



TaxNewsFlash

Canada

2023 Federal Budget — Sneak Peek of Possible Tax Changes

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Canada's Deputy Prime Minister and Finance Minister Chrystia Freeland will deliver Canada's 2023 federal budget on March 28, 2023. Although the government has signalled that this year's budget may largely focus on themes such as health care and clean energy, any specific details on what measures may be under consideration are kept under wraps until the budget is released. However, the government has provided some indications about what could be in store this year in recent announcements, past federal budgets and the 2022 Federal Fall Economic Update. Among other possible measures, the government may announce further details on clean technology and energy credits, a 2% share buyback tax on certain corporations, a new minimum tax on high-net-worth individuals and a review of the Scientific Research and Experimental Development (SR&ED) program, including consideration of a patent box regime. It will be also interesting to see whether Finance proposes measures to address new climate-related U.S. tax incentives.

Catch KPMG's budget coverage

Whatever tax changes are announced in this year's budget, your KPMG adviser can help you understand their effect on your personal finances or business affairs, and point out ways to ease their impact or recognize new opportunities. You can also get highlights from our special budget edition of *TaxNewsFlash-Canada* — expected to be available on budget day from your KPMG adviser and on our website.

Complete tax-sensitive transactions before budget day

As with any budget, the government may make unexpected announcements that could affect your personal or business tax situation. Since federal budgets often propose measures that take effect on budget day, your best defense against adverse tax

changes is to complete or close all tax-sensitive transactions before budget day, providing that doing so makes sense from an investment and business perspective.

Possible tax changes — 2023 federal budget

As part of its upcoming federal budget, Finance could announce measures affecting the following areas:

- Business tax
- Climate-related tax measures
- International tax
- Innovation incentives
- Personal tax

Finance discussed several measures that could be in this year's budget as part of its 2022 Federal Fall Economic Update. For full details on this Update, see *TaxNewsFlash-Canada* 2022-48, "[Highlights of the 2022 Federal Fall Economic Update](#)".

Business tax

Share buyback tax

In the budget, Finance may provide additional details on a 2% corporate tax on the net value of all types of share buybacks by public corporations in Canada, effective January 1, 2024. Finance originally announced this new tax, which will apply when a corporation buys its own stock back from existing shareholders, in the 2022 Federal Fall Economic Update.

Real estate

The budget may propose changes to the tax rules for large corporate owners of residential real estate, further to a federal review announced in the 2022 federal budget. The government's 2021 election platform previously pledged to review the tax treatment of these entities (such as real estate investment trusts). Note that the government's 2021 election platform also promised to require landlords to disclose the rent received pre- and post-renovation on their tax filings and implement a proportional surtax on excessive increases.

General anti-avoidance rule

The budget may propose changes to the general anti-avoidance rule (GAAR) regime, based on the results of a 2022 consultation that considered changes that will affect how the CRA and courts address potential aggressive tax planning in the future. Based on Finance's comments in the consultation, these changes could affect GAAR rules

addressing tax benefits, mixed-purpose transactions and the economic substance of transactions. The budget may also include changes to increase certain GAAR penalties.

Climate-related tax measures

Clean technology and hydrogen credits

The 2023 federal budget is expected to provide additional information on the refundable Clean Technology Investment Tax Credit and the Clean Hydrogen Investment Tax Credit, which were announced in the 2022 Federal Fall Economic Update.

Finance may provide additional details on the Clean Technology Investment Tax Credit, including the labour conditions that must be met to be eligible for the full 30% credit, which is proposed to be available on the capital cost of certain eligible clean technology equipment that is acquired and becomes available for use on or after the day of the 2023 federal budget. The budget could also include additional information on the design of the refundable Clean Hydrogen Investment Tax Credit and the labour conditions that must be met to be eligible for the full credit. Although Finance provided only a few details about this credit in the Fall Economic Update, it is proposed to provide a top tax credit of at least 40% for eligible investments made as of the day of the 2023 federal budget. Finance recently concluded a public consultation on these credits, including the related labour conditions. For additional details of these credits, see *TaxNewsFlash-Canada* 2022-48, “[Highlights of the 2022 Federal Fall Economic Update](#)” and *TaxNewsNow* “[Finance reaches out for input on clean hydrogen and technology investment tax credits](#)”.

Carbon capture, utilization and storage (CCUS) tax credit

Finance may provide an update on the refundable carbon capture, utilization and storage (CCUS) tax credit in the 2023 federal budget. The CCUS tax credit applies to the cost of purchasing and installing eligible equipment used in certain eligible CCUS projects. Finance released draft legislation to enact these measures for public consultation on August 9, 2022, but these changes have not yet been enacted.

International tax

Tax and the digitalization of the economy

Finance may further comment on Canada’s plans to implement the OECD/G20 Inclusive Framework two-pillar approach to address challenges of tax and the digitalization of the economy in this year’s budget. Generally, Pillar One focuses on the allocation of taxing rights including nexus issues, while Pillar Two considers a minimum 15% global corporate income tax rate, among other changes.

Finance previously launched a public consultation in 2022 to consider how the model Pillar Two rules and domestic minimum top-up tax could be implemented in Canada, and more recently stated in the 2022 Federal Fall Economic Update that the government is actively working with its international partners to implement this framework. Finance may also comment on the progress of Pillar One. Previously, Finance said it would move ahead, no

earlier than January 1, 2024, with draft legislation to introduce a 3% digital services tax retroactive on applicable revenues earned as of January 1, 2022 if a multilateral convention implementing Pillar One has not come into force.

Transfer pricing rules

Finance could announce details on a public consultation on Canada's transfer pricing rules in this year's federal budget. Previously, Finance confirmed in the 2022 Federal Fall Economic Update that it intended to proceed with this consultation.

Innovation incentives

SR&ED review

Finance could provide details of its review of the Scientific Research and Experimental Development (SR&ED) program, including consideration of a patent box regime. Finance noted in 2022 Federal Fall Economic Update that it will provide further details in the 2023 federal budget.

Personal tax

Minimum tax for high earners

The budget may propose a new minimum tax regime for individuals who qualify for the top tax bracket. In the 2022 Federal Fall Economic Update, Finance advised that it intends to release a detailed proposal for the minimum tax in the 2023 federal budget.

KPMG observation

It is not yet clear how this potential minimum tax would interact with the existing Alternative Minimum Tax.

Intergenerational transfers

The budget could include changes to the rules concerning the intergenerational transfer of shares of a small business or family farm or fishing corporation that were introduced in 2021 (related to private member's Bill C-208). Finance previously indicated that it intends to bring forward draft legislative amendments for consultation to ensure that these rules facilitate genuine intergenerational transfers. Finance also completed a consultation on the intergenerational transfer rules on June 17, 2022, although draft legislation has not yet been released. For further details of potential amendments, see *TaxNewsFlash-Canada* 2021-41, "[New Intergenerational Transfer Rules — More Changes Coming](#)" and *TaxNewsFlash-Canada* 2022-24, "[2022 Federal Budget Highlights](#)".

Employee Ownership Trusts

The budget could announce more details on Employee Ownership Trusts, a new dedicated type of trust to support employee ownership. In the 2022 federal budget, Finance said it was engaging with stakeholders to finalize rules for the new type of trust.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in the upcoming federal budget on your personal finances or business affairs, and point out ways to realize any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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