years, starting in 2021-22, to Employment and Social Development Canada to launch the Age Well at Home initiative. The program would fund community-based support that helps low-income and otherwise vulnerable seniors age in place, such as matching seniors with volunteers who can help with meal preparations, home maintenance, daily errands, yard work, and transportation.

### Long-term care and end-of-life care

The pandemic has shown us weaknesses of our long-term care system and facilities.

Budget 2021 proposes funding for a variety of initiatives relevant to the needs of the elderly:

- \$3 billion over five years, starting in 2022-23, to support provinces and territories in ensuring standards for long-term care are applied and permanent changes are made.
- \$49 million for data collection on supportive care, primary care, and pharmaceuticals
- \$29.8 million to Health Canada for the government's palliative care strategy
- \$13.2 million over five years, beginning in 2021-22, and \$2.6 million per year ongoing, to ensure appropriate access and safeguards for Medical Assistance in Dying

## 4. Workers

### Establishing a \$15 Federal Minimum Wage

The worst economic impacts of the pandemic have been suffered by those who could least afford it. Low-wage workers have been up to six times more likely to suffer layoffs than wealthy Canadians.

The government intends to amend the *Canada Labour Code* to establish a federal minimum wage of \$15 per hour, rising with inflation, with provisions to ensure that where provincial or territorial minimum wages are higher, that wage will prevail. This will directly benefit over 26,000 workers who currently make less than \$15 per hour in the federally regulated private sector.

### Tax Treatment of COVID-19 Benefit Amounts

When a taxpayer repays an amount, it can only be deducted in the year of repayment. That could mean income one year and a deduction in another. In addition to added filing complexity, this could lead to higher tax.

Budget 2021 proposes to allow individuals the option to claim a deduction in respect of the repayment of a COVID-19 benefit amount in computing their income for the year in which the benefit amount was received rather than the year in which the repayment was made. This option would be available for benefit amounts repaid at any time before 2023.

For these purposes, COVID-19 benefits would include 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.

### Streamlined access to Employment Insurance

Normally, claims for Employment Insurance are subject to a one-week waiting period. This requirement will continue to be waived for new claims between January 31, 2021 and September 25, 2021.

### Additional weeks of Recovery Benefits

The government proposes to provide up to 12 additional weeks of income support for claimants who will start exhausting their 38 weeks of Canada Recovery Benefit (CRB) on June 19, 2021. The first four of these additional 12 weeks will be paid at \$500 per week and the remaining 8 weeks will be paid at a lower amount of \$300 per week. All new Canada Recovery Benefit claimants after July 17, 2021 would also receive the lower rate of \$300 per week.

The government also proposes to provide an additional 4 weeks for the Canada Recovery Caregiver Benefit, up to a maximum of 42 weeks.

The government also plans to extend both the Canada Recovery Benefit suite of supports (including caregiving and sickness benefits), as well as Employment Insurance regular benefits past September 25, 2021 and until no later than November 20, 2021.

### Extending Employment Insurance Sickness Benefits

Budget 2021 proposes amendments to the *Employment Insurance Act* to extend the maximum duration of Employment Insurance sickness benefits from 15 weeks to 26 weeks.

### Canada Workers Benefit

The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit that supplements the earnings of low- and modest-income workers and improves their work incentives.

Budget 2021 proposes to enhance the CWB starting in 2021. This would be achieved through changes to phase-in rates, dollar thresholds and phase-out rates. As an example, the phase-out thresholds (the point at which benefits begin reducing) would increase from \$13,194 to \$22,944 for single individuals without dependants and from \$17,522 to \$26,177 for families.

## 5. Young Canadians

### Working assistance

Young Canadians have seen more job losses due to COVID-19 than any other age demographic.

Budget 2021 is proposing \$721 million in the next two years to help young people with job opportunities by

- Increasing the Student Work Placement Program wage subsidy for employers up to \$7,500 per student, while also increasing employers' ability to access the program, expected to provide an extra 20,000 jobs.
- Investing more in the Youth Employment and Skills Strategy, leading to over 7,000 added job placements
- Providing new funding for Canada Summer Jobs, to support approximately 75,000 new job placements in the summer of 2022

### Financial assistance for students

Budget 2021 proposes to invest \$4.1 billion to help make postsecondary education more affordable, and to provide direct support to students with the greatest need. This includes:

- Extending the doubling of the Canada Student Grants by two years until the end of July 2023, providing an additional \$2,600, on average, of non-repayable aid to students in need
- Waiving interest on federal student loans for two more years until March 31, 2023
- Enhancing repayment assistance so that no person while earning \$40,000 per year or less will need to make any payments on their federal student loans
- Extending disability supports for recipients of student financial assistance whose disabilities are persistent or prolonged, but not necessarily permanent

## 6. Supporting entrepreneurs

### Women Entrepreneurs

To provide affordable financing, increase data, and strengthen capacity within the entrepreneurship ecosystem, Budget 2021 proposes to provide up to \$146.9 million over four years, starting in 2021-22, to strengthen the Women Entrepreneurship Strategy. Women entrepreneurs would have greater access to financing, mentorship, and training.

The government will also work with financial institutions to develop a voluntary code to help support the inclusion of women and other underrepresented entrepreneurs as clients in the financial sector.

Moving forward, the Business Development Bank of Canada will seek to support 19,000 direct women-owned businesses in 2024, an increase of nearly 7,000.

### Black Entrepreneurs

The pandemic has highlighted and exacerbated systemic barriers faced by Black entrepreneurs and owners of small and medium-sized businesses in Canada.

Budget 2021 proposes to provide up to an additional \$51.7 million over four years, starting in 2021-22, to Innovation, Science and Economic Development Canada and the regional development agencies for the Black Entrepreneurship Program.

## 7. Small business and growth

### Extension of COVID-19 support programs

Budget 2021 proposes to extend the Canada Emergency Wage Subsidy, the Canada Emergency Rent Subsidy and Lockdown Support beyond June 2021 until September 25, 2021.

### Canada Small Business Financing Program

Budget 2021 proposes to amend the *Canada Small Business Financing Act*, including broader eligibility and increased loan limits to help facilitate greater access to financing through the Canada Small Business Financing Program. Among the changes,

- Expanding eligibility to include lending against intellectual property and start-up assets and expenses
- Increasing maximum loan amount from \$350,000 to \$500,000
- Extending the loan coverage period from 10 to 15 years for equipment and leasehold improvements
- Expanding borrower eligibility to include non-profit and charitable social enterprises

### Canada Recovery Hiring Program

Businesses hit hard by the pandemic may be tentative about hiring new staff.

Budget 2021 proposes a new Canada Recovery Hiring Program for eligible employers that continue to experience qualifying declines in revenues relative to before the pandemic. The subsidy would offset a portion of the extra costs' employers take on as they reopen, either by increasing wages or hours worked, or hiring more staff.

It would only be available for active employees and will be available from June 6 to November 20, 2021. Eligible employers would claim the higher of the Canada Emergency Wage Subsidy or the new proposed subsidy. The benefits slowly ramp down over time, encouraging employers to begin hiring as soon as possible and maximize their benefit.

### Credit Cards Acceptance Fees

The government will engage with key stakeholders to work towards:

- Lowering the average overall cost of interchange fees for merchants,
- Ensuring that small businesses benefit from pricing that is similar to large businesses, and
- Protecting existing rewards points of consumers.

Following these consultations, detailed next steps will be outlined as part of the 2021 *Fall Economic Statement*.

### Canada Digital Adoption Program

From 2002 to 2019, labour productivity in digitally intensive industries grew 3.5 times faster than in non-digitally intensive industries. And over the course of the pandemic, digitally intensive businesses actually grew, even though hours worked were down.

To help small and medium-sized businesses move into the digital age, this program will provide two streams of support:

- Businesses seeking to expand their customer bases online can access support to digitize and take advantage of e-commerce opportunities, including microgrants and access to 28,000 digital trainers.
- Some businesses requiring more comprehensive support to adopt new technology may access advisory expertise for technology planning and financing options needed to put these technologies to use

### Employee Ownership Trusts

Employee ownership trusts encourage employee ownership of a business and facilitate the transition of privately owned businesses to employees. Both the United States and United Kingdom allow and encourage their use.

Budget 2021 announces that the government will engage with stakeholders to examine what barriers exist to the creation of employee ownership trusts in Canada, and how workers and owners of private businesses in Canada could benefit from them.

## 8. Housing and a green economy

### GST New Housing Rebate Conditions

Under the current rules, if two or more individuals who are not considered relations for GST New Housing Rebate purposes buy a new home together, all of those individuals must meet a primary place of residence condition – otherwise none of them will be eligible for the GST New Housing Rebate.

Budget 2021 proposes that the GST New Housing Rebate would be available as long as the home is acquired for use as the primary place of residence of any one of the purchasers or a relation of any one of the purchasers.

### Lower Home Energy Bills Through Interest-free Loans for Retrofits

Climate action starts at home, and deep home energy retrofits can have a big effect on emissions reduction.

Budget 2021 proposes to provide \$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 the Canada Mortgage and Housing Corporation (CMHC) to help homeowners complete deep home retrofits through interest-free loans worth up to \$40,000.

The program would be available by summer 2021 and support retrofits for up to 200,000 households.

## 9. Measures for specific groups

### Support for Personal Support Workers

Personal support workers perform jobs that are mentally and physically exhausting, and do not enjoy the same job protections, compensation, and benefits of their peers in the health care sector.

Budget 2021 proposes funding of \$27.6 million over three years for my65+, a Group Tax-Free Savings Account offered by the Service Employees International Union Healthcare. SEIUH will work with other unions and employers across the country to make this portable savings tool available to workers in the elder care sector.

### Taking Action to Address Predatory Lending

Many lower and modest-income Canadians rely on high-interest short-term loans to make ends meet, such as paying for everyday living expenses, or for unanticipated emergencies. This leaves some Canadians living in a cycle of debt.

To help fight predatory lending, the government will launch a consultation on lowering the criminal rate of interest in the *Criminal Code of Canada* applicable to, among other things, installment loans offered by payday lenders.

### Improve access to the disability tax credit

In its April 9, 2021 report, Canada Revenue Agency's Disability Advisory Committee improving the eligibility criteria for mental functions and life-sustaining therapy.

Budget 2021 proposes to update the list of mental functions of everyday life that is used for assessment for the Disability Tax Credit. This will make for easier assessment, reduced delays, and improved access to benefits.

Budget 2021 also proposes to recognize more activities in determining time spent on life-sustaining therapy and to reduce the minimum required frequency of therapy to qualify for the Disability Tax Credit.

### Towards a New Disability Benefit

The pandemic has exposed many of the long-standing challenges persons with disabilities face, including an increased risk of poverty. While there are a number of programs and services in place that provide support to Canadians with disabilities, these are often complex and can be difficult to navigate for users.

Budget 2021 proposes to provide \$11.9 million over three years, starting in 2021-22, to Employment and Social Development Canada to undertake consultations to reform the eligibility process for federal disability programs and benefits. This will help maximize the reach of these programs and improve the lives of Canadians living with disabilities. This work would feed directly into the design of a new disability benefit.

## 10. Miscellaneous taxes

### Vaping products

Young Canadians' use of vaping products, such as e-cigarettes, is on the rise. In addition to raising revenues, vaping taxation could become an effective means to help curtail harmful consumption of these products.

The government intends to introduce a new taxation framework for the imposition of excise duties on vaping products in 2022.

### Tobacco

Tobacco use continues to be the leading preventable cause of premature death in Canada. Tobacco taxation is an effective way to reduce tobacco consumption and help reach the government's goal of less than 5 per cent of the population using tobacco by 2035.

Budget 2021 proposes to increase the tobacco excise duty by \$4 per carton of 200 cigarettes, along with corresponding increases to the excise duty rates for other tobacco products.

### Luxury Tax

The government is following through on its commitment to introduce a tax on select luxury goods. Budget 2021 proposes to introduce a tax on the sales, for personal use, of luxury cars and personal aircraft with a retail sales price over \$100,000, and boats, for personal use, over \$250,000.

The tax would be calculated at the lesser of 20 per cent of the value above the threshold (\$100,000 for cars and personal aircraft, \$250,000 for boats) or 10 per cent of the full value of the luxury car, boat, or personal aircraft. This measure would come into force on January 1, 2022.

### Digital Services

Increasingly, many digital companies earn revenues from the active collection and use of Canadians' data. Work is underway to reach a multilateral agreement on cross-border digital taxation by mid-2021. However, multilateral discussions have been going on since 2013.

Budget 2021 proposes to implement a Digital Services Tax at a rate of 3% on revenue from digital services that rely on data and content contributions from Canadian users. The tax would apply to large businesses with gross revenue of 750 million euros or more. It would apply as of January 1, 2022, until an acceptable multilateral approach comes into effect.

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

Following from the 2020 *Fall Economic Statement*, the government is taking steps to ensure that foreign, non-resident owners, who use Canada as a place to passively store their wealth in housing, pay their fair share.

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. In the coming months, the government will release a consultation paper to provide stakeholders with an opportunity to comment on the parameters of the proposed tax.

### Aggressive tax practices

Budget 2021 includes various new and extended proposals targeting predatory multinational enterprises, cross-border tax schemes, excess interest deductions, transfer pricing, tax avoidance and tax evasion.

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