

Budget 2023 Recap...& The Canada Revenue Agency is Watching

On March 28, 2023, the federal government delivered its budget, with a focus on building a “*stronger, more sustainable, and more secure Canadian economy*,” highlighting three areas: affordability to address higher inflation, public health/dental care and the green economy. There were no changes to federal personal or corporate income tax rates. There was also no change to the capital gains inclusion rate. In brief, here are five changes that may impact investors and small business owners:*

1. Registered Education Savings Plan (RESP) — Budget 2023 proposes to increase the limit on allowable educational assistance payments (EAPs) from \$5,000 to \$8,000 in the first 13-week period (for full-time students; and from \$2,500 to \$4,000 for part-time students). It also proposes that divorced or separated parents will be permitted to open a joint RESP for their children or move an existing joint RESP to another promoter.

2. Registered Disability Savings Plan (RDSP) — Currently, a “qualifying family member” such as a parent, spouse or common-law partner can open an RDSP and be the plan holder for an adult who lacks the capacity to enter into an RDSP contract and who does not have a legal representative (guardian). Budget 2023 proposes to extend the qualifying family member provision for an additional three years until December 31, 2026. Budget 2023 also proposes to expand the definition of qualifying family member to include adult siblings of the RDSP beneficiary.

3. Alternative Minimum Tax (AMT) — The AMT is intended to ensure that high-income individuals pay a minimum amount of tax. The AMT currently applies a flat 15 percent rate on adjusted taxable income minus a \$40,000 exemption and some basic tax credits. Budget 2023 proposes to increase the AMT rate to 20.5 percent, with a \$173,000 exemption, while limiting certain basic tax credits. This is expected to begin for the 2024 tax year.

4. Retirement Compensation Arrangement (RCA) — Budget 2023 proposes that fees or premiums paid to secure or renew a letter of credit for an RCA will not be subject to the refundable tax. It will allow

employers to request a refund of previously remitted refundable taxes in these instances, but the refund will be based on retirement benefits paid out of the employer's corporate revenues.

5. Employee Ownership Trust (EOT) — Budget 2023 introduces new rules to facilitate the use of an EOT for business succession. An EOT is a trust that holds shares of a corporation for the benefit of the corporation's employees. The EOT is intended to provide an alternative business succession option for small business owners looking to sell to their employees. Currently, the government is seeking stakeholder feedback, but intends to introduce the EOT as of January 1, 2024.

For greater detail, please see: budget.gc.ca.

*At the time of writing, the budget implementation bill has yet to be fully passed.

The Canada Revenue Agency is Watching: Be Aware

Tax season may be over, but here are some CRA-related reminders. The CRA's prescribed rate, which is adjusted quarterly based on prevailing interest rates, stands at 5 percent.¹ The interest rate charged for certain late-payment penalties, such as some overdue remittances, has risen to 9 percent! This may be particularly notable for investors who make quarterly instalment payments or remit payroll taxes for a small business. **Be on time to avoid costly penalties!**

Be aware that the CRA continues its crackdown on tax evasion/mishandling. More recently, it has held back tax refunds for those who incorrectly claimed pandemic benefits, recovering \$237 million through these actions.² It continues to monitor real estate transactions to curb non-compliance related to property flipping and unreported capital gains. The Residential Property Flipping Rule that took effect at the start of the year, which deems the profits from the sale of a flipped property (generally one held for less than 365 days) to be business income, is intended to support the CRA in clarifying a taxpayer's obligations.

1. www.canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html; 2. www.cbc.ca/news/politics/cra-withholding-tax-refunds-pandemic-benefits-1.6829594.

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