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TAXSTRATEGY

Fall Economic Statement

The Highlights

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On December 2, 2021, the government announced it would give us an early holiday present in the form of an economic statement, to be released on December 14, 2021. There was much speculation during that period as to what the government was going to do. Was it finally time for them to announce a tax hike or introduce a new wealth tax? At the end of the day, it was a pretty quiet statement; no fireworks or huge changes. But still worth a summary from yours truly.

Enhanced Support for Teachers

The 2021 Fall Economic Statement proposes to increase the 15 per cent refundable tax credit for teachers and early childhood educators to 25 per cent (based on expenditures of up to $1,000 in a taxation year for "eligible supplies"). 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 would also expand 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 above items are made available to the eligible educator by their employer for use outside of the classroom.

The educator must provide a certificate from their employer certifying that the supplies were purchased for the purpose of teaching or facilitating students' learning.

This measure would apply to the 2021 and subsequent taxation years.

Small Businesses Air Quality Improvement Tax Credit

To encourage small businesses to invest in better ventilation and air filtration to improve indoor air quality, the government introduced a temporary Small. Businesses Air Quality Improvement Tax Credit, which is available to eligible entities in respect of qualifying expenditures attributable to air-quality improvements in qualifying locations incurred between September 1, 2021 and December 31, 2022.

This refundable tax credit is equal to 25 per cent of qualifying expenditures up to $10,000 per qualifying location and a maximum of $50,000 across all qualifying locations. The limits on qualifying expenditures would need to be shared among affiliated businesses.

Eligible entities include:

- unincorporated sole proprietors, and
- Canadian-controlled private corporations with taxable

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capital employed in Canada of less than $15 million (associated corporations must share this $15 million threshold).

The credit would also be available to members of a partnership that are qualifying corporations or individuals (other than trusts), and would be based on their proportionate interest in the partnership.

Qualifying expenditures include the purchase, installation, upgrade, or conversion of mechanical heating, ventilation and air conditioning (HVAC) systems, as well as the purchase of devices designed to filter air using high efficiency particulate air (HEPA) filters, the primary purpose of which is to increase outdoor air intake or to improve air cleaning or air filtration. It should be highlighted that a qualifying expenditure would be reduced by the amount of any government assistance received by the eligible entity in respect of that expense.

Qualifying expenditures incurred before January 1, 2022 would be claimed by an eligible entity for its first taxation year that ends on or after January 1, 2022.

Qualifying expenditures incurred on or after January 1, 2022 would be claimed by an eligible entity for the taxation year in which the expenditure was incurred.

Returning the proceeds from the price on pollution directly to farmers

Recognizing that many farmers use natural gas and propane in their operations, and consistent with the Budget 2021 commitment, the government proposes to return fuel charge proceeds directly to farming businesses in backstop jurisdictions via a refundable tax credit, starting for the 2021-22 fuel charge year. Backstop jurisdictions currently include Ontario, Manitoba, Saskatchewan and Alberta.

The return of fuel-charge proceeds would be available to corporations, individuals and trusts that are actively engaged in either the management or day-to-day activities of earning income from farming (i.e., the raising of animals and harvesting of plants in a controlled environment) and incur total farming expenses of $25,000 or more, all or a portion of which are attributable to those aforementioned backstop jurisdictions.

Underused Housing Tax

In Budget 2021, the Government announced its intention to implement a national, annual 1 per cent 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"). After engaging in consultations that ended on September 17, 2021, the Government announced further details of the Underused Housing Tax. Specifically, 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 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, there will be 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; 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.

Follow ups from Budget 2021

The Economic Statement reaffirmed the Government's intention to implement the following tax measures previously announced in Budget 2021:

♦ Digital Services Tax (DST), which would apply at a rate of 3 per cent on revenue earned by large businesses from digital services that rely on data and content contributions from Canadian users.

♦ Tax on Select Luxury Goods, such as the sales of luxury cars and personal aircraft (with a retail sales price exceeding $100,000) and boats (with a retail sales price exceeding $250,000) for personal use. The tax would be calculated at the lesser of (i) 20 per cent of the value above the retail sales price thresholds or (ii) 10 per cent of the full value of the luxury car, boat or personal aircraft. It is anticipated that the government will release draft legislation in early 2022;

♦ Investment Tax Credit for capital investments in carbon capture, utilization, and storage projects, the final design of which will be outlined in Budget 2022. ❑

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