



# TaxNewsFlash

Canada

## 2024 Federal Budget — On the Trail of Possible Tax Changes

March 4, 2024

No. 2024-08

Canada's Deputy Prime Minister and Finance Minister Chrystia Freeland will deliver Canada's 2024 federal budget on April 16, 2024. Although the government has signalled that this year's budget may broadly focus on affordability and improving access to the housing market, any specific measures that may be under consideration are kept under wraps until the budget is released. However, when preparing this year's federal budget, it's likely that the government will consider the recommendations of the House of Commons Standing Committee on Finance (Finance Committee) as outlined in a 2024 pre-budget report, and will follow up on measures previously announced in the 2023 Federal Fall Economic Update and past federal budgets.

A close analysis of these documents may provide some preliminary clues about what may be in store for this year's budget. In addition to affordability and housing measures, the government may announce changes to incentivize innovation and expand clean energy credits, among other changes.

### **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 — 2024 federal budget

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

- Personal tax
- Business tax
- Clean economy tax measures
- International tax
- Innovation incentives
- Indirect tax
- Other changes

### Personal tax

#### *Alternative Minimum Tax*

The budget may include additional changes to the amendments to the calculation of the Alternative Minimum Tax (AMT) proposed in the 2023 federal budget. Finance released draft legislation to enact these AMT changes for comment in August 2023, and may incorporate feedback received as part of that consultation in an update in the federal budget. These proposed changes broaden the base on which the tax is calculated, raise the AMT exemption to equal the start of the fourth federal tax bracket which is currently at \$173,206 for 2024 (from \$40,000) and increase the AMT rate to 20.5% (from 15%). Among other changes, the 2023 federal budget proposals also increase the inclusion rate for capital gains and restrict the deductibility of the donation tax credit to 50% for purposes of the AMT, which has raised concerns that these changes as proposed could negatively affect the charitable sector. In its pre-budget report, the Finance Committee also suggested that Finance determine the impact that these changes will have on charitable revenues. For details, see *TaxNewsFlash-Canada* 2023-34, "[Revised AMT Rules — Review Your Tax Plans Now](#)".

#### *Employee Ownership Trusts*

The budget could announce further details on the proposed temporary tax exemption for qualifying transfers to employee ownership trusts (EOTs). This exemption, which was announced in the 2023 Federal Fall Economic Update, would apply to the first \$10 million

in capital gains realized on the sale of a business to an EOT, subject to certain conditions. At that time, Finance indicated that it would provide further details in the near future on this measure, which is intended to be effective for the 2024, 2025 and 2026 tax years. For details, see *TaxNewsFlash-Canada* 2023-47, "[Highlights of the 2023 Federal Fall Economic Update](#)".

## **Business tax**

### *Residential real estate*

The budget may include additional details on a federal review of the tax rules for large corporate owners of residential real estate, as previously announced in the 2022 federal budget. The government pledged to review the tax treatment of these entities (such as real estate investment trusts) during the last election.

## **Clean economy tax measures**

### *Clean technology manufacturing and hydrogen credits*

The 2024 federal budget may include new changes to the Clean Hydrogen Investment Tax Credit, and the Clean Technology Manufacturing Investment Tax Credit. Finance released draft legislative proposals to implement these credits in December 2023, and may decide to incorporate feedback received during the consultation period for these measures. Finance also indicated in the 2023 Federal Fall Economic Update that it would continue to review eligibility for other low-carbon hydrogen production pathways in the leadup to the 2024 federal budget. For details, see *TaxNewsFlash-Canada* 2023-47, "[Highlights of the 2023 Federal Fall Economic Update](#)".

The Finance Committee also addresses clean energy credits in its pre-budget report and recommends that Finance quickly implement these incentives and consider how they can be further leveraged and expanded, including by allowing investments in energy generated using forest biomass and residuals to be eligible for the credits.

For additional details of these credits, see *TaxNewsFlash-Canada* 2023-47, "[Highlights of the 2023 Federal Fall Economic Update](#)", *TaxNewsFlash-Canada* 2023-17, "[2023 Federal Budget Highlights](#)" and *TaxNewsFlash-Canada* 2022-48, "[Highlights of the 2022 Federal Fall Economic Update](#)".

### *Clean electricity credit*

The 2024 federal budget could offer additional design and implementation details on the Clean Electricity credit for non-publicly owned utilities. Finance indicated that it would provide these details in early 2024 as part of its comments in the 2023 Federal Fall Economic Statement. For details, see *TaxNewsFlash-Canada* 2023-47, "[Highlights of the 2023 Federal Fall Economic Update](#)".

## International tax

### *CCPCs and Substantive CCPCs — Deferral using foreign affiliates*

Finance may be planning to provide an update on outstanding measures to eliminate the deferral for CCPCs (and substantive CCPCs) earning investment income through foreign affiliates. Draft legislation to implement this measure was released for comment in August 2022, but has not yet been included in a bill. This measure was first announced in the 2022 federal budget.

### *Hybrid mismatch rules*

Finance may be preparing to release additional legislation in the upcoming budget that is intended to neutralize tax benefits associated with hybrid cross-border arrangements. Although Finance has included legislation for proposals to limit certain deduction/non-inclusion mismatches in a bill, it has so far not yet released a promised second package of legislation to address payments under other types of arrangements. The hybrid mismatch arrangement rules were first announced in the 2021 federal budget.

### *Pillar One and Pillar Two*

Finance may use the budget as an opportunity to provide an update 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. 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 released draft legislation to enact a new *Global Minimum Tax Act*, which is largely based on the OECD's Pillar Two GloBE model rules and other OECD documents in August 2023. Finance may propose additional changes to these rules based on public feedback it received during the consultation period for this legislation. For details, see TaxNewsFlash-Canada 2023-31, "[Multinationals — Act Now to Meet Pillar Two Obligations](#)".

### *Transfer pricing rules*

Finance could also announce further changes to the transfer pricing rules based on feedback received on a consultation paper released in June 2023. These proposed changes are intended to provide more clarity on the application of the arm's-length principle and to better align the Canadian transfer pricing rules with evolving international standards and transfer pricing guidance published by the OECD. For details, see TaxNewsFlash-Canada 2023-24, "[Finance Unveils Consultation on Canadian Transfer Pricing Rules](#)".

## Innovation incentives

### *Intellectual property and “patent box” regime*

Finance could provide an update on its review of the Scientific Research and Experimental Development (SR&ED) rules, including plans to establish a “patent box” regime. Under this change, income from patents and other intellectual property generated by activity in Canada would be subject to a lower corporate tax rate. Finance recently launched a new consultation on Canada’s SR&ED program that included questions about the possible introduction of such a regime. The Finance Committee also recommends this change in its 2024 pre-budget report, along with providing refundable tax incentives related to intellectual property for small businesses.

## Indirect tax

### *Digital services tax*

Finance may provide an update on its plans to implement the 3% digital services tax (DST) in this year’s budget. Finance already included legislation to enact this change in a bill, which is still making its way through Parliament, but has not yet indicated when the coming-into-force date will be for these rules. As part of its pre-budget report, the Finance Committee recommends that Finance move forward with adopting this tax and ensure that the rules remain aligned with international precedent. For details, see *TaxNewsFlash-Canada* 2023-33, “[Businesses — Canada Revises Digital Tax Proposals](#)”.

## Other changes

### *Review of tax system*

The Finance Committee recommends that Finance undertake a comprehensive review of Canada’s tax system to improve labour productivity, meet the needs of Canada’s evolving economy, and ensure Canada can compete internationally.

#### **KPMG observation**

Finance continues to consult with stakeholders on many other key tax measures. In particular, it will be interesting to see the 2024 federal budget includes any further changes in response to feedback received on draft legislation released in the 2023 Fall Economic Update on:

- Additional relief for certain property owners under the Underused Housing Tax (UHT) rules
- The joint venture election rules, which allow taxpayers to choose simplified GST/HST accounting under certain circumstances.

## 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.

---

[kpmg.ca](https://kpmg.ca)



[Contact Us](#) | [KPMG in Canada Privacy Policy](#) | [KPMG On-Line Privacy Policy](#) | [Legal](#)

Information is current to March 4, 2024. The information contained in this *TaxNewsFlash-Canada* is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.