

# Federal fall economic statement 2023

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The 2023 Federal Fall Economic Statement was delivered by the Minister of Finance, the Honourable Chrystia Freeland, on November 21, 2023. This summary can help you understand how it affects individuals and businesses financially.

## Removing the GST from new co-op rental housing

The 2023 Fall Economic Statement announces that co-operative housing corporations that provide long-term rental accommodation would be eligible for the removal of the GST on new rental housing, provided the other conditions have been met. The measure is not intended to apply to co-operative housing corporations where occupants have an ownership or equity interest. To protect Canadian renters from renovictions, the removal of GST will not apply to substantial renovations of existing residential complexes.

## Cracking down on non-compliant short-term rentals

Some provinces and municipalities have already taken action to restrict the use of residential properties as dedicated short-term rentals, and the federal government is taking steps to support their work. The 2023 Fall Economic Statement announces that the federal government intends to deny income tax deductions for expenses incurred to earn short-term rental income, including interest expenses, in provinces and municipalities that have prohibited short-term rentals.

In addition, the federal government intends to deny income tax deductions when short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting, or registration requirements.

These measures would apply to deny all expenses incurred on or after January 1, 2024.

## The new Canadian Mortgage Charter

The 2023 Fall Economic Statement announces the new Canadian Mortgage Charter, which builds on the government's existing guidance and expectations for how financial institutions are to work with Canadians to provide tailored relief and ensure payments are reasonable for borrowers.

Key measures within the Canadian Mortgage Charter include:

1. Allowing temporary extensions of the amortization period for mortgage holders at risk;
2. Waiving fees and costs that would have otherwise been charged for relief measures;
3. Not requiring insured mortgage holders to requalify under the insured minimum qualifying rate when switching lenders at mortgage renewal;
4. Contacting homeowners four to six months in advance of their mortgage renewal to inform them of their renewal options;
5. Giving homeowners at risk the ability to make lump sum payments to avoid negative amortization or sell their principal residence without any prepayment penalties; and,
6. Not charging interest on interest in the event that mortgage relief measures result in a temporary period of negative amortization.

## Cracking down on hidden junk fees

In an effort to crack down on junk fees that Canadians deal with, the 2023 Fall Economic Statement announces that:

1. The government will work with the Canadian Transportation Agency to amend the Air Passenger Protection Regulations to ensure that airlines seat all children under the age of 14 next to their accompanying adult at no extra cost;
2. The Canadian Radio-television and Telecommunications Commission will conduct a prompt investigation of international mobile roaming charges, and will provide an update and concrete next steps in 2024; and
3. The government will provide an update by Budget 2024 on the steps that it is taking to reduce the non-sufficient funds fees charged by banks. These fees, which can currently be as high as \$50, disproportionately impact low-income Canadians or those who may not have access to overdraft protection due to their credit history.

## Removing the GST/HST from psychotherapy and counselling

The 2023 Fall Economic Statement proposes to exempt professional services rendered by psychotherapists and counselling therapists from the GST/HST to make mental health care more affordable to Canadians.

## A new employment insurance (EI) adoption benefit

Currently, adoptive parents can access EI parental benefits, but they cannot access the 15 weeks of EI maternity benefits. The 2023 Fall Economic Statement proposes to introduce a new 15-week shareable EI adoption benefit to parents, starting in 2023-24. Surrogate parents will also be eligible for this benefit. In addition, amendments were proposed to the Employment Insurance Act, as well as corresponding changes to the Canada Labour Code, to ensure that workers in federally regulated industries have the job protection they need while receiving the EI adoption benefit.

## Enhancing employment insurance supports for seasonal workers

The 2023 Fall Economic Statement proposes up to four additional weeks of EI regular benefits to eligible seasonal workers in 13 economic regions. This temporarily enhanced support would be available for claims established between September 10, 2023, to September 7, 2024.

## Supporting Employee Ownership Trusts

An Employee Ownership Trust owns shares in a business on behalf of its employees, enabling greater worker participation in business decisions and profits. The trusts can also provide an alternative business succession option for retiring business owners, especially since more than 75 per cent of small business owners plan to exit their business in the next decade. Budget 2023 introduced tax rules to facilitate the creation of Employee Ownership Trusts.

To encourage more business owners to sell to an Employee Ownership Trust, the 2023 Fall Economic Statement proposes to exempt the first \$10 million in capital gains realized on the sale of a business to an Employee Ownership Trust from taxation, subject to certain conditions.

This incentive would be in effect for the 2024, 2025, and 2026 tax years. Further details will be provided in the coming months.

## The Underused Housing Tax

In Budget 2021, the government announced that it would introduce a national, annual 1-per-cent tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused. The Underused Housing Tax (UHT) took effect on January 1, 2022.

In response to suggestions from Canadians about the implementation of the UHT, the government is now proposing to make several changes to help facilitate compliance, while ensuring that the tax continues to apply as intended. Draft legislative and regulatory proposals relating to these proposed changes will be released for consultation in the draft legislation section of the Department of Finance website.

- **Elimination of filing Requirement for certain owners.** Currently, every person that, as of December 31 of a calendar year, is an “owner” of residential property in Canada, other than an “excluded owner,” is required to file a UHT return for the calendar year in respect of the property. With limited exceptions, if an owner of a residential property is a corporation or is the owner of the residential property on behalf of a partnership or as a trustee of a trust, the owner must file an annual UHT return in respect of the property. If the entity is substantially or entirely Canadian, however, they may be eligible to claim an exemption from the UHT in their UHT return.

Specifically, exemptions may be claimed by:

1. A “specified Canadian corporation,” which is generally a Canadian corporation having less than 10 per cent of its votes or equity value owned by foreign individuals or corporations;
2. A partner of a “specified Canadian partnership,” which is generally a partnership whose partners are exclusively “Canadian;” or,
3. A trustee of a “specified Canadian trust,” which is generally a trust whose beneficiaries are exclusively “Canadian.”

To reduce the UHT compliance burden in relation to these Canadian entities, the government is proposing to make “specified Canadian corporations,” partners of “specified Canadian partnerships” and trustees of “specified Canadian trusts,” “excluded owners” for UHT purposes. As excluded owners, these owners would no longer have UHT reporting obligations.

The government is also proposing to expand the definitions “excluded owner,” “specified Canadian partnership” and “specified Canadian trust” to provide UHT filing and tax relief in respect of a broader range of Canadian ownership structures. These changes would apply in respect of 2023 and subsequent calendar years.

- **Reduction to minimum failure to file penalties.** Currently, the minimum penalty for an individual who is required to file a UHT return for a residential property, but who fails to do so by the filing deadline, is \$5,000 per failure. The minimum penalty for a corporation that fails to file by the filing deadline is \$10,000 per failure. The government is proposing to reduce these minimum penalties to \$1,000 for individuals and \$2,000 for corporations. These changes would apply in respect of 2022 and subsequent calendar years.

- **Exemption for certain employee accommodations.** The government is proposing to introduce a new UHT exemption for residential properties held as a place of residence or lodging for employees. This exemption would be available in respect of residential properties located anywhere in Canada other than in a population centre within either a census metropolitan area or a census agglomeration having 30,000 or more residents. This exemption would apply in respect of 2023 and subsequent calendar years.
- **Additional technical changes.** The government is also proposing to introduce other UHT changes of a more technical nature to ensure the UHT applies in accordance with the policy intent and to ensure uniformity of tax statutes. For example, these changes would:
  1. provide that unitized ('condominiumized') apartment buildings are not "residential property" for UHT purposes, effective in respect of 2022 and subsequent calendar years; and,
  2. ensure that an individual or a spousal unit can claim the UHT "vacation property" exemption for only one residential property for a calendar year, effective in respect of 2024 and subsequent calendar years.
- **Additional time to file 2022 UHT returns.** The deadline for filing the inaugural UHT returns (for the 2022 calendar year) was April 30, 2023. However, on March 27, 2023, the Canada Revenue Agency announced that it would waive penalties and interest provided UHT returns are filed or the UHT is paid by October 31, 2023, effectively giving owners six more months to file. On October 31, 2023, the Minister of National Revenue announced that this transitional filing relief would be extended by six more months, giving owners until April 30, 2024, to file their 2022 UHT returns. This additional extension is intended to ensure that every effort has been made to inform property owners and help them meet their UHT filing obligations. UHT returns for the 2023 calendar year will also need to be filed by the normal deadline of April 30, 2024, to avoid penalties and interest.

## For more information

To find out more about the 2023 Federal Fall Economic Statement, visit:

<https://www.budget.canada.ca/fes-eea/2023/home-accueil-en.html>

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