



2022 Federal Budget

The government unveiled a \$113.8 billion deficit for fiscal 2021-22. Over the medium term, the government projects steadily declining deficits of \$52.8 billion in 2022-23, \$39.9 billion in 2023-24, \$27.8 billion in 2024-25, \$18.6 billion in 2025-26 and \$8.4 billion in 2026-27.

Net debt in fiscal 2021-22 is pegged at \$1.26 trillion, rising to \$1.42 trillion in fiscal 2026-27. The net debt-to-GDP ratio is projected to decline over the forecast period, from 46.5% in fiscal 2021-22 to 41.5% in fiscal 2026-27.

For 2022-23, the government will seek to maximize the financing of COVID-19-related debt through long-term issuance. This maintains a shift towards long-term debt issuance, which began in 2020-21, and continuing issuance of the ultra-long 50-year bond. The aggregate principal amount of money to be borrowed by the government in 2022-23 is projected to be \$435 billion. About 80% is composed of existing debt that is maturing and being refinanced.

In the decade prior to the pandemic, 20% of the bonds issued by the government were issued at maturities of 10 years or greater. Over the course of 2021-22, federal government allocations of long bonds were about 45%. The government is now proposing to target about 35% in long bond issuance in 2022-23 to fund the remaining COVID-19-related debt.

The government issued its first ever green bond (\$5 billion issuance) in March 2022 and saw strong demand. Another green bond issuance is planned for 2022-23, but no decisions have been made on size, tenor, and timing of the issuance.

Announcements that may be of interest to IIAC members:

Tax-Free First Home Savings Account

- Budget 2022 proposes to introduce the Tax-Free First Home Savings Account that would give prospective first-time home buyers the ability to save up to \$40,000. Like an RRSP, contributions would be tax-deductible, and withdrawals to purchase a first home—including investment income—would be non-taxable, like a TFSA (i.e., tax-free in, tax-free out). The government intends to work with financial institutions to ensure that a Tax-Free First Home Savings Account could be opened and contributed to in 2023. It is estimated that the Tax-Free First Home Savings Account would provide \$725 million in support over five years.

Other Housing-Related Measures

- Budget 2022 announces a federal review of housing as an asset class to better understand the role of large corporate players in the market and the impact on Canadian renters and homeowners. This will include the examination of a number of options and tools, including potential changes to the tax

treatment of large corporate players that invest in residential real estate. Further details on the review will be released later this year, with potential early actions to be announced before the end of the year.

- Budget 2022 proposes to double the First-Time Home Buyers' Tax Credit amount to \$10,000. The enhanced credit would provide up to \$1,500 in direct support to home buyers. This measure would apply to homes purchased on or after January 1, 2022.
- The government intends to prohibit foreign commercial enterprises and people who are not Canadian citizens or permanent residents from acquiring non-recreational, residential property in Canada for a period of two years.

AML/ATF

- The government will conduct a comprehensive review of the AML/ATF Regime. Additional legislative proposals will be brought forward over the coming months to address identified gaps.
- The government is accelerating by two years its commitment to amend the *Canada Business Corporations Act* to implement a public and searchable beneficial ownership registry, which will now be accessible before the end of 2023. The registry will be scalable to allow access to the beneficial ownership data held by provinces and territories that agree to participate in a national registry. Legislative proposals will be forthcoming as part of the Budget Implementation Act.
- The government will provide \$89.9 million over five years to FINTRAC to implement new anti-money laundering and anti-terrorist financing requirements for crowdfunding platforms and payment service providers; support the supervision of federally regulated financial institutions; continue to build expertise related to virtual currency; modernize its compliance functions; and update its financial management, human resources, intelligence, and disaster recovery systems.
- The government intends to establish a new Canada Financial Crimes Agency.
- The government intends to extend anti-money laundering and anti-terrorist financing requirements to all businesses conducting mortgage lending in Canada within the next year.

Attracting Private Sector Investment

- Budget 2022 proposes to establish the Canada Growth Fund to attract substantial private sector. The Fund will operate at arms-length from the federal government. It will invest using a broad suite of financial instruments including all forms of debt, equity, guarantees, and specialized contracts. The fund will be initially capitalized at \$15 billion over the next five years. It will invest on a concessionary basis, with the goal that for every dollar invested by the fund, it will aim to attract at least three dollars of private capital investment. Investments will focus on reducing emissions and achieving Canada's climate goals; diversifying Canada's economy and bolstering exports by investing in the growth of low-carbon industries and new technologies across sectors of Canada's industrial base; and supporting the restructuring of critical supply chains.
- The government proposes to create an operationally independent federal innovation and investment agency, and proposes \$1 billion over five years, starting in 2022-23, to support its initial operations. The Agency will proactively work with new and established Canadian industries and businesses to help them make the investments they need to innovate, grow, and create jobs.

Tax-Related Measures

- The government will provide \$1.2 billion over five years, starting in 2022-23, for the CRA to expand audits of larger entities and non-residents engaged in aggressive tax planning.
- Budget 2022 proposes to phase out access to the small business tax rate more gradually, with access to be fully phased out when taxable capital reaches \$50 million, rather than at \$15 million.
- The government announced that the Department of Finance Canada will engage with experts to establish an investment tax credit of up to 30%, focused on net-zero technologies, battery storage solutions, and clean hydrogen.
- The government will introduce a new 30% Critical Mineral Exploration Tax Credit for specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.
- Budget 2022 proposes to introduce a temporary Canada Recovery Dividend, under which banking and life insurers' groups (as determined under Part VI of the *Income Tax Act*) will pay a one-time 15% tax on taxable income above \$1 billion for the 2021 tax year. Additionally, the budget proposes to permanently increase the corporate income tax rate by 1.5 percentage points on the taxable income of banking and life insurance groups (as determined under Part VI of the *Income Tax Act*) above \$100 million, such that the overall federal corporate income tax rate above this income threshold will increase from 15% to 16.5%. Together, these measures are expected to raise \$6.1 billion over five years, with the 1.5 per cent permanent tax on banking and life insurance groups expected to raise \$445 million ongoing.

Anti-Avoidance Rules

- Budget 2022 proposes to create a specific anti-avoidance rule in the *Income Tax Act* to ensure that the appropriate amount of tax is paid when an interest coupon stripping arrangement is used.
- Budget 2022 proposes to amend the *Income Tax Act* to provide that the GAAR can apply to transactions that affect tax attributes that have not yet been used to reduce taxes.
- The government intends to release a broader consultation paper on modernizing the GAAR, with a consultation period running through the summer of 2022, and with legislative proposals to be tabled by the end of 2022.
- Budget 2022 proposes to examine potential changes to the financial transaction approval process to limit the ability of federally regulated financial institutions to use offshore corporate structures to engage in aggressive tax avoidance.

Digitalization of Money

- The government intends to launch a financial sector legislative review focused on the digitalization of money and maintaining financial sector stability and security. The first phase of the review will be directed at digital currencies, including cryptocurrencies and stablecoins. Budget 2022 also proposes \$17.7 million over five years, starting in 2022-23, to the Department of Finance to lead the review.

Banking Complaints Handling System for Canadians

- Budget 2022 announces the government's intention to introduce targeted legislative measures to strengthen the external complaints handling system and to put in place a single, non-profit, external complaints body to address consumer complaints involving banks.

The federal government budget document is available [here](#).