Corporation of the City of
NEW WESTMINSTER

Attachment # 2 Highlights of the 2023 Federal Fall Economic Update

KPMG

TaxNewsFlash

Canada

Highlights of the 2023 Federal Fall Economic Update

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Finance Minister Chrystia Freeland delivered the government's 2023 Fall Economic Update on November 21, 2023. The Update anticipates a deficit of $40.0 billion for 2023-24 and forecasts deficits of $38.4 billion for 2024-25 and $38.3 billion for 2025-26. Although the Update does not include any personal or corporate tax rate changes, it provides relieving changes for the Underused Housing Tax (UHT), enhances the Canadian Journalism Labour Tax Credit, provides additional design details on previously announced clean economy credits and proposes new rules for GST/HST joint venture elections.

Although Finance notes that it will provide more specific details on some of these announcements in the future, Finance did release draft legislation for consultation for GST/HST joint venture elections and proposed changes to the UHT.

Business tax changes

Dividend received deduction by financial institutions

The 2023 Fall Economic Update announces that Finance intends to amend the proposed rules to restrict the dividend received deduction to allow financial institutions that receive dividends on "taxable preferred shares" (as defined in the Income Tax Act) to continue to be eligible for this deduction. Previously, Finance stated in the 2023 federal budget that it would deny the dividend received deduction for all dividends received by financial institutions on shares that are mark-to-market property. This measure would apply to dividends received on or after January 1, 2024.

Canadian Journalism Labour Tax Credit

The Update enhances the Canadian Journalism Labour Tax Credit, which provides a refundable tax credit on salary or wages paid to eligible newsroom employees of certain qualifying journalism organizations. Specifically, the Update increases the cap on labour expenditures per eligible newsroom employee to $85,000 (from $55,000) and temporarily increases the journalism labour tax credit rate to 35% (from 25%) for four years. The Update notes that these changes would apply to qualifying labour expenditures incurred on or after January 1, 2023, and that the credit rate would return to 25% for expenditures incurred on or after January 1, 2027. Finance further announced that transitional rules would apply where an organization's tax year does not follow a calendar year.

Employee ownership trusts

The Update introduces a temporary tax exemption for certain capital gains realized on the sale of a business to an Employee Ownership Trust. This tax exemption would apply on the first $10 million in capital gains realized on the sale, subject to certain conditions. Finance advises that it will provide more details on this measure in the coming months, which is intended to be effective for the 2024, 2025, and 2026 tax years.

Concessional loans

The Update notes that, in response to a recent court decision, bona fide concessional loans with reasonable repayment terms from public authorities will generally not be considered government assistance, effective November 21, 2023.

Short-term rentals

The Update advises that taxpayers will no longer be able to claim certain income tax deductions related to expenses for short-term rental income. Specifically, taxpayers will not be able to claim deductions:

- For expenses incurred to earn short-term rental income, including interest expenses, in provinces and municipalities that have prohibited short-term rentals
- Where short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting, or registration requirements.

This measure applies for expenses incurred on or after January 1, 2024.

Clean economy changes

The Update provides new details on the Clean Hydrogen Investment Tax Credit and the Clean Electricity Investment Tax Credit announced in the 2023 federal budget, and the Clean Technology Investment Tax Credit announced in the 2022 Fall Economic Update. Finance notes that it intends to introduce legislation for the Clean Hydrogen Investment Tax Credit in early 2024. Finance also notes that it intends to launch consultations on draft legislation for the Clean Technology and Clean Electricity Investment Tax Credits in summer 2024 with the hope that it can release related legislation in fall 2024.

Clean Hydrogen Investment Tax Credit

In the Update, Finance provides new details related to the Clean Hydrogen Investment Tax Credit. In particular, Finance notes that property that is required to convert clean hydrogen into ammonia will be eligible for the Clean Hydrogen Investment Tax Credit at a 15% rate, subject to certain conditions concerning hydrogen feedstock, production capacity and transportation of the hydrogen. The Update also announces other specific eligibility and compliance details including that:

- Eligible projects can use Power Purchase Agreements and other similar instruments to calculate a project's carbon intensity instead of using the electricity grid's carbon intensity, where the purchased electricity is sourced from hydro-, solar-, or wind-powered generation that meets certain conditions

- The use of renewable natural gas would be eligible for the purpose of calculating an eligible project's carbon intensity, subject to certain conditions

- Projects must undergo an initial carbon intensity assessment that is validated by a third party, which must be submitted along with any required documentation to Natural Resources Canada

- Projects will have to report each year on the effective carbon intensity of the hydrogen produced, to determine whether projects could be subject to a recovery

- Projects with a verified carbon intensity of no more than 0.25 kilogram of carbon dioxide equivalent per kilogram of hydrogen above their original validated carbon intensity would not be subject to recovery.

The Clean Hydrogen Investment Tax Credit would be available from March 28, 2023.

Finance advises that it will continue to review eligibility for other low-carbon hydrogen production pathways in the leadup to the 2024 federal budget.

Clean Technology and Clean Electricity Investment Tax Credits

The Update expands eligibility for the Clean Technology and Clean Electricity Investment Tax Credits to include systems that use specified waste materials solely to generate electricity, heat or both electricity and heat. Eligible property would include, among others, electrical generating equipment, heat generating equipment, and heat recovery equipment, that are generally compliant with environmental laws, by-laws and regulations at the time the property first becomes available for use and meet certain other conditions.

The expansion of eligibility for the Clean Technology Investment Tax Credit would apply in respect of property that is acquired and becomes available for use on or after November 21, 2023, provided it has not been used for any purpose before its acquisition. The expansion of the eligibility for the Clean Electricity Investment Tax Credit would be available as of the day of the 2024 federal budget and to projects that did not begin construction before March 28, 2023, consistent with the general proposed application of this credit.

Timeline for clean economy credits

The Update also includes a timeline for the implementation of other proposed clean economy credits. In particular, Finance says it intends to introduce legislation this fall for the following:

- Carbon Capture, Utilization, and Storage (CCUS) investment tax credit (available from January 1, 2022)
- Clean Technology investment tax credit (available from March 28, 2023)
- Labour requirements related to the Clean Technology, Clean Hydrogen, Clean Electricity, and CCUS investment tax credit (effective as of the date a Notice of Ways and Means Motion for enabling legislation is first tabled).

Finance also says it intends to hold consultations on draft legislation this fall and is targeting to introduce legislation in early 2024 for Clean Technology Manufacturing investment tax credit (available from January 1, 2024).

Finance further advises that it will publish design and implementation details for the Clean Electricity investment tax credit (except for publicly owned utilities) in early 2024, with consultations on draft legislation expected to launch in summer 2024. Finance also notes it intends to hold consultations with provinces and territories on the Clean Electricity investment tax credit (for publicly owned utilities) in 2024, and to introduce related legislation in fall 2024. These credits will be available from the day of Budget 2024 for projects that did not begin construction before March 28, 2023.

Personal tax changes

Canadian Dental Care Plan — Information sharing

The Update proposes changes to allow the CRA to share taxpayer information with an official of Public Services and Procurement Canada solely to help administer and enforce the Canadian Dental Care Plan. These amendments would come into force upon royal assent.

International tax changes

International shipping

The Update proposes to make the exemption for international shipping income in the Income Tax Act generally available to Canadian resident companies. This measure, which is intended to align the Income Tax Act with the international shipping exclusion in the proposed new Global Minimum Tax Act, applies to taxation years that begin on or after December 31, 2023.

Indirect tax changes

Joint venture election

The Update announces changes to the joint venture election rules, which allow taxpayers to choose simplified GST/HST accounting under certain circumstances. Finance notes that it has now released draft legislative proposals for these changes and will accept comments on these changes by March 15, 2024. Currently, these changes are proposed to come into force on the day on which the Act enacting the new rules receives royal assent.

Among other changes, these measures generally:

- Introduce an "all or substantially all commercial activities" condition (within the meaning of the GST/HST legislation) that will replace the condition that the joint venture activities must be eligible activities set out in the legislation or regulations
- Require all electing participants to be registered for GST/HST purposes
- Introduce revised deeming measures that are more precisely focused on tax accounting to replace the existing deeming measures.

Underused Housing Tax

The Update provides additional relief for certain property owners under the UHT rules. In particular, Finance states that "specified Canadian corporations", partners of "specified Canadian partnerships" and trustees of "specified Canadian trusts" will not have a reporting obligation under these rules (i.e., they will be considered "excluded owners" for UHT purposes). In addition, Finance proposes to provide relief to certain other Canadian ownership structures. These changes would apply for 2023 and subsequent calendar years.

The Update also includes measures to:

- Introduce a new UHT exemption for residential properties in certain lower population areas that are held as a place of residence or lodging for employees, effective for 2023 and subsequent calendar years
- Provide that unitized ("condominiumized") apartment buildings are not "residential property" for UHT purposes, effective for 2022 and subsequent calendar years
- Reduce minimum non-compliance penalties to $1,000 for individuals (from $5,000) and $2,000 for corporations (from $10,000) per failure, for 2022 and subsequent calendar years

- Provide that an individual or spousal unit can claim the UHT “vacation property” exemption for only one residential property for a calendar year, effective for 2024 and subsequent calendar years.

Finance released draft legislation and regulations for these measures alongside the Update, and has requested stakeholder feedback by January 3, 2024. For further details of the current rules before these proposed changes, see *TaxNewsFlash-Canada* 2023-39, “UHT — CRA Extends Penalty & Interest Relief to 2024”.

Psychotherapists’ and counselling therapists’ services

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

New co-op rental housing

The Update expands the previously announced removal of the GST on qualifying new rental housing construction to co-operative housing corporations that provide long-term rental accommodation, provided other conditions are met. This measure applies only to projects that begin construction between September 14, 2023, and the end of 2030, and that complete construction before 2036.

Digital Services Tax

Finance reaffirms its commitment to move ahead with its longstanding plan for legislation to enact a Digital Services Tax in Canada. For details, see *TaxNewsFlash-Canada* 2023-33, “Businesses — Canada Revises Digital Tax Proposals”.

Outstanding measures

In the Update, Finance confirms its intention to proceed with a broad range of other previously announced tax measures including notable changes or new rules related to:

- Modernizing the general anti-avoidance rule (GAAR)
- Interest deductibility limits (EIFEL rules)
- Substantive Canadian-controlled Private Corporations
- Strengthening the intergenerational business transfer framework
- Changes to the alternative minimum tax (AMT)
- Employee Ownership Trusts
- Global minimum tax (Pillar Two)

- Hybrid mismatch arrangements.

Finance also signals that it will proceed with other previously announced tax measures including:

- Enhancing the reduced tax rates for zero-emission technology manufacturers
- Flow-through shares and the Critical Mineral Exploration Tax Credit – lithium from brines
- The income tax and GST/HST treatment of credit unions
- Registered compensation arrangements
- Tax on repurchases of equity by publicly listed entities
- Technical amendments to GST/HST rules for financial institutions
- Enhancements to the vaping product taxation framework
- Tax-exempt sales of motive fuels for export
- Transfer pricing consultation changes
- Amateur athletes trusts
- Extending the quarterly duty remittance option to all licensed cannabis producers
- Other technical amendments, including those proposed on August 9, 2022 and August 4, 2023
- Revised Luxury Tax draft regulations to provide greater clarity on the tax treatment of luxury items
- Legislative proposals released in the 2021 federal budget with respect to the Rebate of Excise Tax for Goods Purchased by Provinces
- Regulatory proposals released in the 2021 federal budget related to information requirements to support input tax credit claims under the GST/HST.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Fall Economic Update on your personal finances and business affairs. We can also keep you abreast of the progress of these proposals as they make their way into law.

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