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FALL ECONOMIC STATEMENT 2020

On November 30, 2020, Canadian Deputy Prime Minister and Finance Minister, Chrystia Freeland, delivered the government's Fall Economic Statement titled, *Supporting Canadians and Fighting COVID-19*.

The statement discussed the government's priority of fighting COVID-19 and protecting Canadians' health and safety and provided an update on the Canadian economy. It also provided a look at how the government plans to invest going forward to promote a recovery following the pandemic.

The budgetary balance is projected to show a deficit of $381.6 billion in 2020-21. Over the next two fiscal years, the deficit is projected to fall to $121.2 billion (2021-22) and $50.7 billion (2022-23) respectively, but is not expected to reach pre-pandemic levels until 2024-25 when a deficit of $30.9 billion is projected. The federal debt is projected to reach $1.1 trillion in 2020-21.

There were no changes to personal or corporate income tax rates announced in the statement. The government did, however, confirm their intention to limit the tax-efficiency of employee stock options and provided guidance and flexibility regarding home office expense deductions.

The following is a summary of tax and related measures announced in the statement. The measures remain proposals until passed into law by the federal government. As per the statement, additional measures will be discussed in Budget 2021.

PERSONAL TAX MATTERS

Simplified Home Office Expense Deduction

Currently, Canadians working from home can deduct certain home office expenses for tax purposes, but first-time claimants may not be familiar with the rules. Also, the claim process imposes an administrative burden on employers who are already dealing with the broader impacts of the pandemic and have to fill out additional information for their employees who qualify.

To simplify the process for both taxpayers and businesses, the CRA will allow employees working from home in 2020 due to COVID-19 with modest expenses, to claim up to $400, based on the amount of time working from home, without the need to track detailed expenses. Also, the government will generally not request that people provide a signed form from their employers. Further details will be announced by the CRA in the coming weeks.

Employee Stock Options

Employee stock options, which allow employees to purchase shares of their employer at a designated price, are an alternative form of compensation used by businesses to attract and engage employees. Many smaller, growing companies that cannot yet afford competitive salaries use employee stock options as a tool for attracting and retaining talent.

The employee stock option deduction supports this objective by effectively taxing stock option benefits at a rate equal to one-half of the normal rate of personal taxation, the same rate as capital gains.

Budget 2019 announced the government's intention to move forward with changes to limit the benefit of the employee stock option deduction for high-income individuals employed at large, long-established, mature firms. In June 2019, the government released draft legislative proposals and launched consultations seeking stakeholder input on the characteristics of companies that should be considered start-up, emerging and scale-up companies for the purpose of exempting such corporations from the new employee stock option tax rules.

The *Fall Economic Statement* is proposing the following changes to the employee stock option tax rules:

- A $200,000 annual limit will apply on employee stock option grants that can qualify for the employee stock option deduction. This limit will be based on the fair market value of the shares underlying the options, at the time the options are granted.
- Employee stock options granted by Canadian-controlled private corporations (CCPCs) will not be subject to the new limit. This responds to the government's previously stated objective that start-ups not be impacted by this change.
- In recognition of the fact that some non-CCPCs could be start-ups, emerging or scale-up companies, non-CCPC employers with annual gross revenues of $500 million or less, will also not be subject to the new limit.

The new rules will apply to employee stock options granted on or after July 1, 2021.

Use of Canadian Housing by Foreign Non-resident Owners

Speculative demand from foreign, non-resident investors contributes to high housing prices for many Canadians. To help make the housing market more secure and affordable for Canadians, the government will ensure that foreign, non-resident owners, who use Canada as a place to passively store their wealth in housing, pay their share of taxes.

The government will take steps over the coming year to implement a national, tax-based measure targeting the use of domestic housing that is owned by non-resident, non-Canadians, which removes these assets from the domestic housing supply.

Registered Disability Savings Plan (RDSP) – Cessation of Eligibility for the Disability Tax Credit (DTC)

An RDSP issuer is required to set aside an amount (referred to as the "assistance holdback amount") equivalent to the total Canada Disability Savings Grants and Canada Disability Savings Bonds paid into the RDSP in the 10 years preceding an event (e.g., a withdrawal or plan closure) or, in the case of a beneficiary who is no longer eligible for the DTC, the 10-year period preceding cessation of eligibility for the DTC, less any repayments of those amounts. This requirement ensures that RDSP funds are available to meet potential repayment obligations.

To allow beneficiaries who cease to be eligible for the DTC to have future access to the grants and bonds within their RDSPs that are within the assistance holdback amount, Budget 2019 proposed to modify the formula in the *Canada Disability Savings Regulations* for determining the assistance holdback amount, depending on the beneficiary's age.

The changes announced in Budget 2019 to the formula for determining the assistance holdback amount could, however, result in a lesser amount of grants and bonds being held back from beneficiaries who become ineligible for the DTC after they attain 50 years of age, than is currently held back from beneficiaries of the same age who remain DTC-eligible, or would be held back from beneficiaries of the same age who ceased to be eligible for the DTC at an earlier age.

To ensure more equitable treatment, the government proposes an additional modification to the formula put forward in Budget 2019 for determining the amount of grants and bonds held back from a withdrawal. Specifically:

- For a beneficiary who ceases to be eligible for the DTC after the calendar year in which they attain 49 years of age, the reference period for the assistance holdback amount would begin on January 1 of the year that is 10 years before the year in which the event (e.g., withdrawal or plan closure) occurs and end on the day preceding the day on which the beneficiary ceased to be eligible for the DTC. The assistance holdback amount would be equal to the total amount of grants and bonds paid into the RDSP during that period, less any repayments of those amounts.

BUSINESS TAX MATTERS

Canada Emergency Wage Subsidy

The Canada Emergency Wage Subsidy is a COVID-19 support measure that supports workers and helps businesses remain open or re-open during the pandemic. The government recently extended the Canada Emergency Wage Subsidy until June 2021.

In October, the government announced enhancements to the program, such as allowing the subsidy rates to remain at their current level so that the maximum subsidy rate of 65% of eligible wages would remain until December 19, 2020. In addition, recent changes allow employers to access the maximum subsidy rate based on a single month's revenue decline instead of having to demonstrate three months' decline.

The *Fall Economic Statement* proposes to increase the maximum subsidy rate to 75% for the period beginning December 20, 2020 and to extend this rate until March 13, 2021.

Canada Emergency Rent Subsidy

The Canada Emergency Rent Subsidy provides direct rent and mortgage support from September 27, 2020 until June 2021 for qualifying organizations affected by COVID-19.

The subsidy is provided to eligible tenants and property owners, supporting businesses, charities, and non-profits that have suffered a revenue drop, by subsidizing eligible expenses. The current rate provides a subsidy, on a sliding scale, up to a maximum of 65% until December 19, 2020.

The government is proposing to extend current subsidy rates for an additional three periods. This means a base subsidy rate of up to 65% will be available on eligible expenses until March 13, 2021.

Lockdown Support

Organizations that are subject to a lockdown and must shut their doors or significantly restrict their activities under a public health order are eligible for an additional 25% top-up of eligible expenses, in addition to the Canada Emergency Rent Subsidy base subsidy of up to 65%, until December 19, 2020.

The government is proposing to extend the rate of 25% for the Lockdown Support for an additional three periods, until March 13, 2021.

International Corporate Tax and Digitalization

It is important that countries have tools to protect their tax bases against avoidance in the form of international profit shifting. The government recognizes the mutual benefits of multilateral coordination in international taxation and therefore has a strong preference for a multilateral approach to address these issues.

Canada has been working with international partners with a view to developing a coordinated approach by mid-2021. The government remains committed to a multilateral solution but is concerned about the delay in arriving at consensus. Thus, the government proposes to implement a tax on corporations providing digital services, with effect from January 1, 2022, which would apply until such time as an acceptable common approach comes into effect. Further details will be announced in Budget 2021.

OTHER MATTERS

Support for Families with Children

To provide support for families with young children, the government proposes to introduce temporary support totaling up to $1,200 in 2021 for each child under the age of 6 for low- and middle-income families who are entitled to the Canada Child Benefit (CCB).

This support would automatically be delivered to families entitled to the CCB with net income at or below $120,000 as four tax-free payments of $300, with the first payment being made shortly after the enabling legislation is passed, and subsequent payments in the months of April, July, and October 2021.

Families entitled to the CCB with net income above $120,000 would receive a tax-free payment of $150 at each of these times, for a total benefit of $600.

Canada-wide Early Learning and Child Care System

The *Fall Economic Statement* announced early investments to lay the groundwork for a Canada-wide child care system, in partnership with provinces, territories and Indigenous peoples.

Budget 2021 will lay out the plan to provide affordable, accessible and inclusive child care from coast to coast to coast. The plan will also include enhanced support for before- and after-school care for older children to provide parents with flexibility to balance work and family.

The government is proposing to provide $20 million over 5 years, starting in 2021-22, with $4.3 million per year ongoing for a Federal Secretariat on Early Learning and Child Care. The Secretariat will build capacity within the government and engage stakeholders to provide child care policy analysis in support of a Canada-wide system.

The government is also proposing to invest $70 million over 5 years, starting in 2021-22, and $15 million ongoing to sustain the existing federal Indigenous Early Learning and Child Care Secretariat, and to help build Indigenous governance capacity and support Indigenous participation in the development of a Canada-wide system.

Interest on Canada Student Loans and Canada Apprentice Loans

To ease student debt during the economic recovery, the government intends to eliminate the interest on repayment of the federal portion of the Canada Student Loans and Canada Apprentice Loans for 2021-22.

GST/HST Relief on Face Masks and Face Shields

In order to support public health during the COVID-19 pandemic, the government proposes to temporarily relieve supplies of certain face masks and face shields from the Goods and Services Tax/Harmonized Sales Tax (GST/HST).

This measure would apply to supplies of these items made after December 6, 2020 and is proposed to be in effect only until their use is no longer broadly recommended by public health officials for the COVID-19 pandemic.

Taxation of Cross-Border Digital Products and Services

Foreign-based vendors with no physical presence in Canada do not, currently, have to charge the GST/HST on sales of digital products or services – like mobile apps, online video gaming and video and music streaming. This puts Canadian vendors of digital products and services at a competitive disadvantage.

To address this, the government proposes that foreign-based vendors selling digital products or services to consumers in Canada be required to register for, collect and remit the GST/HST on their taxable sales to Canadian consumers.

Also, Canadians often purchase digital products or services through digital marketplace platforms (e.g., "app stores"). To ensure that the GST/HST applies equally to these sales, the government proposes that digital marketplace platforms be required to register for the GST/HST, and to collect and remit the tax on the sale of digital products or services of foreign-based vendors to Canadians that the platform facilitates.

These changes are proposed to take effect on July 1, 2021.

Taxation of Goods Supplied through Fulfillment Warehouses

To level the playing field between Canadian and foreign-based vendors, the government proposes to apply GST/HST on all sales to Canadians of goods that are located in Canadian fulfillment warehouses. Under this proposal, the GST/HST will be required to be collected and remitted by either the foreign-based vendor or the digital platform that facilitates the sale.

This change is proposed to take effect on July 1, 2021.

Taxation of Short-Term Accommodation through Digital Platforms

Increasingly, individual property owners are renting out their residences, or other residential property, through digital platforms for short-term periods. Property owners may not be aware of the relevant GST/HST requirements with respect to these rentals. Additionally, the platforms that facilitate these rentals are not responsible for accounting for the GST/HST on these rentals under current rules. These factors result in the GST/HST not being applied consistently and put more traditional Canadian accommodation providers (e.g., hotels) at a comparative disadvantage.

To improve GST/HST compliance, and to ensure fairness across the accommodation sector, the government proposes to apply GST/HST to all platform-based short-term rental accommodation supplied in Canada. Under this proposal, the GST/HST will be required to be collected and remitted – by either the property owner, or the digital accommodation platform – on short-term accommodation that is supplied in Canada through a digital accommodation platform.

These changes are proposed to be effective July 1, 2021.

Strengthening Tax Compliance

In addition to previously implemented measures, the government proposes an additional $606 million over 5 years, starting in 2021-22, to allow the CRA to fund new initiatives and extend existing programs targeting international tax evasion and aggressive tax avoidance. Specifically, the CRA will hire additional offshore-focused auditors to focus on individuals who avoid taxes by hiding income and assets offshore, enhance the audit function targeting higher-risk tax filings, including those of high-net worth individuals, and strengthen its ability to fight tax crimes such as money laundering and terrorist financing by upgrading tools and increasing international cooperation.

Modernization of Anti-Avoidance Rules

To address the shifting of profits offshore and the creation of artificial tax deductions, the government will launch consultations in the coming months on the modernization of Canada’s anti-avoidance rules, in particular the General Anti-Avoidance Rule. The goal is to ensure that the rules are sufficiently robust for tax authorities and courts to address sophisticated and aggressive tax planning.

For more information, please visit ci.com.

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