



iA Wealth Research Insight

2021 Federal Budget Highlights

April 22, 2021

On April 19, 2021, Finance Minister Chrystia Freeland unveiled Canada's 2021 Federal Budget. It has been over two years (762 days to be exact) since Canada's last full Budget. This latest iteration focused heavily on stimulus measures to help Canadians get through the COVID-19 pandemic and move the economy along its path to recovery. This includes more than \$100 billion in new spending over the next three years. Key features of the Budget involved funding for national childcare, investments in green energy and innovation, and tax changes to close the wealth gap.

The Budget provides little in the way of give-and-take for ordinary investors and savers compared to previous years, as the emphasis this time around concentrated on pandemic-related spending initiatives.

We will leave it to other commentators to provide detailed analyses on the complete Budget document (all 739 pages of it). Here, we highlight a few key points from this year's Federal Budget that could be of interest to clients:

Updates to registered investment and RRSP rules

The Budget addressed two matters involving RRSP and registered investment rules:

1. Tax imposed on non-qualified investments in registered accounts will now be calculated on a pro-rata basis on the proportion of shares or units of the registered investment held by the investor, rather than the entire fair market value of the non-qualified investments held. Currently, mutual fund trusts and corporations that hold an unqualified investment incur a 1% tax of that holding's fair market value for each month that the registered vehicle holds the investment.
2. Postdoctoral fellowship income will be included as earned income for RRSP purposes, which will provide postdoctoral fellows additional RRSP room to make deductible RRSP contributions.

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COVID-19 pandemic spending initiatives

The government is proposing the extension of emergency support programs, including:

- A 12-week extension of the benefits available under the Canada Recovery Benefit (CRB) and the Canada Recovery Caregiving Benefit (CRCB).
- An increase in the number of weeks of eligibility for Employment Insurance (EI) regular benefits, from 15 weeks to 26 weeks.

Personal tax changes

The government will increase the Old Age Security (OAS) for seniors 75 years of age and older through a one-time payment of \$500 in August 2021, and an increase in regular OAS payments for pensioners 75 and older, by 10%, on an ongoing basis as of July 2022.

National early learning and childcare system

The Budget proposes new investments totalling nearly \$30 billion over the next five years to support a new program to create a Canada-wide early learning and childcare system.

Revenue generation through taxes

Effective January 1, 2022, a proposed luxury tax will be applied on the sale of cars and personal aircrafts costing more than \$100,000, and on boats priced over \$250,000. The tax would be the lesser of 20% of the value above the threshold or 10% of the full value of the car, aircraft or boat. So if you are planning on buying one of these luxury items, you should consider doing so before the end of this year.

Effective January 1, 2022, a proposed 1% annual tax will be applied to foreign-owned homes in Canada that are considered vacant or underused. This tax on non-resident-owned real estate is aimed at dampening Canada's red-hot housing market and increasing the supply of affordable places to live.

Federal Green Bond

The government proposes to issue \$5 billion for its first federal green bond, which is designed to attract investment for projects including green infrastructure, nature conservation and cleantech innovations.

The bottom line

When compared to previous years, the 2021 Federal Budget provided relatively little give-and-take for ordinary investors and savers, with the focus instead on helping Canadians get through the COVID-19 pandemic.

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Recommended List: The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives.

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