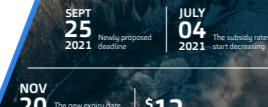


Focus on recovery

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.



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

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

15% General corporate tax rate

9% Small business tax rate

7.5% Cut to general corporate tax rate

4.5% Cut to small business tax rate

30% Accelerated CCA rate

30% Accelerated CCA rate

50% Accelerated CCA rate

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

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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.

But wait...

In addition to these extended emergency business supports, the government has also launched a new program to support employees.

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 8% 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 CERIP for a qualifying period, but not both.

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.

Who's eligible?

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-fueled cogeneration; specified waste-fueled generation and heat production; producer gas generation

General corporate tax rate

Normally 15%

Cut to 7.5%

Small business tax rate

Normally 9%

Cut to 4.5%

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).

Class 43.1

Accelerated CCA rate: 30%

Class 43.2

Accelerated CCA rate: 50%

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%

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

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 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

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

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

And lastly,

here's a roundup of additional tax measures.

Questions?

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

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

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

