2020’s economic and fiscal snapshot reveals no new taxes – for now

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What You Need to Know

Following the rapid escalation of the COVID-19 pandemic, the 2020 budget – initially scheduled for March 30 – was postponed indefinitely. In its place, the Government of Canada delivered the Economic and Fiscal Snapshot (EFS) on July 8, 2020. The EFS provides an overview of the current state of the Canadian economy and outlines predictions for the remainder of 2020 and the beginning of 2021. While Prime Minister Justin Trudeau indicated there would be no new tax measures announced, the EFS and subsequent announcements suggest that Canadians can expect:

1. An extension and substantial expansion of the CEWS program (currently confirmed until December 2020);
2. Increased scrutiny of non-residents by the Canada Revenue Agency (CRA); and
3. Parliamentary scrutiny of a “wealth tax,” the details of which were costed by the Parliamentary Budget Office (PBO) following the EFS announcement.

Summary of tax measures considered in the EFS

The EFS does not explicitly introduce or propose any new tax measures to assist with the increased federal expenditures, but did briefly summarize COVID-19-specific tax relief measures that were put in place this year, including the deferral of personal and business income taxes, as well as excise/customs taxes.

The EFS also noted the expansion of tax support for business investment in zero-emission vehicles. This program, which provides a full tax write-off for eligible vehicles that were purchased on or after March 2, 2020, will begin to be phased out at the beginning of 2023 and end completely on Dec. 31, 2027.

Anticipated federal tax collections

The Economic and Fiscal Snapshot also released projections of anticipated revenue collections for the 2019/20 and 2020/21 fiscal years.

Revenue from income tax

Unsurprisingly, the EFS predicted a drop in federal budgetary revenue from collected income tax, estimating a decline of $34.3 billion as compared to the previous fiscal year. Personal income tax collection is expected to drop by $24.6 billion (from $170.9 billion in 2019/20 to $146.3 billion in 2020/21) due to the negative impacts of COVID-19 on the Canadian labour force, coupled with reduced investment income.

Corporate income tax is expected to decrease by $10.9 billion (from $49.2 billion in 2019/20 to $38.3 billion in 2020/21) due to COVID-19 shuttering many businesses and lowering the overall profitability of corporations operating in Canada.

The EFS predicts that non-resident income tax is expected to increase by $1.5 billion (from $9.2 billion in 2019/20 to $10.7 billion in 2020/21), reportedly attributable to the expectation that non-resident taxpayers will repatriate previously-earned income to Canada during the pandemic. This explanation alone does not appear to fully explain the substantial increase in collections of non-resident tax and suggests that the CRA will also be focusing audits on non-resident taxpayers.

Revenue from excise taxes and customs duties

The EFS predicted a further drop in federal budgetary revenue due to reductions in collected excise taxes and duties. Revenue from the federal Goods and Services Tax (GST) is anticipated to decrease by $7.9 billion (from $38.8 billion in 2019/20 to $30.9 billion in 2020/21), attributable to the effects ofCOVID-19 related shutdowns on the retail sector. Customs import duties are also expected to contract by $600 million (from $4.9 billion in 2019/20 to $4.3 billion in 2020/21), partly due to a lower volume of imports flowing into Canada, as well as the effects of the waivers granted to customs duties on medical goods.

Summary of budgetary revenue contractions

Overall, total federal tax revenues are expected to drop by $43.5 billion (from $285.1 billion in 2019/20 to $241.6 billion in 2020/21). Additionally, total federal budgetary revenues are expected to contract by $72.2 billion (from $341 billion in 2019/20 to $268.8 billion in 2020/21). The predicted contraction in federal budgetary revenues is anticipated to more than double the revenue contraction experienced by the federal government in 2009/10.

Canada Emergency Wage Subsidy update

The Canada Emergency Wage Subsidy (CEWS) is the primary mechanism by which the federal government has attempted to support employers and employees throughout the pandemic. CEWS, which began on March 15, provided a wage subsidy of 75 per cent for qualifying employers, up to $847 per week per employee (subject to proposed changes announced on July 17, 2020).

The EFS reported that as of June 25, 538,080 CEWS applications were approved, with approximately 7.5 million employees supported. The EFS predicts a substantial increase in the cost of the CEWS program – an increase which appears related to the government’s recent announcements about the program’s expansion. The government has now confirmed that the CEWS will be extended into December 2020.

Wealth tax consideration by PBO

Concurrently with the release of the EFS, at the request of the federal New Democratic Party, the PBO released a costing note estimating revenues which could be garnered by a wealth tax. Whether such a tax will be considered or passed by Parliament is yet to be seen; however, the costing note criteria provides some insight into the details of such a wealth tax and who would be affected.

The wealth tax considered by the PBO would be an annual net wealth tax of 1 per cent of net worth above $20 million, to be imposed on so-called “high net worth” economic families. The $20-million threshold would be calculated with reference to all assets and liabilities, excluding lottery winnings. Notably, it appears that the federal government already has a database of such high net worth families (of which there are approximately 13,800), which was used to calculate the net fiscal impact of such a tax. The PBO estimated that the projected wealth tax (taking into account economic uncertainties caused by COVID-19 and depressed asset values caused by the pandemic) would yield approximately $5.5 billion. Such revenues may prove tempting in the future to a federal government which is currently planning for a substantial deficit.

Key takeaways

The expansion of the CEWS program appears to be the federal government’s key priority with respect to tax changes for 2020. At this time, it does not appear that the federal government is explicitly announcing any new taxes to fund new spending. However, the resulting deficit from substantially increased spending may yet lead to the need for increased tax revenues. Moreover, the substantial increase in the projected revenues from non-resident tax suggests heightened scrutiny of cross-border and non-resident transactions. Increased CRA audit activity is likely to result from the government’s need to fund additional tax and social program expenditures.

For assistance with tax planning, advice on record-keeping to avoid additional audit scrutiny, and tax audits and disputes, please contact BLG’s Tax Team.

By

Bhuvana Rai, Airianna Murdoch-Fyke

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BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749