2021 Federal Budget

Budget Announcements

The government unveiled a $354.2 billion deficit for fiscal 2020-21, up from $39.4 billion in fiscal 2019-20, a confirmation of the magnitude of fiscal support during the pandemic. Over the medium term, the government projects large and steadily declining deficits of $154.7 billion in 2021-22, $59.7 billion in 2022-23, $50.0 billion in 2023-24, $35.8 billion in 2024-25 and $30.7 billion in 2025-26.

Net debt in fiscal 2020-21 is pegged at $1.1 trillion, rising to $1.4 trillion in fiscal 2025-26. The net debt-to-GDP ratio is projected to remain relatively stable over the forecast period, at roughly 50%. The government did not include a fiscal anchor, but simply stated it is committed to unwinding COVID-related deficits and reducing the federal debt as a share of the economy over the medium-term.

For 2021-22, the government will seek to maximize the financing of COVID-19-related debt through long-term issuance. It involves maintaining a shift towards long-term debt issuance, which began in 2020-21, re-opening the ultra-long 50-year bond in 2021-22, and continuing to issue in this sector in coming years. The government will closely monitor financial markets and may issue more long-term debt if market conditions are favourable. The aggregate principal amount of money to be borrowed by the government in 2021-22 is projected to be $523 billion.

Before the pandemic, 15% of the bonds issued by the government were issued at maturities of 10 years or greater. Over the course of 2020, federal government allocations of long bonds rose to about 29%. The government is now proposing to increase that proportion to 42%. This will result in the longest average term to maturity in four decades.

The government plans to issue its first ever green bond in 2021-22. The inaugural green bond issuance will target $5 billion, subject to market conditions, and will be the first of many issuances.

Announcements that may be of interest to our IIAC members:

- Additional funding for the Canadian Securities Transition Office to continue supporting federal efforts to advance the Cooperative Capital Markets Regulatory System and to strengthen capital markets stability and enforcement in Canada.
- $2.1 million over two years to Innovation, Science and Economic Development Canada to support the implementation of a publicly accessible corporate beneficial ownership registry by 2025.
- $41.7 million over three years to the CRA to reduce processing time for T1 adjustments by making online self-service more user-friendly and improving automated processing of T1 adjustments.
- Reduced tax rate for small businesses. For taxpayers with income subject to both the general and the small business corporate tax rates, taxpayers would be able to choose to have their eligible income taxed at either the reduced rate of 4.5% for small businesses or the general

reduced rate of 7.5%. The amount of income taxed at the 4.5% rate plus the amount of income taxed at the small business rate of 9% would not be allowed to exceed the business limit.

- A tax on the sales, for personal use, of luxury cars and personal aircraft with a retail sales price over $100,000, and boats, for personal use, over $250,000. The tax would be calculated at the lesser of 20% of the value above the threshold ($100,000 for cars and personal aircraft, $250,000 for boats) or 10% of the full value of the luxury car, boat, or personal aircraft. This measure would come into force on January 1, 2022.
- Limitations on Excessive Interest Deductions—starting in 2023, the amount of interest that certain businesses can deduct be limited to 40% of their earnings in the first year of the measure and 30% thereafter. Relief will be provided for small businesses and for other situations that do not represent significant tax base erosion risks.
- Up to $1 billion available on a cash basis, over five years, starting in 2021-22, to help draw in private sector investment for large-scale clean technology projects. The reduced rates would be gradually phased out starting in taxation years that begin in 2029 and fully phased out for taxation years that begin after 2031.
- An increase to Old Age Security benefit for Canadians aged 75 and older by providing a one-time payment of $500, and then plan to increase ongoing payments by 10 per cent as of July 2022.
- A forthcoming consultation to strengthen and modernize Canada's general anti-avoidance rules.
- Legislative Measures to:
    - Strengthen Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime (amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* to enable the Financial Transactions and Reports Analysis Centre of Canada to recover its compliance costs, clarify its ability to obtain information from reporting entities and expand the information that it can disclose; strengthen criminal penalties and the registration framework for money services businesses; regulate armoured car services for AML/ATF purposes; amend certain disclosure recipients and definitions; and make other technical amendments to the Act).
    - Modernize Canada’s Unclaimed Assets Regime (modernize the federal unclaimed assets regime, by increasing the information available and use of electronic communication to match Canadians with their unclaimed assets, and expand the scope of the regime to include unclaimed balances from terminated federally regulated pension plans and foreign denominated bank accounts).
    - Clarify the Consumer Protection Framework (introduce legislative amendments to clarify that application of the statutory right to cancel a contract with a bank under the *Bank Act* only applies to retail consumers, which are individuals and small and medium-sized businesses, and excludes large businesses).

The IIAC’s reaction to the budget is available here.

The federal government budget document is available here.