PERSONAL **Newsletter**

Q2 2023 **Issue 64**

Budget 2023: Personal Income Tax Measures

Federal Budget 2023, *A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future* ("Budget 2023"), was tabled on March 28, 2023, and brought with it many tax measures. This article briefly summarizes the key personal income tax announcements from Budget 2023, including amendments in response to Bill C-208, modifying the alternative minimum tax, and a new "Grocery Rebate".

Strengthening the Intergenerational Business Transfer Framework: Budget 2023 proposes to amend the rules introduced by Bill C-208, *An Act to amend the Income Tax Act (transfer of small business or family farm or fishing corporation)*, to ensure they apply only where a genuine inter-generational business transfer takes place. To provide flexibility, it is proposed that taxpayers who wish to undertake a genuine intergenerational share transfer may choose to rely on one of two transfer options:

- an immediate intergenerational business transfer (three-year test) based on arm's length sale terms; or

- a gradual intergenerational business transfer (five-to-10-year test) based on traditional estate freeze characteristics (an estate freeze typically involves a parent crystallizing the value of their economic interest in a corporation to allow future growth to accrue to their children while the parent's fixed economic interest is then gradually diminished by the corporation repurchasing the parent's interest).

Budget 2023 also proposes to provide a ten-year capital gains reserve for genuine intergenerational share transfers that satisfy the above proposed conditions.

These measures would apply to transactions that occur on or after January 1, 2024.

Alternative Minimum Tax for High-Income Individuals: The federal government proposes to:

- Increase the Alternative Minimum Tax ("AMT") capital gains inclusion rate from 80% to 100%. Capital loss carryforwards and allowable business investment losses would apply at a 50% rate.
- Include 100% of the benefit associated with employee stock options in the AMT base.
- Include 30% of capital gains on donations of publicly-listed securities in the AMT base, mirroring the AMT treatment of capital gains eligible for the lifetime capital gains exemption. The 30% inclusion would also apply to the full benefit associated with employee stock options to the extent that a deduction is available because the underlying securities are publicly-listed securities that have been donated.
- Disallow 50% of certain personal deductions.
- Allow only 50% of non-refundable tax credits to reduce the AMT, although the Special Foreign Tax Credit would continue to be allowed in full and would be based on the new AMT tax rate. The proposed AMT would continue to use the cash (i.e., not grossed-up) value of dividends and fully disallow the Dividend Tax Credit, and some non-refundable credits that are currently disallowed would continue to be disallowed in full.
- Increase the exemption from $40,000 to the start of the fourth federal tax bracket. Based on expected indexation for the 2024 taxation year, this would be approximately $173,000. The exemption amount would be indexed annually to inflation.
- Increase the AMT rate from 15% to 20.5%, corresponding to the rates applicable to the first and second federal income tax brackets, respectively.

The proposed changes would come into force for taxation years that begin after 2023.

Grocery Rebate: Budget 2023 proposed an increase to the maximum GST/HST tax credit ("GSTC") amount for January 2023 that would be known as the Grocery Rebate. The rebate has been enacted, so eligible taxpayers will receive their payments in July. Eligible individuals would receive an additional GSTC amount equivalent to twice the amount received for January. The Grocery Rebate would be paid as soon as possible following the passage of legislation, through the GSTC system. The maximum amount under the Grocery Rebate would be:

- $153 per adult;
- $81 per child; and
- $81 for the single supplement.

To implement this change, the maximum GSTC amount for January 2023 would be replaced with an amount that is triple the maximum for that month under the current rules. For the January 2023 replacement payment only, the phase-in and phase-out rates would be tripled from 2% to 6% and from 5% to 15%, respectively. This ensures that the Grocery Rebate would be fully phased in and phased out at the same income levels as under the current GSTC rules for the 2022–2023 benefit year.

Automatic Tax Filing: The CRA's automatic tax filing service called "File My Return", which reached some 53,000 Canadians in 2022, will be expanded to reach more than 2 million Canadians by 2025. The government will report on the progress of this initiative in 2024. The government also announced that, starting in 2024, there will be a new automatic filing service to help vulnerable Canadians who currently do not receive certain tax benefits because they do not file their tax returns. The CRA will also consult with certain community organizations and present a plan in 2024 to expand this service even further.

Employee Ownership Trusts: Budget 2023 proposes new rules to facilitate the use of Employee Ownership Trusts ("EOTs") to acquire and hold shares of a business. These changes would extend the capital gains reserve to 10 years for qualifying sales to an EOT, create an exception to the current shareholder loan rule, and exempt EOTs from the 21-year deemed disposition rule that applies to certain trusts. These amendments would apply as of January 1, 2024.

Deduction for Tradespeople's Tool Expenses: Budget 2023 proposes to double the maximum employment deduction for tradespeople's and apprentice mechanics' tools from $500 to $1,000, effective for 2023 and subsequent taxation years.

Registered Education Savings Plans: Budget 2023 proposes to increase limits on certain RESP withdrawals from $5,000 to $8,000 for full-time students, and from $2,500 to $4,000 for part-time students. Budget 2023 also proposes to allow divorced or separated parents to open a joint RESP for their children. These changes would come into force on March 28, 2023.

Retirement Compensation Arrangements: Budget 2023 proposes that, effective for fees or premiums paid on or after March 28, 2023, fees or premiums paid for the purposes of securing or renewing a letter of credit (or a surety bond) for an RCA that is supplemental to a registered pension plan will not be subject to the 50% refundable tax. Employers would be able to request a refund of previously-remitted refundable taxes in respect of fees or premiums paid for letters of credit (or surety bonds) by RCA trusts, based on the retirement benefits that are paid out of the employer's corporate revenues to employees that had RCA benefits secured by letters of credit (or surety bonds). Employers would be eligible for a refund of 50% of the retirement benefits paid, up to the amount of refundable tax previously paid. This change would apply to retirement benefits paid after 2023.

Registered Disability Savings Plans: Budget 2023 proposes to extend the qualifying family member measure (which allows a family member to open an RDSP for an adult relative) by three years, to December 31, 2026. Siblings will also be qualified family members, as of Royal Assent.

Taxpayer Information Sharing for the Canadian Dental Care Plan: In order for Health Canada and Employment and Social Development Canada to have access to taxpayer information needed to deliver the permanent Canadian Dental Care Plan, Budget 2023 proposes to amend the *Income Tax Act* to provide legislative authority for the Canada Revenue Agency to share taxpayer information with:

- an official of Employment and Social Development Canada or Health Canada solely for the purposes of the administration or enforcement of the Canadian Dental Care Plan; and
- an official of Health Canada solely for the evaluation or formulation of policy for that plan.

Budget 2023 also proposes to amend the *Excise Tax Act* and the *Excise Act, 2001* to provide comparable taxpayer information sharing rules. These amendments would come into force upon Royal Assent.