BDO Canada

Budget 2021: Personal tax measures

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Tax on select luxury goods

The Budget proposes to introduce a new luxury tax on the retail sale, for personal use, of luxury vehicles and aircrafts over $100,000, and boats over $250,000, effective January 1, 2022. The proposed tax would apply at the point of purchase in Canada if the final sale price paid, excluding GST/HST or provincial sales tax, is over the $100,000 or $250,000 thresholds. Importations of vehicles, aircraft, and boats would also be subject to the tax.

For vehicles and aircraft priced over $100,000, the amount of tax would be the lesser of 10% of the full value of the vehicle or aircraft, or 20% of the value above $100,000. For boats over $250,000, the amount of tax would be the lesser of 10% of the full value of the boat or 20% of the value above $250,000.

GST/HST would apply to the final sale price, inclusive of the proposed tax. Further details will be announced in the coming months.

Tax on unproductive use of Canadian housing owned by foreign non-residents

The Budget proposes 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. All owners, other than Canadian citizens or permanent residents, will have to file a declaration as to the current use of the property. The new proposals include significant penalties for the failure to file the declaration. The government will release a consultation paper to stakeholders in the coming months.

Tax treatment of COVID-19 benefit amounts

The Government proposes to provide individuals with the option to claim a deduction in respect to 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 before 2023. For these purposes, COVID-19 benefits include:

- Canada Emergency Response Benefits/Employment Insurance Emergency Response Benefits
- Canada Emergency Student Benefits
- Canada Recovery Benefits
- Canada Recovery Sickness Benefits
- Canada Recovery Caregiving Benefits

Individuals may only deduct benefit amounts when they have been repaid. Where an individual has already filed their income tax return for the year in which the benefit was received, they can request an adjustment to their return for that year.

The Budget also proposes to amend the Income Tax Act to ensure that COVID-19 benefits noted above, and similar provincial or territorial benefits, are included in the taxable income of those individuals who reside in Canada but are considered non-resident persons for income tax purposes.

Canada Workers Benefit

The Canada Workers Benefit (CWB) is a non-taxable refundable tax credit that supplements the earnings of low and modest-income earners. Currently, the CWB increases by 26 cents for every dollar of "working income" in excess of $3,000, up to a maximum of $1,395 for single individuals without dependants, or $2,403 for families. The benefit is then reduced by 12% of adjusted net income in excess of $13,194 for single individuals without dependants, or $17,522 for families. The Budget proposes to enhance the CWB by:

- increasing the phase-in rate from 26% to 27% for single individuals without dependants and families
- increasing the phase-out threshold from $13,194 to $22,944 for single individuals without dependants and from $17,522 to $26,177 for families
- increasing the phase-out rate from 12% to 15%
- making corresponding changes to the disability supplement's phase-in and reduction rates as well as the reduction threshold
- introducing a "secondary earner exemption" to the CWB to allow an eligible spouse with the lower working income to exclude up to $14,000 of their working income in the computation of adjusted net income

These measures would apply to the 2021 and subsequent taxation years. Indexation of amounts relating to the CWB would continue to apply after the 2021 taxation year, including the secondary earner exemption.

Disability Tax Credit

The Disability Tax Credit (DTC) is a non-refundable tax credit available to eligible individuals. To be eligible for the DTC, an individual must have a certificate confirming that they have a severe and prolonged impairment in physical or mental functions. The Budget proposes to improve access to the DTC by:

- updating the list of mental functions of everyday life that is used for assessment for the DTC to use terms that are more clinically relevant to improve access to benefits
- recognizing more activities in determining time spent on life-sustaining therapy and reducing the minimum required frequency of therapy to qualify for the DTC

These proposed changes would apply to the 2021 and subsequent taxation years, in respect of DTC certificates filed with the Minister of National Revenue on or after Royal Assent.

Registered investments

If a registered investment holds property that is not a qualified investment for the type of registered plans for which it was registered, the registered investment is liable to pay a tax under Part X.2 of the Income Tax Act, which is calculated as 1% of the property's fair market value, at the time it was acquired, for each month that the registered investment holds the property. The Budget proposes that the tax imposed under Part X.2 be pro-rated based on the proportion of shares or units of the registered investment that are held by investors that are themselves subject to the qualified investment rules. This measure would generally apply to taxes imposed in respect of months after 2020.

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