

REPORT

Office of the Mayor

To: Mayor Johnstone and Members of
Council,
Regular Council Meeting

Date: November 27, 2023

From: Denise A Tambellini Intergovernmental
and Community Relations Manager

File:

Item #: 2023-785

Subject: 2023 Federal Fall Economic Update Summary

RECOMMENDATION

THAT Council accept the following report for information regarding the summary of the 2023 Fall Economic Update by the Government of Canada released on November 21, 2023.

PURPOSE

Deputy Prime Minister and Minister of Finance, Chrystia Freeland, released the Fall Economic Update on November 21, 2023. This report summarizes the Federal priorities in the announcement and the formal response from the Federation of Canadian Municipalities (FCM).

BACKGROUND

Deputy Prime Minister and Minister of Finance, Chrystia Freeland, released the Fall Economic Update on November 21, 2023.

The government announced new measures totaling \$20.8 billion over the next six years and focused on priorities including affordable housing and building a clean energy transition against a backdrop of slowing global and Canadian economies, elevated interest rates and high inflation.

The economic outlook is better than previously anticipated. Private sector economists say the economy is slowing heading into the New Year. They now predict Canada will avoid a recession and expect a gradual return to stronger growth throughout 2024.

No changes to personal or corporate income tax rates are proposed. The Fall Economic Statement confirmed the government's intention to continue with previously announced measures, including changes to the Alternative Minimum Tax (AMT) regime, but did not provide additional details following the consultation period that closed in September 2023.

The link to the 2023 Fall Economic Update is included for information (attachment 1).

The following is a summary of some of the significant measures announced.

A. Affordable Housing

The Federal government announced \$15 billion in new loan funding to build more than 30,000 new rental units in Canada. An additional \$1 billion over three years will go to the affordable housing fund.

Neither of these actions will kick in until 2025, the expected year of the next federal election.

Cracking down on non-compliant short-term rentals

Canada needs more long-term housing for Canadians to live in, so the federal government is proposing measures to address short-term rentals.

The government will deny income tax deductions for expenses incurred to earn short-term rental income, including interest expenses, in provinces and municipalities that have prohibited short-term rentals. The government also proposes to deny income tax deductions when short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting or registration requirements.

These measures would apply to deny all expenses incurred on or after January 1, 2024.

In addition, the government proposes to provide **\$50 million over three years**, starting in 2024–2025, **to support municipal enforcement** of restrictions on short-term rentals.

Underused housing tax (UHT)

The government introduced an annual one percent tax on the value of non-resident, non-Canadian owned residential real estate that's considered vacant or underused in the 2021 Federal Budget, effective January 1, 2022.

Currently, every person who's an owner of a residential property in Canada, other than an excluded owner, is required to file a UHT return for the calendar year in respect of the property. The government is also proposing to provide UHT filing and tax relief in

respect of a broader range of Canadian ownership structures. These changes would apply in respect of 2023 and subsequent calendar years.

Canadian Mortgage Charter

The government intends to introduce a new Canadian Mortgage Charter, which regulates how financial institutions are to work with Canadians to provide tailored relief and ensure payments are reasonable for borrowers when Canadians are going through the temporary financial stress caused by elevated interest rates. These financial relief measures may include the following:

- Allowing temporary extensions of the amortization period for mortgage holders at risk;
- Waiving fees and costs that would have otherwise been charged for relief measures;
- Not requiring insured mortgage holders to requalify under the insured minimum qualifying rate when switching lenders at mortgage renewal;
- Contacting homeowners four to six months in advance of their mortgage renewal to inform them of their renewal options;
- Giving homeowners at risk the ability to make lump-sum payments to avoid negative amortization or sell their principal residence without any prepayment penalties; and,
- Not charging interest on interest in the event that mortgage relief measures result in a temporary period of negative amortization.

B. Affordability Measures

The 2023 Fall Economic Update includes several measures to address affordability. The government intends to crack down on so-called Junk Fees, to ensure airlines seat all children under the age of 14 next to their accompanying adult at no extra cost, to start a CRTC investigation into international mobile roaming charges, and take steps to reduce the fees charged by banks for non-sufficient funds.

The economic update highlights measures being taken already through Bill C-56 to improve competition in the grocery chain sector, establish a Grocery Task Force, and seek commitments from the top five grocery chains to reduce prices.

The FES notes food inflation has been steadily decreasing from 11.4 per cent in January to 5.8 per cent in September 2023.

Other initiatives focused on affordability include:

1. Removing the GST/HST from psychotherapy and counselling

The government proposes to exempt professional services rendered by psychotherapists and counselling therapists from the GST/HST. This measure would apply on royal assent of the enacting legislation.

2. Employment Insurance (EI) adoption benefit

Currently, adoptive parents can access EI parental benefits but can't access the 15 weeks of EI maternity benefits. The government proposes to introduce a new 15-week shareable EI adoption benefit to provide adoptive parents with additional time and flexibility as they welcome a new child into their home. Surrogate parents will also be eligible for this benefit.

In addition, the government proposes to amend the *Employment Insurance Act* and the *Canada Labour Code* to ensure workers in federally regulated industries have the necessary job protection while receiving the EI adoption benefits.

3. EI supports for seasonal workers

Many seasonal workers, including in fishing and tourism, rely on EI for support between work seasons. Recent anomalies in regional unemployment rates have created a risk that many seasonal workers will experience a longer gap in income this year. In response to these circumstances, the government has proposed up to four additional weeks of EI regular benefits for eligible seasonal workers in 13 economic regions. This temporary enhanced support would be available for claims established between September 10, 2023, and September 7, 2024.

4. Pregnancy loss

The government proposes to amend the *Canada Labour Code* and an *Act to amend the Criminal Code and the Canada Labour Code* to create a new paid leave for workers in federally regulated sectors who experience a pregnancy loss.

C. Measures for businesses

Supporting Employee Ownership Trusts (EOTs)

The 2023 Federal Budget introduced tax rules to facilitate the creation of Employee Ownership Trusts. An EOT is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to pay directly to acquire shares. For business owners, an EOT provides an additional option for succession planning.

To encourage more business owners to sell to an EOT, the government proposes to exempt the first \$10 million in capital gains realized on the sale of a business to an EOT from taxation, subject to certain conditions.

This incentive would be in effect for the 2024, 2025 and 2026 tax years.

CEBA loan repayments

The Canada Emergency Business Account (CEBA) provided interest-free, partially forgivable loans to small businesses and not-for-profit organizations during the pandemic. The 2023 Fall Economic Statement reiterated the following:

- The repayment deadline for CEBA loans to qualify for partial loan forgiveness of up to \$20,000 is being extended from December 31, 2023, to January 18, 2024.
- For CEBA loan holders who apply for refinancing by January 18, 2024, with the financial institution that provided their CEBA loan, the repayment deadline to qualify for partial loan forgiveness now includes a refinancing extension until March 28, 2024.
- As of January 19, 2024, outstanding loans, including those that are captured by the refinancing extension, will convert to three-year term loans, subject to interest of five percent per annum, with the term loan repayment date extended by an additional year, from December 31, 2025, to December 31, 2026. CEBA loan holders also have the ability to repay the principal at any time throughout the three-year term.

Repayment on or before the new deadline of January 18, 2024, (or March 28, 2024, if a refinancing application is submitted prior to January 18, 2024, at the financial institution that provided their CEBA loan) will result in loan forgiveness of \$10,000 for a \$40,000 loan and \$20,000 for a \$60,000 loan. The above changes also apply to CEBA-equivalent lending through the Regional Relief and Recovery Fund.

Clean Hydrogen Investment Tax Credit (ITC)

The government introduced the Clean Hydrogen ITC and announced its main design elements in the 2023 Federal Budget. The government has now provided the details of these design elements in respect of eligible projects, credit rates, measuring carbon intensity, eligible equipment, verification and compliance. The federal government will continue to review eligibility for other low-carbon hydrogen production pathways in the lead-up to the 2024 Federal Budget.

Clean Technology and Clean Electricity ITCs – Equipment using waste biomass

The 2022 Fall Economic Statement proposed a 30 percent refundable Clean Technology ITC and a 15 percent refundable Clean Electricity ITC. The government is now proposing to expand eligibility for the Clean Technology and Clean Electricity ITCs to support the generation of electricity, heat, or both electricity and heat, from waste biomass.

For further business and tax implications, the KPMG Highlights of the 2023 Federal Fall Economic Update is included for information (attachment 2).

D. Federation of Canadian Municipalities (FCM) Response

FCM responded to the 2023 Fall Economic Update with several key issues: the lack of funding for municipal infrastructure to support growth and the recommendation to continue the Canada Community Building Fund, Disaster Mitigation Adaptation Fund, and ensure the Rapid Housing Initiative is converted to ongoing funding. The official feedback from President Scott Pearce is as follows:

“Housing affordability is a top priority for Canadian municipalities. The Fall Economic Statement takes some steps to improve housing affordability by increasing federal financing for new rental housing construction, increasing federal grants for affordable housing by \$1 billion over three years, increasing funding for co-op housing development, and supporting municipalities in regulating short-term vacation rentals .

“While FCM acknowledges the federal investments to support new housing construction announced today, the reality is that we cannot rapidly scale up new housing construction without also investing in the municipal infrastructure that supports it. In May 2023, the federal government made a commitment to deliver a landmark investment in infrastructure across this country this fall.

We are concerned that the Fall Economic Statement does not reflect the scale of infrastructure investment required to meet the national housing supply gap, and FCM will be looking to Budget 2024 for a comprehensive, ambitious investment in community infrastructure that matches the record-breaking population growth currently underway in Canada. With winter approaching, we are also calling for urgent action on the homelessness crisis impacting communities across the country.

“The challenge of investing sufficiently in infrastructure to support ambitious new levels of housing will deeply influence the quality of life of Canadians in their communities for decades to come, and forms the core of FCM’s detailed recommendations (included for information in attachment 3) as submitted to the Standing Committee on Finance in August 2023.

“In the last year alone, Canada’s population increased by more than 1.1 million. With every home built, there is a corresponding infrastructure need that must be met. New housing depends on new municipal infrastructure: from water, to roads, to wastewater facilities, to community amenities, to public transit facilities. This is what makes the difference between laying brick and mortar, and ensuring vibrant, successful communities into the future.

“That is why FCM has consistently called on the federal government to make targeted investments in the Canada Community-Building Fund to help boost local infrastructure. It’s why FCM is leading the national call for a new Municipal

Growth Framework: a new revenue tool or a set of revenue tools that are tied to Canada's growth and redefines how we work across orders of government.

"As our nation grows, the need for municipalities to confidently meet that growth is clearer than ever. Municipalities are on the frontlines of challenges related to homelessness and mental health, climate change and more. As Budget 2024 approaches, we will, as the order of government of proximity, continue to engage with our federal counterparts, putting forward detailed, future-focused recommendations that will empower Canadians by empowering communities."¹

The Written Submission for the Pre-Budget Consultations in Advance of the Upcoming 2024 Federal Budget by FCM is included for information in attachment 3.

FINANCIAL IMPLICATIONS

There are several opportunities identified from the 2023 Federal Fall Economic Update to support the financial sustainability of our community and the city. Staff will continue to identify opportunities and work with the Federal Government.

OPTIONS

1. Council accept the following report for information regarding the summary of the 2023 Fall Economic Statement by the Government of Canada released on November 21, 2023.
2. Council provide alternate direction.

Staff recommend option #1.

CONCLUSION

Deputy Prime Minister and Minister of Finance, Chrystia Freeland, released the Fall Economic Update on November 21, 2023. This report summarizes the Federal priorities in the announcement and the formal response from the Federation of Canadian Municipalities (FCM).

¹ <https://fcm.ca/en/news-media/news-release/fcm-reacts-2023-fall-economic-statement>

ATTACHMENTS

Attachment 1: 2023 Fall Economic Statement

Attachment 2: KPMG Highlights of the 2023 Federal Fall Economic Statement Update

Attachment 3: FCM's pre budget letter and recommendations Budget 2024

Attachment 4: FCM Green Municipal Fund Programs

APPROVALS

This report was prepared by:

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This report was approved by:

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