



CESTNICK

---

TAX MATTERS

## What to expect in the federal budget next week and how it could impact your taxes

SPECIAL TO THE GLOBE AND MAIL  
PUBLISHED MARCH 22, 2023

My dad remembers the Great Inflation period from 1965 to 1982 and was commenting on the inflation we're experiencing today. "Tim, today I'm paying \$20 for a haircut worth \$15 that used to cost me \$4 when I had hair" he said. "Dad, I can't believe they're charging you \$20 when you have no hair," I replied. "Yeah, they told me it was \$2 to cut my hair, and \$18 to find it," he explained.

The point is, inflation is running high again, and increases in [interest rates](#) haven't solved the problem yet. Making ends meet has not been this hard in a long time for many Canadians.

Finance Minister Chrystia Freeland has said that the federal budget, which is to be tabled March 28, will provide affordability measures to soften the blow of inflation and higher interest rates, invest in the clean industrial economy and provide promised funding for health care. But what, specifically, can we expect in the budget that could affect your wallet? Let me share a few ideas today.

Enhanced benefits and credits. I expect that we'll see an increase to certain benefits and tax credits such as the Canada Worker's Benefit, Old Age Security and Guaranteed Income Supplement benefits, the GST credit, climate action incentive, and the Canada Housing Benefit.

Career extension tax credit. Don't be surprised if the government introduces a tax credit to encourage seniors to continue working. Given the labour shortages the country is experiencing, and comments made in the 2022 budget, a career extension tax credit is a real possibility.

Capital gains inclusion rate. Ever since October, 2000, just one half of capital gains have been taxable in Canada. Throughout the 1990s that inclusion rate was 75 per cent. Given our country's high debt-to-GDP ratio, which hasn't been this high since the 1990s, I've been suggesting for a while that I expect the inclusion rate to increase to 75 per cent again – a move which would affect mainly higher-income Canadians, who have been a target for this government

since 2015. We could see this change in next week's budget.

Family business transfers. Bill C-208 introduced new rules in 2021 for the transfer of family businesses between generations. It used to be that it cost less in taxes to transfer a business to an unrelated third party than to keep it in the family. The new rules were designed to fix this. The government has said it will make further changes to ensure the rules only apply in certain situations and to prevent "surplus stripping," which is planning that allows taxpayers to make withdrawals from their corporations at lower capital gains tax rates rather than at salary or dividend rates.

GST/HST rate changes. It's quite possible that we could see an increase in the GST/HST rate we're paying. Don't forget, the GST was at 7 per cent when it was introduced in 1991 and has been at 5 per cent since 2008. Increasing the GST/HST rate could raise more revenue and reduce consumer spending, which could help tamp down inflation.

Taxes on the wealthy. This government has consistently introduced measures to further tax the highest income earners (the increase in the highest marginal tax rate, and the new luxury tax on vehicles, boats and planes come to mind). We could see further increases to the highest marginal tax rate, or new taxes on real estate that has a value over a certain threshold. The latter may be a proxy for a wealth tax that the NDP has been advocating. Given the agreement the Liberal Party has made with the NDP to garner their support until 2025, it wouldn't surprise me to see a new type of tax here.

Alternative minimum tax. The alternative minimum tax, or AMT, has been around since 1986 and is designed to ensure that high-income earners who claim significant tax breaks still pay a minimum level of tax. In last year's budget the government said it would consider new AMT rules, and in its 2021 election campaign the Liberal Party proposed a 15-per cent minimum tax on taxpayers in the highest tax bracket, in addition to the current AMT. So, I expect changes are coming next week.

Green tax incentives. In recent budgets we've seen several initiatives introduced as part of the government's climate plan. I expect next week's budget to provide more of the same, including incentives to upgrade the efficiency of households and communities, increased funding to improve job skill development for the retrofit economy (which would help the labour market), and new investment tax credits for clean electricity. There might also be changes to make electric vehicles more affordable.

Don't expect anything in the budget that looks like a broad-based tax cut (sorry about that).

*Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at [tim@ourfamilyoffice.ca](mailto:tim@ourfamilyoffice.ca)*