

Federal Budget 2024 - Summary of Key Tax Measures

The key highlights from the 2024 federal budget include:

- Increase in capital gains inclusion rate from $\frac{1}{2}$ to $\frac{2}{3}$
- Introduction of the Canadian Entrepreneurs' Incentive to provide a tax break for entrepreneurs and increasing the lifetime capital gains exemption
- Softens the previously announced changes to the alternative minimum tax
- Introduction of additional incentives and taxes in an attempt to resolve the housing crisis
- Increasing CRA's authority for information gathering

The following summarizes the key personal and corporate income tax matters relevant to individuals and small business owner managers.

Personal Tax Measures

Capital Gains Rate

Where a taxpayer disposes of capital assets, any capital gains has historically been included in the taxpayer's income at 50%. The budget proposes an increase in the capital gains inclusion rate from 50% ($\frac{1}{2}$) to 67% ($\frac{2}{3}$) for corporations, trusts and individuals for dispositions on or after June 25, 2024. For individual taxpayers, the capital gains inclusion rate of 67% applies to the capital gains in excess of \$250,000, subject to transitional rules. Other changes include reducing the employee stock option taxable benefit deduction to 33% ($\frac{1}{3}$) to reflect the new capital gains inclusion rate.

The takeaway: The increase in capital gains inclusion rate results in higher overall tax on the disposition of capital assets. If there are any upcoming dispositions planned for later in the year or assets with accrued gains, it may be worth considering triggering these gains to take advantage of the 50% inclusion rate before June 25, 2024.

Canadian Entrepreneurs' Incentive

The budget introduces an incentive which will reduce the taxes on capital gains on the disposition of qualifying shares that occur on or after January 1, 2025, by eligible individuals. This incentive provides a capital gains inclusion rate of one half of the prevailing inclusion rate, up to \$2 million in capital gains per individual during their lifetime. The \$2 million limit will be phased in over 10 years by increments of \$200,000 per year, reaching \$2 million by January 1,



2034. Further to the increase in capital gains inclusion rate to 67%, applying this incentive would result in an inclusion rate of 33% ($\frac{1}{3}$) for qualifying dispositions.

The takeaway: The proposal in the budget provides additional relief for entrepreneurs on the capital gains inclusion rate increase, resulting in an overall decrease in capital gains inclusion rate for eligible individuals up to \$2 million in a lifetime.

Alternative minimum tax (AMT)

The AMT is a system of taxation that runs parallel to the regular income tax system and calculates an “alternative” tax based on a separate set of rules and is meant to ensure that individuals pay a minimum level of tax each year. In the 2023 budget, various unfavourable changes to the AMT rules were proposed, including reducing the charitable donation tax credit to 50% for AMT purposes. The 2024 budget now proposes to allow individuals to claim 80% (increase from proposed 50%) of the proposed charitable donation tax credit when calculating AMT, in addition to several other technical amendments to the AMT legislation proposals. These amendments will apply to tax years beginning on or after January 1, 2024.

The takeaway: The AMT proposals are favourable to the 2023 budget proposals in reducing the previously broadened scope of the application.

Employee Ownership Trusts (EOT)

Employee ownership trust (EOT) rules were introduced in the 2023 budget as a new set of rules aimed at facilitating business succession planning with employees of the business. The 2023 Fall Economic Statement proposed to exempt \$10 million of capital gains on the sale of a business to an EOT subject to certain conditions. The 2024 budget proposes to provide additional clarification on the \$10 million capital gains exemption for individuals on the sale of a business to an EOT, provided certain conditions are met. If there are multiple individuals disposing of shares of a qualifying business, the individuals may claim up to \$10 million exemption.

The takeaway: The EOT rules are a welcome change for Canadian business owners looking to transition their business to their employees. The budget provides clarification on the conditions required in order for a business owner to qualify for the capital gains exemption on the transfer of their business to employees.

Other Personal Tax Measures

1. **Lifetime capital gains exemption (LCGE)** – the LCGE allows individuals to shelter up to \$1,016,836 of capital gains from the disposition of qualified small business corporation shares during an individual’s lifetime. The budget proposes to increase the LCGE to



\$1.25 million (increase from \$1,016,836), effective for dispositions on or after June 25, 2024.

2. **Home buyers' plan (HBP)** – the HBP allows individuals to withdraw up to \$35,000 from their RRSP to assist in the purchase of their first home, without having to pay tax on the withdrawal, to the extent that the withdrawal is repaid to the RRSP within 15 years. The budget proposes to increase the withdrawal limit to \$60,000, and proposes to defer the start of the 15 year repayment period by an additional 3 years.
3. **Tradespeople' travel expenses** – Eligible tradespeople in the construction industry are able to deduct up to \$4,000 in eligible travel and relocation expenses per year. The budget announces that the government will consider a single, harmonized deduction for eligible tradespeople.
4. **Disability support deduction** – the disability support deduction allows individuals who have a physical or mental impairment to deduct certain expenses, subject to certain conditions. The budget proposes to expand the eligible expenses allowed, subject to certain conditions.

Corporate Tax Measures

Accelerated Capital Cost Allowance (CCA)

To the extent that a corporation has depreciable property, the corporation may claim capital cost allowance (CCA) deduction against its business income. Currently, housing that was specifically built for rental purposes (purpose-built rental buildings) are eligible for a CCA deduction at 4% per annum. The budget proposes to provide an accelerated CCA of 10% (increase from 4%) for new eligible purpose-built rental projects that begin construction on or after April 16, 2024 and before January 1, 2031 and are available for use before January 1, 2036. Investments that are eligible for this measure would continue to benefit from the accelerated investment incentive which suspends the half-year rule for eligible property put to use before 2028.

The takeaway: The government's plan to solve the housing crisis through increasing supply is confirmed through increasing the CCA rate from 4% to 10% on purpose-built rental buildings. This measure aims to incentivize builders by increasing feasibility on these projects, through increasing after-tax returns on investment.

Tax on Vacant Lands

As the government is aimed at resolving Canada's housing crisis, the budget announces that the government will consider introducing a new tax on residentially zoned vacant land in an attempt to unlock unused land for homes. The government will launch consultations later this year.

The takeaway: The government's plan to solve the housing crisis is partly through policies to discourage vacant land ownership.

Canada Revenue Agency Matters

Compliance Matters

The budget proposes to allow the Canada Revenue Agency (CRA) to issue a Notice of Non-Compliance to a person who has not complied with a requirement to provide information requested by the CRA, with an imposed penalty of \$50 a day, up to a maximum of \$25,000. Additional proposals were introduced to allow the CRA to include requested information to be provided by taxpayers under oath or affirmation, imposition of penalty equal to 10% of the aggregate tax payable, and an amendment to extend the reassessment review clock under certain situations. This measure is effective upon royal assent of the legislation.

The takeaway: While the rules are still under proposal, they reconfirm the government's desire for information gathering. These proposals highlight the need to be even more careful and deliberate with tax reporting and disclosure in the future.

Reportable and Notifiable Transactions Penalty

In 2023, Canada's enhanced mandatory disclosure rules received royal assent, which required certain reportable or notifiable transactions to be disclosed and reported to the CRA. To the extent that a person fails to file or make a return or comply with certain rules, the person may be liable to penalties of up to \$25,000 and imprisonment up to a year. The budget announces the government's intention to remove this general penalty in respect of the reportable or notifiable transactions under the mandatory disclosure rules.

The takeaway: Due to the specific penalties under the mandatory disclosure rules previously introduced, the application of the general penalty was unnecessary. While this was a favourable proposal to reduce redundancy in the application of the penalties, tax reporting and disclosure continues to remain increasingly important in the future.

Other Tax Matters

The budget confirms the government's intention to proceed with many previously announced tax related measures considering consultations, deliberations, and legislative developments - including the application of the proposals relating to the Underused Housing Tax, enhanced GST Rental Rebate for purpose-built rental housing, and excessive interest and financing expenses limitation (EIFEL).



Journey Tax Solutions

The takeaway: This announcement reconfirms the government's desire on the application of the various different tax measures.

International Tax Measures

Withholding for Non-Resident Service Providers

Where a person pays a non-resident for services provided in Canada, the person is required to withhold and remit 15% of the payment to the CRA. The non-resident service providers may apply for a waiver or a refund of the withholding tax, subject to certain conditions. The budget proposes to provide the CRA with the authority to waive the withholding tax requirement, where certain conditions are met. This measure is effective upon royal assent of the legislation.

The takeaway: The existing tax requirement for non-resident service providers on additional tax compliance matters may have resulted in increased costs for Canadians, as non-resident service providers may have passed the cost of the withholding requirements onto the Canadian payors. Accordingly, this proposal was favourable to reduce the compliance burden and cost for Canadians.

Let's Connect!

For a more detailed discussion about how these budget measures may impact you or your business, please don't hesitate to send me an email at info@jtscpa.ca or a text at 778-987-2102.