Focus on recovery

Budget 2021 tax highlights:
business subsidies, incentives
& targeted tax revenue

The federal government has released a mammoth budget this year, which is not surprising considering the economic and social challenges of COVID-19. Here are some of the top business tax policies you might want to be aware of, followed by a quick roundup of additional tax updates from Budget 2021.

Scroll to discover the tax impacts of the 2021 federal budget

Extending CEWS and CERS

The Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Rent Subsidy (CERS) are set to expire in June 2021. Budget 2021 proposes an extension.

SEPT 25 2021 Newly proposed deadline

JULY 04 2021 The subsidy rates start decreasing

NOV 20 2021 The new expiry date, if another extension is necessary

$12 BILLION Additional investment in these programs

But wait... in addition to these extended emergency business supports, the government has also launched a new program to support employers.

A new (up to!) 50% wage subsidy option

Budget 2021 introduces the new Canada Recovery Hiring Program (CRHP), that gradually reduces coverage of employee salaries from 50% to 20% between June 6 and Nov. 20, 2021.

Who's eligible? Canadian-controlled private corporations; Individuals; Non profit organizations; Registered charities; Certain partnerships

What's covered? Incremental salary, wages and other remuneration for which employers must withhold tax

How to qualify? Employers experiencing a decline in revenue:
Greater than 0% for qualifying period between June 6 and July 3, 2021
Greater than 10% for qualifying period between July 4 and Nov. 20, 2021

An employer can choose either the CEWS or the CRHP for a qualifying period, but not both.

While attempting to boost our economy through employer investment, the budget is also trying to incentivize **climate-friendly business practices.**

Tax cut for zero-emission technology manufacturers

Budget 2021 proposes a temporary measure to reduce income tax rates for eligible zero-emission technology manufacturing and processing income.

General corporate tax rate		Small business tax rate	
Normally	Cut to	Normally	Cut to
15%	7.5%	9%	4.5%

The first year this applies to: **2022**

The year rates return to normal (after a gradual increase): **2032**

Speaking of clean technology, the government is broadening Capital Cost Allowance eligibility for more environmentally friendly expenses.

Capital cost allowance for clean energy equipment

To support investment in clean technologies, Budget 2021 proposes expanding the list of equipment that qualifies for accelerated CCA rates in two Classes:

Class 43.1
Accelerated CCA rate: 30%

Class 43.2
Accelerated CCA rate: 50%

Examples of qualifying systems and equipment include those involved in:

- hydroelectric storage
- electricity generation using flowing water or tidal energy
- active solar heating
- hydrogen production

Examples of systems and equipment that will no longer qualify include those involved in:

- fossil-fuelled cogeneration
- specified waste-fuelled generation and heat production
- producer gas generating

CCA gets a break when it comes to recently acquired property as well, **allowing for access to tax deductions sooner than usual.**

Temporary Capital Cost Allowance immediate expensing

Some property acquired by Canadian-controlled private corporations (CCPCs), can now be immediately deducted, for up to $1.5M of eligible capital investments (per tax year).

Timeframe
Acquired on or after budget day and available for use the year of purchase. Program ends Jan. 1, 2024.

Eligibility
Most capital property subject to the CCA rules, other than long-lived assets (i.e., buildings)

The fine print

- Only applicable in the year a property becomes available for use
- $1.5M limit to be shared among associated members of a CCPC group
- No carry-forward for CCPCs with less than $1.5M of eligible capital costs

Meanwhile the budget is tightening the rules for interest deductibility, in an attempt to stop companies from minimizing their tax burden by holding debt.

New earnings-stripping rule

To protect the Canadian tax base from erosion, Budget 2021 proposes a new earnings-stripping rule in line with the globally recognized Base Erosion Profit Shifting Action Plan report.

Net interest expense that a corporation may deduct in computing taxable income = **no more than fixed ratio of tax EBITDA***

- ✗ Tax EBITDA would exclude dividends to the extent they qualify for the inter-corporate dividend deduction or the deduction for certain dividends from foreign affiliates
- ✗ The measure of interest expense excludes interest not deductible under existing rules (i.e., thin capitalization rules)
- ✗ Interest expense and interest income related to debts among a corporate group's Canadian members would generally not be included
- ✓ Interest expense and interest income includes certain payments that are economically equivalent to interest

Budget 2021 proposes to phase in the new rule with:

40% fixed ratio for taxation years beginning on or after Jan. 1, 2023 but before Jan. 1, 2024

30% fixed ratio for taxation years beginning on or after Jan. 1, 2024

*EBITDA = a corporation's taxable income before taking into account interest expense, interest income and income tax, and deductions for depreciation and amortization

And lastly, here's a roundup of additional tax measures.

Luxury tax

Rumblings about a wealth tax didn't amount to anything, but Budget 2021 does propose a new tax on:

- Luxury cars
- Aircraft
- Boats

Improving access to the Disability Tax Credit

Budget 2021 proposes to update the list of mental functions used for Disability Tax Credit assessment. Using terms that are more clinically relevant will make it easier to:

- be assessed
- reduce delays
- access benefits

Tax treatment of COVID-19 benefits

Budget 2021 proposes allowing individuals to claim a deduction related to a COVID-19 benefit amount in the year it was received, rather than the year the repayment was made.

Digital Services Tax

Budget 2021 proposes to implement a new 3% tax intended to ensure revenue earned by large businesses – foreign or domestic – from engagement with online users in Canada is subject to Canadian tax. **Applies as of Jan. 1, 2022**

Questions?

To learn how Budget 2021 policies could affect you and your business, contact your Baker Tilly Canada advisor.

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While this infographic provides general planning parameters, Baker Tilly Canada recommends you seek professional advice before taking specific tax planning steps.