GMS Flash Alert

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Canada - Highlights of Tax Changes in 2022 Federal Budget

Canada's Deputy Prime Minister and Finance Minister Chrystia Freeland delivered the 2022 federal budget on April 7, 2022.[1] Some key areas of focus in Budget 2022 included tax fairness, making housing more affordable and immigration for the economy.

WHY THIS MATTERS

There are several items that may be of interest to the global-mobility space.

The proposed measures that assignees and globalobility professionals should take note of include:

- Expanded tax authority budget for auditing foreign companies;
- Increased alternative minimum tax (AMT);
- Creation of a tax-free home savings account changes;
- Residential property flipping rule changes;
- Deduction for temporary relocation costs;
- Immigration and improved labour mobility measures.

Increasing Audits of Nonresident Companies

Beyond the spending in previous years' budgets, Budget 2022 proposes to provide additional funding for the Canada Revenue Agency (CRA) of $1.2 billion over five years, starting in 2022-23, for the CRA, among other things, to expand audits of larger entities and nonresidents engaged in aggressive tax planning. (All dollar figures expressed are Canadian dollars.)

The additional spending is part of an increasing trend since 2015 aimed at strengthening the CRA's "ability to crack down on complex tax schemes, increase collaboration with international partners, and ultimately bring offenders to justice."[2] Budget 2021 provided $304.1 million over five years, starting in 2021-22 to allow the CRA to fund new initiatives aimed at:

- increasing the CRA's offshore audit capacity;
- modernizing risk assessment systems;
- improving the CRA's collections tools; and
- increasing funding for audit and appeal support.

KPMG NOTE

One area the CRA has been directing much of this funding is to improve its use of data analytics in its risk assessment process.

Taxpayers can prepare by proactively reviewing their own data management systems to see that proper controls are in place to maintain the quality of information retained (and any reporting based thereupon), and by adopting their own improved tech solutions, e.g., tax function workflow solutions, to make sure all of their tax obligations are met.

Updated Minimum Tax for High Income Earners

The 2022 Budget announces that the government will update the current alternative minimum tax (AMT) regime to help ensure that the wealthy pay their fair share of income tax. The government will release details on a proposed approach in the 2022 fall economic and fiscal update.

- The current AMT rules are designed to help ensure that the wealthy do not take advantage of the tax system to lower their tax bill by adjusting their taxable income and applying a minimum rate of tax. This tax is creditable in future years subject to specific rules.
- The government has indicated that some high-income earners are still paying relatively low-income tax as a percentage of their income – 28 percent of filers with income above $400,000 pay an average federal income tax rate of 15 percent or less by significant use of deductions and credits.
- As a result, the government has committed to review and update the AMT rules to make sure these high-income earners pay their fair share of income tax.

KPMG NOTE

Income of assignees is generally higher due to tax equalization and assignment benefits. It remains to be seen whether the AMT may further increase the cost of an assignment.

Making Housing More Affordable

Budget 2022 is proposing a series of new measures to support first-time home-buyers and help make the path to ownership a reality for renters. There are a number of factors that are making housing more expensive, but the biggest issue is supply. Budget 2022 also introduces measures that aims to encourage the building of more homes and make housing more affordable across the country.

Tax-Free First Home Savings Account

Budget 2022 proposes to create the Tax-Free First Home Savings Account (FHSA), a new registered account to help individuals save for their first homes.

Individuals are eligible to open an FHSA account if they are a resident of Canada, are at least 18 years old, and have not lived in a home that they owned at all times within the year the account was opened or within the previous four calendar years.

KPMG NOTE

Individuals need to be careful to avoid making FHSA contributions if they become nonresident while on assignment out of the country.

Residential Property Flipping Rules

Budget 2022 also puts into place additional rules to further establish that profits from flipping residential real estate are subject to full tax rates and are not eligible for capital gains treatment and the principal residence exemption. These rules will apply to residential properties sold after 2022. The intent of these provisions is to deem profit from the sale of residential real estate that is held by the vendor for less than 12 months to be business income subject to tax and not treated as a capital gain.

KPMG NOTE

The exceptions include an employment change with a move that is at least 40 kilometres closer to the new work location, thus those going on assignment should be exempted.

Labour Mobility Deduction for Tradespeople

To encourage mobility of construction workers, this tax measure would allow eligible workers to deduct up to $4,000 in eligible travel and temporary relocation expenses each year starting in the 2022 tax year.

Eligible workers include tradesperson (or apprentice) workers who:

- temporarily relocate to obtain or maintain employment in a construction activity at a particular work location in Canada; and
- ordinarily resided at a Canadian residence, and during the temporary relocation, at a lodging in Canada.

Eligible temporary relocation requirements:

- Temporary lodging must be at least 150 km closer to the work location than the ordinary residence;
- The temporary work location must be in Canada; and
- The temporary relocation must be for at least 36 hours.

Eligible expenses are for the individual's temporary lodging near the work location, and for transportation and meals for one round trip from one's primary residence to the temporary lodging location.

Other requirements include:

- The temporary relocation cannot be in the locality in which the individual principally works;
- Eligible workers must maintain an ordinary residence that remains available for their (or their family's) use during that time period
- Eligible work cannot claim any expenses that they received "financial assistance" from their employer;
- The maximum amount of expenses is limited to 50 percent of the eligible worker's employment income from construction activities at a particular work location in the year.

KPMG NOTE

The deduction is allowed only for relocations within Canada.

Immigration and Improved Labour Mobility

In Budget 2022, the federal government is proposing investments to enhance Canada's capacity to meet the immigration demands of the growing economy, to create opportunities for all newcomers, and to maintain Canada's world-class immigration system.[3] The budget intends to improve labour mobility and foreign credential recognition by proposing increases in immigration authority funding to help foreign workers and students.

There are also plans to automate the citizenship application process and provide the Minister authority to select candidates to respond to labour market needs.

Budget 2022's key changes in immigration affecting global-mobility programs include:

1. $385.7 million over five years and $86.5 million ongoing for Immigration, Refugees and Citizenship Canada and Canada Border Services Agency to facilitate timely and efficient entry of foreign workers and students.

2. Amending the Immigration and Refugee Protection Act to provide the Minister with authority to select candidates who best meet Canada's labour market needs among the pool of candidates who wish to become permanent residents through the express entry system.

3. Recognizing current processing times for employer-based applications under the Temporary Foreign Worker Program, the government will invest $64.6 million over three years to increase capacity to process employer applications within established service standards, as well as $29.3 million to create a "Trusted Employer Model." This model will be available to repeat employers and aims to reduce administrative burdens to those who meet the highest standards of working and living conditions and wages in high-demand fields.

KPMG NOTE

This is a much-needed investment to help with chronic processing delays and backlogs to the Canadian immigration process. Canada is experiencing significant labour shortages across a variety of sectors. By implementing flexibility by way of Ministerial Instructions, Canada intends to be better equipped to respond to skills gaps through adjustments to the Express Entry system, providing businesses with key access to global talent when and where it is needed.

The planned improvements to the immigration system should make it easier to initiate assignments to Canada.

FOOTNOTES:

1 For the budget speech and related documentation, see: "Budget 2022, A Plan to Grow Our Economy and Make Life More Affordable."

2 See generally, "Budget 2021, A Recovery Plan for Jobs, Growth, and Resilience, and in particular, Chapter 9: Tax Fairness and Effective Government."

3 See Budget 2022, "Chapter 4: A Growing and Inclusive Workforce."

RELATED RESOURCE:

For a more detailed report on the budget, see *TaxNewsFlash Canada*, 2022-24, "2022 Federal Budget Highlights," a publication of the KPMG International member firm in Canada.

Contact us

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