2022 FEDERAL BUDGET
Top takeaways

[Soft music plays]

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On April 7th, the government unveiled its brand new 2022 federal budget. And there's lots in there for individuals, for corporations and even for charities. Let's talk about a few of the highlights.

Number one, let's begin right away with the individuals.

[No changes to personal tax rates]

[A man looks on a cell phone.]

There were no changes to personal tax rates.

[Parliament in Ottawa. The Vancouver waterfront.]

That being said, the government was concerned that some individuals, particularly high-income individuals, are paying relatively little in personal income taxes as a share of their income. For example, they looked at filers that had a gross income of over $400,000. That's the top 0.5%. And they found that those 28% of people paid a federal tax rate of 15% or less, by using a variety of deductions like capital gains at only 50% taxable, or Canadian dividends with the Dividend Tax Credit and other deductions, etc.

[Alternative Minimum Tax (AMT)
• Changes expected to be announced in the fall economic and fiscal update]

So, the government is planning to reintroduce the Alternative Minimum Tax. Now, we already have an AMT that's been around since 1986 but hasn't been changed in decades. And therefore, they're going to announce in the fall economic update, changes to the minimum tax to ensure those higher-income people pay more federal tax.

[Increased reporting for RRSPs and RRIFs
• Financial institutions will be reporting
end-of-year balances to CRA]

There's also going to be increased reporting for RRSPs and RRIFs. Financial institutions will be reporting at the end of the year, the balances in all RRSPs and RRIFs to the CRA. The government wants to basically focus their risk assessment activities on perhaps high balances in RRSP and RRIF accounts.

[Aerial view of a suburban neighbourhood. A couple hold moving boxes in an empty room.]

But most of the budget is for homeowners or prospective homeowners. A variety of changes; we are going to go through them pretty quickly. Of course, the cornerstone is the new introduction of the upcoming launch of the Tax-Free First Home Savings Account.

[Tax-Free First Home Savings Account]

A brand-new type of registered account that will help individuals save for their first home.

[• Contributions will be tax deductible]

As we talked about in the last few months, contributions to this type of plan would be tax deductible.

[• Income earned will be tax free]

Income earned in the plan would be tax free. And then ultimately, all of it could come out tax free if you buy your first home.

[• Must be at least 18 years old
• Must be a resident of Canada
• Cannot have owned a home in the current year
or previous four calendar years]

To qualify, you've got to be at least 18 and a resident of Canada, and you cannot have owned a home in the current year and the previous four calendar years.

[• Lifetime contribution limit of $40,000
• Maximum of $8,000 in a year
• Beginning in 2023]

You can put in up to $40,000, but a maximum of $8,000 in any particular year. This is going to be starting in 2023.

• All funds can be withdrawn tax-free within 15 years
• Unused funds can be transferred to an RRSP]

And the best part of all, is that you can take all the money out tax free any time within 15 years to buy that first home. If you don't buy that first home, you can transfer the money into an RRSP and then of course it would be taxable when you take it out.

[• Annual contribution room is NOT cumulative]

Now, unlike other types of plans like RRSPs and TFSAs, the room is not cumulative. So, if you don't use $8,000 in a particular year, you can't double up the next year. It's a $40,000 lifetime limit and an $8,000 annual contribution limit.

[• Can transfer an existing RRSP into the account
on a tax-free basis]

Another interesting wrinkle is they've actually allowed you to transfer an existing RRSP into a first home savings account on a tax-free basis, subject to those annual $40,000 and $8,000 limits. So again, exciting stuff!

[Anti-flipping rule
• Applies to residential and rental properties]

Starting next year, the government is also going to introduce an anti-flipping tax, basically taking away the opportunity of the principal residence exemption, and in fact, are even going to extend this to ownership, not just of residential personal homes, but also of rental properties.

[• Properties sold within 12 months of purchase
will be taxed as 100% business income]

So, basically starting next year, if you sell the home within 12 months, either your home or rental property, that's going to be taxed as 100% business income. You can't claim the principal residence exemption and not a 50% capital gain.

[• Some exceptions will apply]

There obviously are exceptions for things like death, separation and expropriation, things like that.

They're doubling the Home Buyers' Amount Tax Credit. They're doubling the Home Accessibility Tax Credit. They're introducing that new credit for multigenerational home renovations for $50,000. If you want to have a relative live with you and you modify your dwelling or a self-contained unit.

[An empty hospital bed. Images of babies in incubators.]

And then also, as predicted, changes are being made to the Medical Expense Tax Credit, to basically expand the definition of certain medical expenses to include a variety of expenses that individuals could incur to become parents. And this is in the areas of surrogacy, sperm, ova, and embryo donation. So, that will be eligible right away in 2022.

On the small business front, what they're doing for small business owners is, you know, there's a special favorable small business rate on the first $500,000 of active business income. However, that's actually reduced on a straight line basis if a corporation, and all of its associated corporations has between ten and $15 million of taxable capital. They're now bumping up that range to $50 million meaning that more corporations now, that are sort of larger small businesses will now qualify for the small business deduction.

[An aerial view of a downtown center. The Toronto skyline. A tropical beach.]

They're also going to be attacking what some have predicted for a while, this non-CCPC planning, where some corporations effectively have continued their corporation under foreign law in a low tax jurisdiction while maintaining Canadian residency, trying to get out of the refundable tax regime. That's over as of April the 7th, and the government will tax that just like any other corporation.

[People sort through goods at a donation center and work at a bustling soup kitchen. Two people admire a puppy at a shelter.]

And finally, on the charitable side, as was predicted, the government is bumping up the disbursement quota, which is the minimum amount that a charity must give out each year for charitable purposes. It's going up to three and a half percent to 5% starting in 2023. That's a summary of some of the tax changes in this year's budget, both on the personal, the corporate and the charity side.

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