



OUR FAMILY PERSPECTIVES

INSIGHTS FROM CANADA'S LEADING FAMILY OFFICE

Budget 2021: It's All About Recovery

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April 19, 2021

At long last, the federal government has released its first budget in two years. The year 2020 was marked by a potpourri of pandemic support measures that were introduced on an ad hoc basis throughout last spring and summer, rather than tabling the usual federal budget.

The 2021 federal budget represents the first for Finance Minister Chrystia Freeland and, and you would expect, the focus is on recovering from the pandemic, but also introducing measures designed to support certain social objectives. In this budget the Liberals have avoided any tax measures that would be considered widely controversial such as changing the tax rules around principal residences or increasing the capital gains inclusion rate. More on this shortly.

The Impact of COVID-19

When the global pandemic was declared in March 2020, COVID-19 brought about the deepest and fastest recession, worldwide, since the Great Depression (see Chart 1). In Canada, real GDP fell by a record 13 per cent over the first half of 2020, and economic activity declined about three times as much as the 2008-09 recession, in a much shorter time.

More than three million Canadians lost their jobs last year, and another 2.5 million worked significantly reduced hours, and by the end of April, the employment rate for Canadians aged 15 to 64 fell from record highs to record lows (Chart 2).

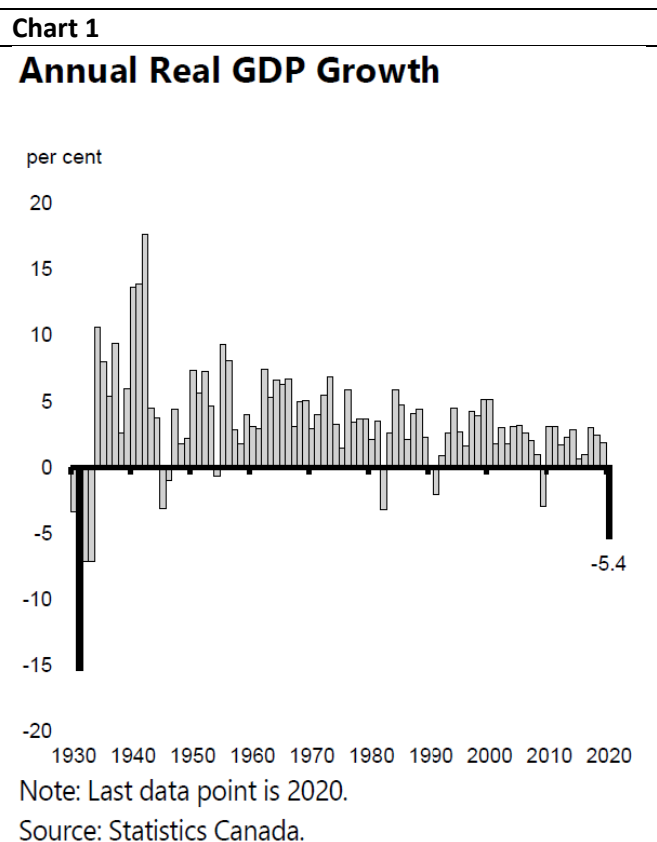
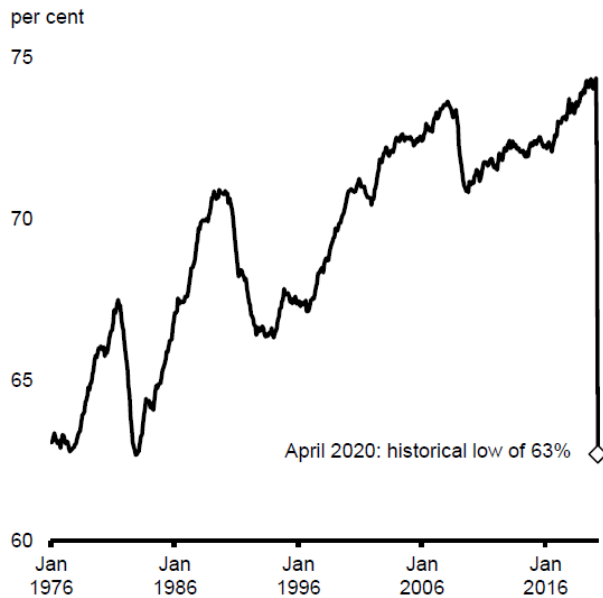


Chart 2

Share of Canadians Age 15-64 Employed



Note: Last data point is April 2020.
Source: Statistics Canada.

Path to Recovery

Recovery from the economic hit of the pandemic in Canada has been uneven over the fall and winter. Following the first wave of infections, economic activity rebounded over the summer of 2020 as restrictions eased and businesses reopened. The recovery then slowed in the fall of 2020 and the start of 2021 with increased infections and more restrictions.

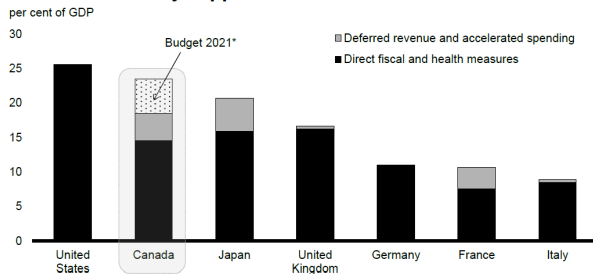
The impact has been uneven across sectors, with layoffs concentrated in contact-sensitive businesses such as retail, hotels, entertainment, and restaurants, and other sectors were virtually unaffected. Part-time workers have been impacted more than full-time (Chart 3).

Nevertheless, the recovery during the second wave was more resilient than during the initial wave, which shows that Canadians and businesses have adapted somewhat to operating under restrictions, and the recovery has been stronger than economists had projected in May 2020 (Chart 4).

Pandemic Support Measures

Since the start of the pandemic, our government has rolled out numerous support measures to help Canadians and businesses cope with the economic impact of COVID-19. Those measures have included the Canada Emergency Response Benefit (CERB), Canada Emergency Wage Subsidy (CEWS), Canada Emergency Business Account (CEBA) and various other recovery benefits. The government's fiscal policy support has exceeded 23 per cent of GDP, including the measures that are being introduced in the 2021 federal budget.

Significant Fiscal Policy Support Announced across G7 Countries



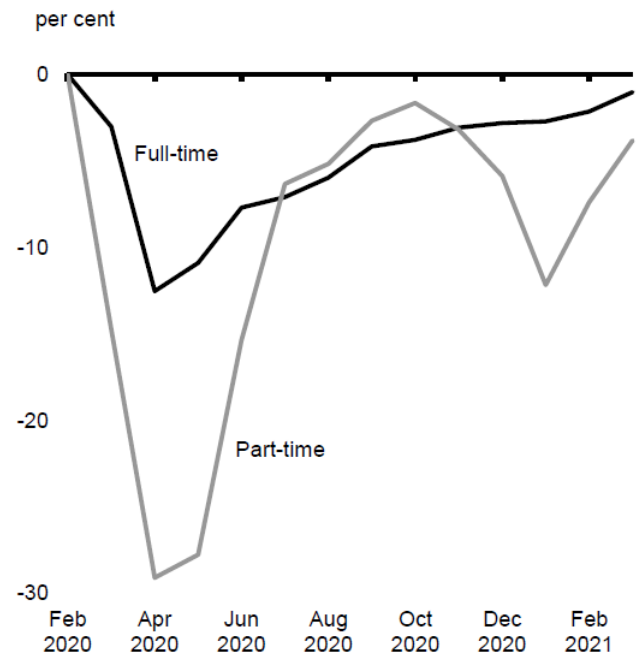
Notes: The timeframe for the announced measures is country-specific. Excludes the proposed *American Jobs Plan* for the U.S. (unveiled March 31, 2021) and Germany's supplementary budget for 2021 and Budget 2022 planned net new borrowing (unveiled March 24, 2021).

* Includes commitments made in Chapter 3 of the 2020 *Fall Economic Statement* and policy actions since, including Budget 2021.

Source: International Monetary Fund, April 2021 *Fiscal Monitor*; includes announced measures as at March 17, 2021; Department of Finance Canada calculations.

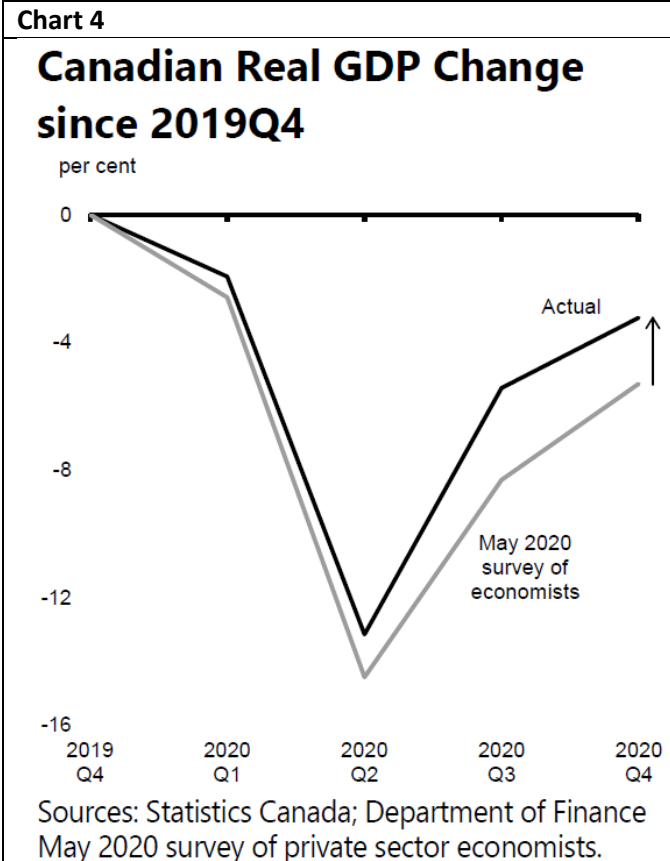
Chart 3

Employment Change by Employment Status since February 2020



Note: Last data point is March 2021.

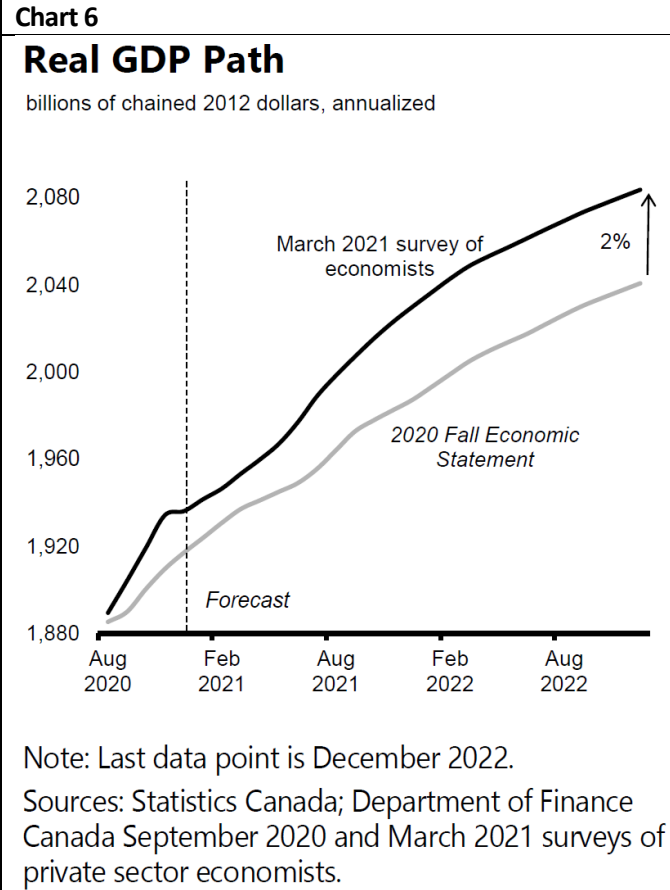
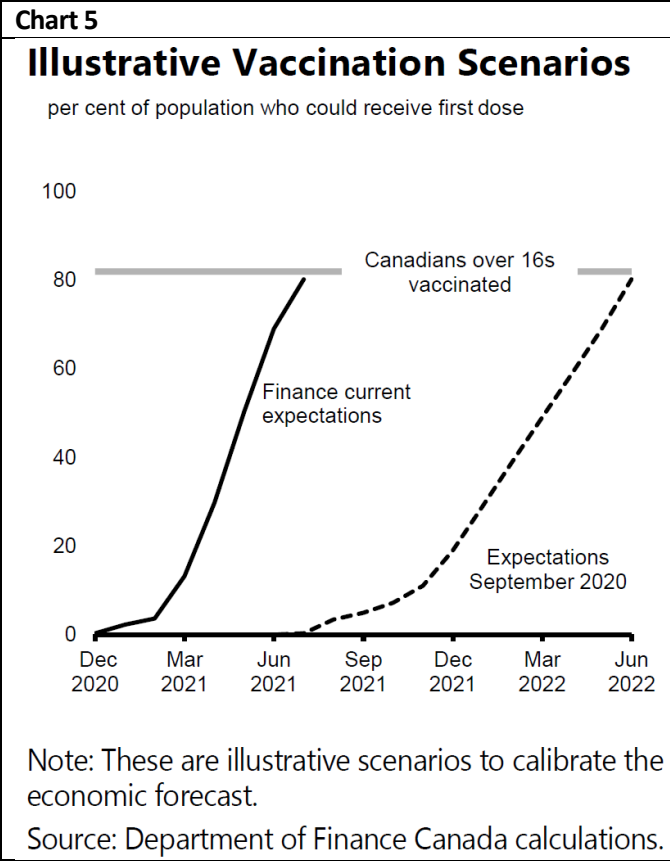
Source: Statistics Canada



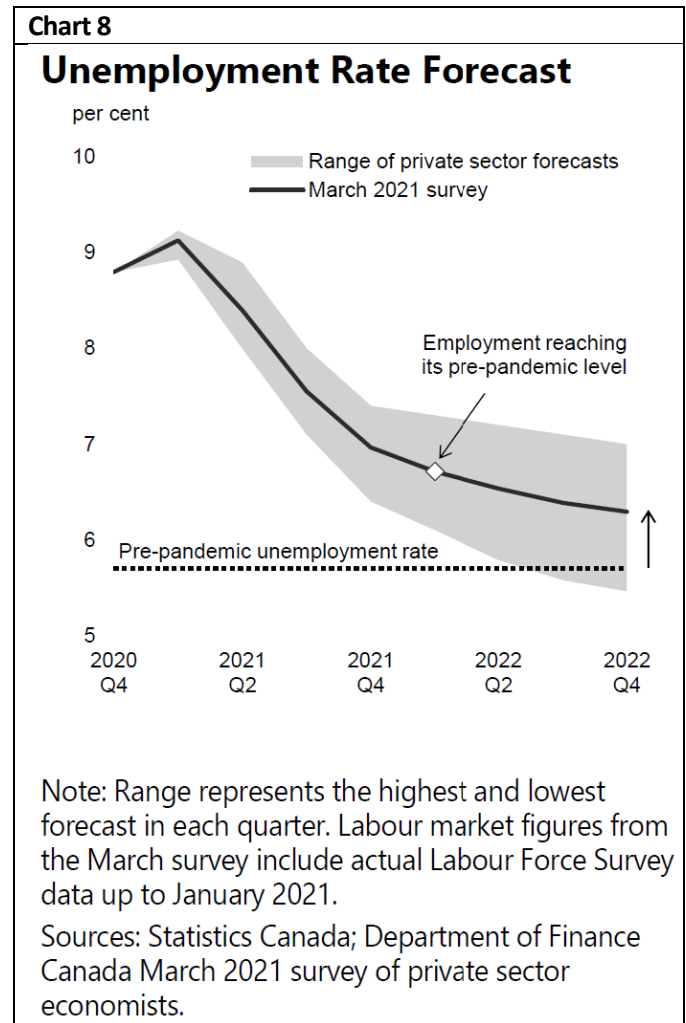
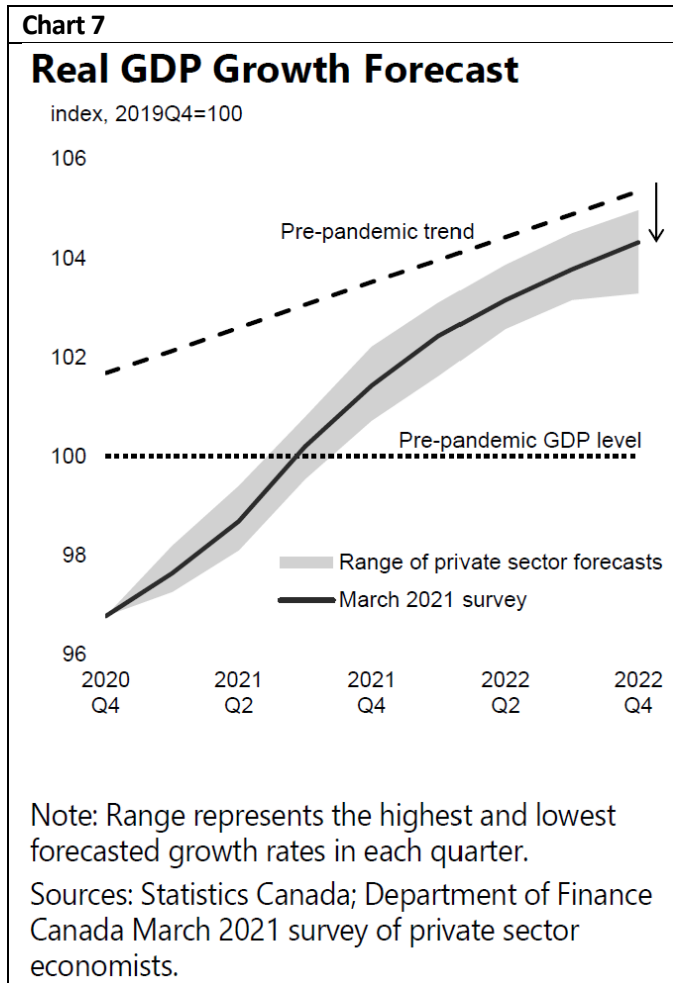
Despite the recovery exceeding the May 2020 expectations of economists, new government restrictions as Canada deals with a third wave and new variants to the COVID-19 virus are having a significant impact on employment in an already-difficult labour market and, as of today, employment is still 1.3 per cent below pre-pandemic levels, representing about 460,000 jobs in Canada. Unemployment levels have been higher among youth, single mothers, those with less education (below post-secondary), off-reserve indigenous individuals, and visible minorities.

Gaining Momentum in 2021

The view of the government is that controlling the virus and rolling out vaccinations are key factors in how the economic recovery will unfold in the coming months (Chart 5). The expectations of near-term acceleration in vaccinations has raised the outlook for growth based on a survey of private sector economists (Chart 6).



Our government projects that real GDP is expected to reach its pre-pandemic level over the course of 2021, but there is some uncertainty among private sector economists as to the extent of the recovery (Chart 7). Further, the recovery of the labour market is expected to lag behind the GDP recovery given the scale of disruptions in labour-intensive sectors and the prospect of workers and businesses facing difficulty reintegrating into the post-pandemic economy (Chart 8).



The Federal Debt Picture

Given the pandemic support measures introduced, it is natural to ask what this will do to our deficit and total debt. Leading up to the 2021 federal budget, our federal deficit for the fiscal year 2020-21 was \$354.2 billion, with our total debt reaching \$1.04 trillion, up from \$685 billion last year.

After accounting for Budget 2021 measures, the budgetary balance is expected to show a deficit of \$154.7 billion in 2021-22, and gradually declining to a deficit of \$30.7 billion in 2025-26, or approximately one per cent of GDP. The federal debt is expected to peak at 51.2 per cent of GDP in 2021-22 before declining to 49.2 per cent of GDP in 2025-26 (Chart 9).

Chart 9	Budgetary Balances (in Billions of Dollars)					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgetary Balance Surplus (Deficit)	(354.2)	(154.7)	(59.7)	(51.0)	(35.8)	(30.7)
Budgetary Balance (% of GDP)	-16.1%	-6.4%	-2.3%	-1.9%	-1.3%	-1.1%
Federal Debt (in dollars)	(1,039.2)	(1,193.9)	(1,253.6)	(1,304.6)	(1,340.4)	(1,371.1)
Federal Debt (% of GDP)	49.0%	51.2%	50.7%	50.6%	50.0%	49.2%

Our Prognosis on Taxation

While the 2021 federal budget did not introduce broad-based increases in taxation, there were some changes worth noting, which we will discuss below. When you examine the extent of our federal debt (Chart 9) it becomes clear that, in order to reduce our debt-to-GDP ratio back to pre-pandemic levels, our government is likely to increase taxes in the future.

We would not be surprised to find that the following areas of taxation may be impacted by future government pronouncements, perhaps as soon as this year:

- Increase in the capital gains inclusion rate;
- Revision to rules around principal residence taxation;
- Potential introduction of a tax on the value of real estate;
- Increase in GST/HST rates;
- Targeted measures that may impact planning common to wealthy Canadians.

We are proactively considering these potential changes and are advising clients on measures to take in appropriate situations. As for the 2021 federal budget, there are personal and business tax changes to discuss.

Personal Tax Measures

The following are measures that impact individuals and families:

Disability Tax Credit

The budget aims to expand the eligibility criteria for the Disability Tax Credit (DTC). The DTC is a non-refundable credit worth up to \$1,299 in 2021. In Budget 2021, the

government expanded the list of mental functions necessary for everyday life that can give rise to a DTC. These functions will now include attention, concentration, memory, judgement, perception of reality, problem solving, goal-setting, regulation of

behaviour and emotions, verbal and non-verbal comprehension, and adaptive functioning. In some cases, the DTC is available only if a certain number of hours (usually 14 hours) are spent each week on certain activities or therapies. The budget expands the list of these activities. Lastly, the budget reduced the therapy frequency required for the DTC from three to two times per week, while keeping the 14-hour weekly requirement the same. These changes come into effect for the 2021 tax year.

Canada Workers Benefit

The Canada Workers Benefit (CWB) is a credit to supplement the earnings of low- to modest-income workers. Currently the CWB grows by 26% for every dollar of working income over \$3,000 (employment or business income) up to \$1,395 for individuals and \$2,403 for couples and single parents. The benefit is then reduced by 12% on adjusted net income above \$13,193 and \$17,522 for individuals and families respectively. Under the 2021 budget, the phase in rate of 26% is bumped to 27%, while the phase out rate is increased from 12% to 15%. The phase out thresholds have been increased to \$22,944 and \$26,177 for individuals and families respectively. Lastly, there is a new exemption, the “secondary earner exemption”, which allows the eligible spouse of a low-income earner to exclude up to \$14,000 of their working income. Overall, these changes appear to bring taxpayers up to the maximum CWB quicker, combined with a larger phase-out range to maximize the benefit. These changes come into effect for the 2021 and future taxation years.

Northern Residents Deduction

For those that live in a more remote part of Canada, the Northern Residents Deductions program has been expanded. The budget allows for the NRD to be allocated to eligible family members, up to the amount of the employer-provided travel benefit, or a standard \$1,200 amount. Eligible family members are defined as a spouse or common-law partner, a child of the taxpayer under 18 years old and any other live-in dependents of the taxpayer. To the extent that the NRD is already claimed by a member of a household, no other eligible taxpayer would be allowed to also claim all or part of the \$1,200 benefit. Residents in Northern or Intermediate zones will be able to claim up to two non-medical personal trips annually, while an infinite number of trips can be claimed for medical purposes. A factor of 100% is applied to those in Northern Zones, while a factor of 50% is used for those in Intermediate Zones. These changes take effect for the 2021 taxation year.

Postdoctoral Fellowship Income

Those in a postdoctoral fellowship have been in an odd state of limbo from a taxation perspective for years, and this year's budget attempts to address this. Previously, postdoctoral fellowship income has been fully included in income, while also not qualifying for the scholarship exemption. To add insult to injury, this income was not considered "earned income" for purposes of creating RRSP contribution room. This changes with the 2021 budget as postdoctoral fellowship income is now considered earned income and will qualify for RRSP contribution room. This change applies to postdoctoral fellowship income earned in 2021 and later years; however, taxpayers may apply to have this treatment applied to their relevant income from 2011 through 2020 – but you will need to write CRA to request this change. This could result in meaningful RRSP room if you qualify.

Tax Treatment of COVID-19 Benefits

Throughout the pandemic, the government has offered numerous benefits to Canadians and there are several questions regarding how those will be taxed. This new measure addresses that. Typically, government benefits are included in income during the year in which the benefit was received and, where applicable, is deducted in the year where a repayment is made. New for 2021, the taxpayer has the option to deduct the repayment amount in the same year the benefit was received, for all benefits received prior to 2023. These benefits include Canada Emergency Response Benefits/

Employment Insurance Emergency Response Benefits, Canada Emergency Student Benefits, Canada Recovery Benefits, Canada Recovery Sickness Benefits and Canada Recovery Caregiving Benefits. For those Canadian residents who received these benefits and are not considered residents for tax purposes, the benefits will be taxed similar to employment or business income earned in Canada.

Contribution Errors in Defined Contribution Pensions

The 2021 budget proposes to permit certain types of errors around contributions to defined contribution pension plans to be corrected via additional contributions to an employee's account to compensate for an under-contribution error made in any of the preceding five years, subject to a dollar limit. The proposals also permit plan administrators to correct for pension over-contribution errors in respect of an employee for any of the five years prior to the year in which the excess amount is refunded to the employee or employer, as the case may be, who made the contribution. The proposed rules would require the plan administrator to file a prescribed form in respect of each affected employee. Additional contributions to correct for under-contributions would reduce the employee's registered retirement savings plan (RRSP) contribution room for the taxation year following the year in which the retroactive contribution is made.

Revocation Rules for Charities

The government is proposing to expand the ability of the Minister of National Revenue to revoke the registration of a charity or a qualified donee under certain circumstances. Budget 2021 allows the Minister to immediately revoke the registration of a charity or other qualified donee upon its listing as a terrorist entity under the Criminal Code. Additionally, the Minister has the same power when the entity has an "ineligible individual" (generally, someone with terrorist connections) as a director, trustee, officer or like, where such an individual controls or manages the charity or association. Lastly, the budget allows the Minister to similarly act against registered charities where a false statement amounting to culpable conduct was made for the purpose of maintaining its registration. These amendments would apply only on Royal Assent.

Electronic Filing and Certification

The 2021 budget looks to improve CRA's digital toolbox. Certain Notices of Assessment are now allowed to be sent digitally by the CRA without previous authorization

from the taxpayer. This would only apply to those who file digitally, while those who still file by paper would continue to receive paper correspondence from the CRA. The default correspondence with businesses which have access to the 'My Business Account' portal will be digital, and a business can opt-in to receive paper correspondence if they so choose. Issuers of T4A and T5 slips will now have the option to send these documents digitally without taxpayer consent to do so. Tax preparers are now required to file tax returns electronically where they prepare five or more returns for corporations or five or more returns for individuals and trusts. For filers of information returns, they are now required to do so electronically if they file more than five information returns of a particular type in any given year. Continuing along this theme of digital filing, those corporations that are GST/HST registrants are now required to file electronically. Lastly, the budget is waiving the requirement that signatures be in writing for the following forms: T183, T183CORP, T2200, RC71 and RC72.

Business Tax Measures

The following represent tax measures in the 2021 budget affecting business owners:

Emergency Business Supports

The Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Rent Subsidy and the Lockdown Support will be extended until September 2021 with subsidy rates gradually declining from July to September. Budget 2021 also proposes to provide the government with the authority to add additional qualifying periods should the situation warrant it.

Canada Recovery Hiring Program

Budget 2021 introduces the new Canada Recovery Hiring Program to provide eligible employers with a subsidy of up to 50 per cent on the incremental remuneration paid to eligible employees between June 6, 2021 and November 20, 2021. An eligible employer would be permitted to claim either the hiring subsidy or the Canada Emergency Wage Subsidy for a particular qualifying period, but not both.

Immediate Expensing

Budget 2021 proposes to provide immediate expensing of certain eligible capital property acquired by a Canadian-Controlled Private Corporation (CCPC) on or after the budget date. The immediate expensing would be available only in the year in which the asset becomes available for use before January 1, 2024, up to a maximum amount of \$1.5 million per taxation year (shared amongst associated corporations). Any excess capital costs would be subject to normal capital cost allowance (CCA) rules.

What is considered "eligible property" for this new rule? Eligible property would be any capital property that is subject to the CCA rules, other than the following CCA classes (considered long-lived assets):

- Classes (1 – 6) - Buildings
- Class 14.1 – Goodwill
- Class 17 – Roads, parking lots, runways, sidewalks & similar surface construction
- Class 47 – Liquefied natural gas
- Class 49 – Transmission pipelines for petroleum or other related hydrocarbons
- Class 51 – Natural gas distribution pipelines

Other Measures

There are other business measures mentioned in the 2021 Budget that impact the following areas:

1. Tax reduction for zero-emission technology manufacturers;
2. CCA for Clean Energy Equipment;
3. Film or Video Production Tax Credits.

The government is also focused on combatting aggressive tax planning strategies. To this end, the government will be consulting on Canada's mandatory disclosure rules in order to report certain notifiable transactions and their respective tax treatments.

Sales & Excise Tax Measures

There are a number of new GST/HST measures relating to e-commerce coming into force July 1, 2021 that were announced as part of the 2020 Fall Economic Statement. One point of interest is the decision to apply the GST/HST on all supplies of short-term accommodation in Canada facilitated through a digital accommodation platform,

such as Airbnb. The following are new proposals introduced as part of the 2021 Federal Budget:

GST New Housing Rebate

The GST New Housing Rebate entitles homebuyers (acquiring the home as their principal place of residence) to recover the GST paid on the purchase of a new home priced up to \$350,000 for a maximum rebate of \$6,300. The rebate is phased out for new homes priced between \$350,000 and \$450,000. Budget 2021 proposes to remove a previously existing condition where two or more individuals buy a new home together, each of them must be acquiring the home for use as their primary place of residence or the primary place of residence of a relation. Instead, the GST New Housing Rebate would be available if the new home is acquired for use as the primary place of residence of any one of the purchasers or a relation of any one of the purchasers.

Cost of Vaping

Budget 2021 proposes to implement a tax on vaping products in 2022 through the introduction of a new excise duty framework. The new duty would apply to vaping liquids whether or not they contain nicotine. Cannabis-based vaping products would be explicitly exempt from this framework, as they are already subject to cannabis excise duties under the Act.

Luxury Good Purchases

Budget 2021 proposes to introduce a tax on the retail sale (purchased, financed or leased) of new luxury cars and personal aircraft priced over \$100,000, and boats priced over \$250,000, effective January 1, 2022. For vehicles, aircraft and boats sold in Canada, the tax would apply at the point of purchase if the final sale price paid by a consumer (not including the GST/HST or provincial sales tax) is above the \$100,000 or \$250,000 price threshold. For vehicles and aircrafts priced over \$100,000, the tax would be the lesser of 10 per cent of the full value of the vehicle or aircraft, or 20 per cent of the value above \$100,000. For boats priced over \$250,000, the amount of the tax would be the lesser of 10 per cent of the full value of the boat, or 20 per cent of the value above \$250,000.

Non-Tax Measures

There are some non-tax measures that are worth mentioning here. Here are the highlights:

Old Age Security

For those who will be age 75 or older by June 2022, the government has announced that an additional Old Age Security (OAS) payment of \$500 will be provided in August 2021. Further, OAS payments will be increased by 10 per cent starting July 2022 for those 75 or older.

Minimum Wage

The federal government will be passing legislation that will require a minimum wage of at least \$15 in all provinces. This will impact many businesses in provinces that currently have a minimum wage below \$15. In provinces where the minimum wage exceeds \$15, that higher wage will continue to apply.

Relief for Student Loans

The budget announced that the government is extending, to March 31, 2023, the waiver of accrued interest on qualifying student loans. In addition, there will be new assistance for those repaying student loans such that those earning under \$40,000 will not have to make repayments and there will be a cap on monthly loan repayments equal to 10 per cent of household income. Finally, the Canada Student Grants program which doubled the level of grants available last year will be extended to July 2023.

Government Bonds

The government announced a roll-out of \$5 billion worth of government Green Bonds to take place soon. These may appeal to investors who want their investment dollars to work to protect the environment or fight climate change. The government will also explore the idea of issuing Social Bonds which would assist the government in paying for social objectives such as creating affordable housing or providing access to childcare.

Conclusion

The 2021 Federal Budget was certainly designed to avoid any controversial measures that could lead to a vote of non-confidence in parliament given the current minority government.

While the tax measures introduced did not meaningfully raise taxes in a broad-based manner, the measure on spending on luxury items will certainly impact some. Further, we are convinced that this budget is not the end

of the story when it comes to expected tax increases that will be required to restore Canada's debt-to-GDP ratio to pre-pandemic levels. There will be more pronouncements to come.

If you have any questions regarding the contents of this federal budget summary, do not hesitate to contact your OFO advisory team. We would be pleased to discuss how any of the budget measures may impact your planning.

At Our Family Office Inc. we continue to monitor developments related to COVID-19, the probability of tax increases, and prudent investment opportunities during this time. We are pleased with how our clients' "all-weather portfolios" are faring during these uncertain times and will be speaking to you about other strategies that may make sense given the current economic environment.

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