

# Business Matters

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## TAXATION

# COVID-19 support programs in the 2021 federal budget



Are you interested in staying up to date on COVID-19 support programs in Canada? This article provides a helpful overview of key changes announced in the new federal budget from April 19, 2021.

## Support for individuals

The [Canada Recovery Benefit](#) (CRB) coverage will be extended by 12 weeks to a maximum of 50 weeks. The first four additional weeks will continue at \$500 per week, while the final eight weeks will be at \$300 per week as the economy is expected to reopen. The [Canada Recovery Caregiving Benefit](#) (CRCB) will be extended by an additional four weeks as well, to a maximum of 42 weeks at \$500 per week.

The budget also proposes further legislative amendments so that CRB, CRCB, the Canada Recovery Sickness Benefit and regular Employment Insurance benefits can, if required, be extended until no later than November 20, 2021.

The various COVID-19 benefits that were taxable had to be included in income in the year in which they were received. If it was determined that some of those benefits had to be repaid, the repayment is deductible in the year that it was repaid. A proposed amendment would allow those repayments to be deducted in the year that the benefit was received, as long as the repayment is made before 2023. The taxpayer can request that the Canada Revenue Agency (CRA) amend the tax return of a prior year if necessary.

In terms of loans, the government is proposing to extend the waiver of interest accrual on Canada Student Loans and Canada Apprentice Loans until March 31, 2023. It is also planning to [enhance repayment assistance](#) to borrowers with low incomes by increasing the income threshold to qualify for the program from \$25,000 to \$40,000 for single borrowers. The budget also will double Canada Student Grants for two additional years and expand access to support for students with disabilities.

## Support for businesses

The [Canada Emergency Wage Subsidy](#) (CEWS), which provides eligible employers who have experienced a COVID-19 related decline in revenues with a subsidy for eligible remuneration paid to their employees, was set to end on June 5. It is extended to September 25, 2021. The phase-out period will be from July 4 to September 25 this year, and during that time eligibility for the CEWS and the wage subsidy rates will gradually decrease.

A separate wage subsidy rate structure applies to furloughed employees, which is aligned with benefits provided through the Employment Insurance program. This program will be extended until August 28, 2021. The budget will require that public companies repay all or a portion of CEWS received after June 5 if aggregate compensation for specified executives in 2021 exceeds the amount paid in 2019. Specified executives are those whose compensation must be disclosed under Canadian securities legislation.

The [Canada Emergency Rent Subsidy](#) (CERS) provides qualifying organizations with rent support. There was an additional Lockdown Support program for organizations that had to cease operations or significantly limit their operations because of a public health order. Both CERS and the additional Lockdown Support program were set to expire in June but are being extended to September 25, 2021. The rent subsidy rate will also gradually decrease after July 4 to ensure an orderly phase out of the program.

The deadline to apply for the [Canada Emergency Business Account](#), which provides interest-free, partially forgivable loans to small businesses, has been extended to June 30, 2021.

## A new benefit for 2021

A new Canada Recovery Hiring Benefit (CRHB) is being introduced to provide a subsidy of up to 50 percent of the incremental remuneration paid to eligible employees between June 6 and November 20, 2021. CRHB will be available to individuals, not-for-profit organizations, registered charities, certain partnerships and Canadian-controlled private corporations (CCPCs) who have experienced a decline in revenue as a result of the pandemic. Qualifying employers can claim either the CEWS or the new CRHB, whichever is higher. As with CEWS, rates for CRHB will decrease over time providing an incentive for employers to hire new workers as soon as possible.

## TAXATION

# Federal budget tax changes



Chrystia Freeland presented her first budget as federal Finance Minister on April 19, 2021. This is also the first budget delivered by the minority Liberal government in two years, focusing on finishing the fight against COVID-19 and building recovery from the pandemic recession. Key tax changes announced in the budget, other than those dealing with COVID-19 support, are summarized below.

## Personal tax changes

### *Disability Tax Credit (DTC) and other related benefits*

The DTC is a non-refundable tax credit that is designed to offset some non-itemizable costs related to disability. A medical professional must complete a certificate confirming that you have a severe and prolonged impairment in physical or mental function. Proposed changes to broaden the eligibility criteria for impairment of mental function, and the criteria for life-sustaining therapy, will increase access to the DTC

and other related benefits, including the Registered Disability Savings Plan, the Child Disability Benefit and the disability supplement to the Canada Workers Benefit (CWB).

### **Lower income workers**

The budget includes targeted support for low-wage workers, including an increase in the federal minimum wage to \$15 per hour and enhancements to the CWB, which supplements the earnings of lower income workers.

This benefit is available to individuals with more than \$3,000 in working income, which generally includes employment and business income, calculated at 26 per cent of working income over that amount to a maximum of \$1,395 for individuals and \$2,403 for families. The budget proposes to increase this phase-in rate to 27 per cent. It also proposes increasing the adjusted net income level at which the benefit starts to be reduced from \$13,194 to \$22,944 for single individuals, and \$17,522 to \$26,177 for families, with an increase in the phase-out rate from 12 to 15 per cent of income over the threshold.

Additionally, a new proposal was introduced for couples, allowing the lower income spouse to earn up to \$14,000 without reducing the CWB otherwise determined. As noted above, there is a supplement to CWB for individuals who qualify for the DTC; corresponding changes will be made to the phase-out thresholds and rate for the supplement.

### **Northern Residents Deduction**

Proposed changes to the travel component of the Northern Residents Deduction will expand access for people who live in prescribed northern areas of Canada. These changes provide the option of a flat-rate deduction and expand access to those who do not have employer-provided travel benefits for non-medical trips under certain circumstances.

### **Post-doctoral fellows**

A proposed amendment to the *Income Tax Act* will recognize post-doctoral fellows as students, correcting an anomaly that did not recognize their fellowship income as earned income for the purpose of determining their Registered Retirement Savings Plan contribution room. This change will be applied retroactively to post-doctoral fellowship income earned in 2011 and after, when the taxpayer submits a request to the Canada Revenue Agency (CRA) in writing.

### **Defined contributions to pension plans**

A proposed amendment in the budget will allow additional flexibility to administrators of defined contribution pension plans to correct both under-contribution and over-contribution errors to an employee's account.

### **Reduced paper filing proposal**

There are a series of proposals that will reduce paper filings of tax and information returns with the CRA and CRA's correspondence with taxpayers. This includes the CRA being able to send certain notices of assessment electronically without the taxpayer having to authorize the CRA to do so. This measure would be effective upon Royal Assent of the enacting legislation.

Amendments will also allow those who prepare T4As (Statement of Pension, Retirement, Annuity and Other Income) and T5s (Statement of Investment Income) returns to provide them solely in an electronic format without the taxpayer having to authorize them to do so. This measure would come into effect for returns after 2021.

### **Old Age Security pension**

Old Age Security pensioners who are over the age of 75 as of June 2022 will receive a \$500 one-time additional payment in August 2021 and a 10 per cent increase in monthly payments next year.

### **Sickness benefits**

The budget proposes to extend sickness benefits available under the Employment Insurance program from 15 weeks to 26 weeks, effective summer 2022.

### **Real estate and measures for Canadian homeowners**

The budget proposes a new one per cent tax on the value of vacant or underused residential real estate owned by non-resident, non-Canadians effective January 1, 2022.

Canadian homeowners, including landlords, may be eligible for up to \$40,000 of interest-free loans to make their homes more energy efficient through the Canada Mortgage and Housing Corporation.

## **Corporate tax changes**

### **Capital cost allowance**

The capital cost allowance (CCA) system determines what portion of the cost to purchase capital property may be deducted each year. The 2021 budget proposes a temporary immediate expensing of up to \$1.5 million per taxation year for the purchase of eligible property by Canadian-controlled private corporations (CCPCs).

Eligible property includes capital purchases made after April 19, 2021 that are available for use by January 1, 2024. It excludes certain long-lived assets, such as buildings and intangible property without a limited life. The annual limit of \$1.5 million must be shared by associated companies and any unused annual limit cannot be carried forward to future years.

The CCA rules for what assets qualify under the classes for Clean Energy Equipment (Classes 43.1 and 43.2), which have accelerated deductions, will be broadened under this budget effective for assets acquired and that become available for use after April 19, 2021.

### **Manufacturing and processing income**

The budget proposes a temporary measure to reduce corporate income tax rates on income from the manufacturing and processing of zero-emission technology earned after 2021. The tax rate will decrease from 9 to 4.5 per cent for income eligible for the small business deduction, and from 15 to 7.5 per cent for other income, earned in 2022 to 2028, and then will gradually return to the original rates by 2032. Since these changes are targeted and temporary, there will be no corresponding changes to the Dividend Tax Credit rates during this period.

### **Introducing the Digital Services Tax**

As previously announced in the 2020 Fall Economic Statement, the budget proposes a new three per cent Digital Services Tax (DST) effective January 1, 2022. The DST will apply to large global businesses earning revenue in excess of \$20 million in a calendar year from certain digital services that rely on data and content contributions of Canadian users. It is intended to be temporary until the Organization of Economic Cooperation and Development and G20 countries implement an acceptable multinational solution. Draft legislation for the DST will be released in the summer of 2021 after consultation with stakeholders.

### **Other corporate tax changes**

Additional changes are proposed to improve the administration of the tax system. These include changes to the deadlines for existing reportable “avoidance transactions” as defined in the *Income Tax Act* and new reporting requirements for “notifiable transactions.” Notifiable transactions will include those that the CRA finds to be abusive and transactions identified as transactions of interest. Certain large corporations will be required to disclose uncertain tax positions reflected in their audited financial statements as well.

The budget also proposes to introduce an anti-avoidance rule for transfers of property where there would be a tax debt owing. It also includes a proposal to assist Innovation, Science and Economic Development Canada in

the implementation of a publicly accessible corporate beneficial ownership registry by 2025. This registry will facilitate the enforcement of legislation combatting tax avoidance and evasion, money laundering and other financial crimes.

To address delays caused by the pandemic, the budget will temporarily provide a 12-month extension to certain timelines for when eligible expenditures must be made for the Canadian Film or Video Production Tax Credit and the Film or Video Production Services Tax Credit.

## **International tax measures**

As part of the government's commitment to minimize Base Erosion and Profit Shifting, the budget proposes to introduce a new rule to limit net interest expense that may be deducted to a fixed ratio of taxable income before interest, income tax, depreciation and amortization. This rule will apply to corporations, trusts, partnerships and Canadian branches of non-resident corporations, phased in for taxation years beginning on or after January 1, 2023. There will be exemptions for CCPCs that are part of an associated group with taxable capital employed in Canada of less than \$15 million and groups of corporations and trusts whose aggregate net interest expense is less than \$250,000.

The budget also proposes that Canada adopt detailed rules to eliminate the tax benefit from cross-border hybrid mismanaged arrangements. These transactions are generally characterized differently under the tax laws of different countries.

The government will be engaging in a stakeholder consultation to address perceived shortcomings in the current transfer pricing rules.

## **Sales tax measures**

The budget proposes a new tax on the purchase, for personal use, of luxury cars and personal aircraft with a retail sales price over \$100,000 or boats with a retail sales price over \$250,000. The tax will be calculated as the lesser of 20% of the value above the respective threshold and 10% of the total value of the luxury car, airplane or boat. This tax will come into effect on January 1, 2022.

The budget clarifies and amends draft legislation released last year to streamline the GST/HST requirements for non-resident ecommerce businesses. This becomes effective July 1, 2021 and includes platform operators who will be required to collect and remit the GST/HST on behalf of third parties who are not registered for the GST/HST.

The documentation requirements to claim Input Tax Credits are based on the cost of the taxable supply, with graduated thresholds of \$30 or \$150. The budget proposes that these thresholds will increase to \$100 and \$500 respectively, and allows billing agents to be treated as intermediaries to simplify compliance for businesses.

Amendments are proposed to make the GST New Housing Rebate available when two or more non-related individuals buy a new home together, but not all of them will be using the house as their primary residence, or the primary residence of a relative.

The budget proposes a taxation framework that will impose excise duties on vaping products in 2022 and will seek input from the industry and other stakeholders. It also increases the excise duty on tobacco products effective April 20, 2021.

## **Looking for more information?**

To learn more about the impact of these tax changes, contact your accounting firm. A CPA will be able to provide additional commentary, analysis and guidance.

# Data privacy and security: What you need to know



**No matter what type of data your organization retains, it is most likely worth securing. Protecting data is no longer just a technical discussion, but requires dedicated coordination between many different areas of an organization.**

## The importance of protecting data

Corporate transactional data, client information or other sensitive data are often at risk of being stolen or exploited, and you could be held accountable for the breach. In fact, there are many cautionary tales of widely publicized data breaches with and of boards of directors taking action on breach accountability.

Beyond the technology, it takes time, planning and

practice to guard your organization's data. Here are some important steps to guard your organization's data.

## Develop a data protection plan

A data protection plan is a useful starting point and provides focus to protecting your data. This plan has several key components.

First, you must define the location, risk level and recovery options for each different data type you have. Location is important for documenting where different data is stored, as it may influence how it is protected and will be helpful when needed urgently during a recovery operation. Evaluating the risk level for loss also helps define where the most attention is needed. The evaluation of recovery options is essential as well, since different types of data will have different recovery options. Some data may be stored on data tapes that require time to extract and recover, while others may be much easier to retrieve using online recovery tools.

Central to the recovery options will be an evaluation of the data backup strategy. While beyond the scope of this article, backups should be routinely scheduled and tested with a mind to recovery speed. A solid backup plan not only protects your organization from lost data or technical issues – it will also significantly contribute to the speed of recovery as well.

Build your data protection plan with the potential for change. Technology is ever evolving and governmental regulations are always being updated. Specific individuals should be assigned responsibility for various components and then held accountable for remaining current on the regulatory environment. The plans should be reviewed, updated and tested on a regular basis.

## Develop policies and procedures

Data privacy requires constant vigilance. For organizations to be successful creating a protected environment, effective policies and procedures need to be agreed to and properly documented. These policies should define your data types, detailing what data is flowing into the organization, how it is used and what needs to be maintained or purged, as well as how that is done.

Access restrictions are also important determinants that impact risk. The more open access to sensitive data is, the higher risk it carries of being compromised – so the more complex those data protections must be. Access should always be limited to those that have a specific and definable need of the data. While access to

something like customer account details makes obvious sense, this principle applies to general accounting and ERP system access too. Well-defined access policies are essential to eliminating unnecessary risk.

### Use the right technology

While the plans and policies lay the foundation for protecting your organization's sensitive data, the right technology will take the security to the next level. To ensure you have the right technology in place, check that all data transfers are using encryption. Look for specifications on your communication applications at the 256-bit level. Although 128-bit encryption is still common, it is in the process of being replaced with 256-bit as the standard for more complex security.

Firewalls, malware protection and password authentication are all integral, technological defences of your data. Firewalls must be kept up to date with stringent protocols in place to manage the data that will travel in and out of your network. Similarly, malware protection needs to be constantly maintained with the published virus files to remain effective. Recent advances in this space are beginning to use artificial intelligence to predict malicious actions. The use of strong passwords still represents one of the easiest defensive actions you can take. As an enhancement to strong passwords, multi-factor authentication applications can also provide further protection to your organization.

### Invest in a proactive privacy culture

Many organizations spend a significant amount of effort to extract value out of their data resources, but there is also a growing expectation among stakeholders that organizations should better protect the data in their care.

All aspects of how data is acquired, used and managed should be thoughtfully controlled to affect the best protection. Technology will always play an important role in this defence; however, building a culture that embraces data protection at every level is the most powerful and effective preventative measure your organization can take.

## WEALTH MANAGEMENT

# FIRE: What is it, and what can we learn from it?



**Financial Independence Retire Early, also known as FIRE, is a people-driven movement to earn, save and invest aggressively. The ultimate goal? Being able to leave full-time employment at a much younger age, often in your 30s or 40s.**

It may not mean retiring completely, but perhaps opting to work part-time, or transitioning to a career that provides more personal satisfaction but less financial security. The internet is full of websites and blogs where people share their [FIRE experiences and achievements](#).

FIRE is not for everyone. It appeals to younger workers who have longer earning and savings potential, but the aggressive savings targets of 50 per cent or more of take home pay may not be achievable for lower income workers whose basic needs make up a greater proportion of their total expenditures.

However, [Brandon Ganch](#), an avid FIRE blogger, thinks any FIRE step can be a step in the right direction. "Even if you make little money, just making your spending more conscious and efficient can be helpful to anyone," he says.

## A more conscious financial outlook

There are some valuable takeaway lessons in FIRE for all of us. Perhaps the most important is that FIRE focuses our attention on assessing our current financial health and thinking about our future financial needs. How much do you actually spend each month? How much of that is on "needs" and how much is on "wants"? What will your ideal retirement look like? How much will that cost?

Many Canadians of all ages cannot answer those questions. A [2018 study](#) by the Aegon Centre for Longevity and Retirement reported that 72 per cent of Canadians were somewhat aware or very aware of the need to plan financially for retirement, while only 44 per cent have a well-developed financial plan for their retirement and 13 per cent don't have a plan at all.

The same study also found that 51 per cent of Canadians are retiring earlier than they had planned to, but only 22 per cent of those were doing so for "positive" reasons, such as an unexpected financial windfall, like an inheritance, or realizing that they had saved enough for retirement and could therefore stop working. The remaining 78 per cent retired earlier than planned because of their own ill health, a job loss, family responsibilities or other reasons.

## Smart spending and saving

Tracking your spending carefully is the first step in answering those questions, especially to determine how much is spent on your needs versus discretionary spending. This process may seem straightforward, but in practice the lines can be blurry sometimes. You may feel that you need your morning cup of coffee to function but the non-fat pistachio latte version may fall more into the wants category. When you track your spending, it becomes very clear how much some of those wants are eating into your cash flow. Cutting out spending that does not support your short-term or long-term goals will boost your savings.

The other side of the savings equation to consider is increasing your income. This can be achieved by changing your job or negotiating an increase in pay, taking on a side hustle, or even purchasing a rental property. In fact, some of those popular FIRE websites and blogs often turn into a successful side hustle for their creators – transforming them into FIRE influencers!

## Values-based budgeting and credit

Many people think of budgeting as an unpleasant, punitive experience, to be avoided at all costs, yet the principles of FIRE can help you understand that budgeting is really about evaluating and aligning your spending with your values and priorities, once your needs have been covered. You can decide whether to spend money now on a hobby that brings you pleasure, or you can save and invest that money to fund your retirement. Either way, the key is making a conscious, well-informed decision.

"Once you find the true meaning of enough, buying yourself more than enough doesn't really make you any happier," says Pete Adney, also known as [Mr. Money Moustache](#), a father figure in the FIRE community.

One concern that has been raised about FIRE is that some advocates argue that it is better to use your credit card to pay for everything, since this makes tracking your expenditures easier and you can earn rewards for your spending. There are even many active online forums to help you determine which is the best credit card for rewards. Yet studies consistently show that [people spend more](#) when using a credit card rather than cash, so this option does require more self-discipline. That said, the negative impact should be minimal for most following FIRE principles since the movement advocates for more mindful spending.

## Happiness is an investment

If you are following the FIRE path, you may think it makes sense to stay at a job you hate that is financially rewarding, just so that you can retire early and find something that you love to do – but this is hardly a recipe for a happy life. Plus identifying what you want to do in your retirement can be challenging, especially if your spouse or friends are not also retiring at the same time.



We are often defined by our professions, what we do, who we work for. Even if retirement is something we plan for and look forward to, this can be a significant adjustment.

The essence of FIRE isn't really all that new – live within your means and save money for the future. As Charles Dickens wrote in *David Copperfield*, first published in 1849, “Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.” FIRE just brings this into the twenty-first century.

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