

NOVEMBER 2022

# Fall Economic Statement & Notice of Mini Budget

## SPECIAL REPORT

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# SPECIAL KNOWLEDGE BUREAU REPORT

## THE FALL ECONOMIC STATEMENT AND BILL C-32

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The Finance Department made two important announcements on November 3 and 4 respectively. The first was the *November 3 Fall Economic Statement*, which reported on changes in the fiscal outlook since the April 7, 2022 Federal Budget, the current state of the economy, fiscal projections within a forecast period ending 2027/28, a further downside scenario and finally the introduction of new personal and business income tax measures.

This was followed by a second announcement and 169 pages of draft legislation: the introduction of Bill C-32, the *Fall Economic Statement Implementation Act*, which included a Ways and Means Motion to implement certain measures in the November 3 Fall Economic Statement as well as certain provisions previously announced in the April 7, 2022 Federal Budget. An overview of both is provided in this Knowledge Bureau Special Report.

### FALL ECONOMIC REPORT – NOVEMBER 3, 2022

Our economy is shrinking and we can't avoid that. This was the key message Canada's Finance Minister delivered in her November 3, 2022 Fall Economic Report and mini-budget. The realities are clear: with higher inflation and interest rates, Canada will see significantly weaker economic growth than anticipated in the April 7, 2022 Budget, just six months ago.

Tax and financial advisors have an important opportunity to proactively review tax and financial plans before year end, to consider ways to shore up wealth in preparation for 2023 under the circumstances. These will be discussed below.

### The Economic Outlook

**Issues for review in** conversations about the forecasts in the November 3 Economic Statement:

- **Interest Rates:** Short term interest rates, which have risen 200 basis points more than expected in the April 7, 2022 budget are expected to peak at 3.8% in the first quarter of 2023.
- **Inflation:** CPI inflation projections were really off in the April 2022 Budget, which predicted 3.9% for 2022. Now that rate is projected to be 6.8% for 2022, then 3.5% for 2023, before settling in to just over 2% throughout the rest of the forecast period. But it will not reach the 2% Bank of Canada target rate until mid-2024. The downside scenario, however, is that inflation will stay at 5.3% throughout 2023; then 2.5% in 2024, 1.6% in 2025 and then 2% by 2026.

**Average Private Sector Forecasts and Department of Finance Downside Scenario**  
Per cent, unless otherwise indicated

	2022	2023	2024	2025	2026	2027	2022-2026
<b>Real GDP growth<sup>1</sup></b>							
Budget 2022	3.9	3.1	2.0	1.9	1.8	---	2.5
2022 Fall Economic Statement	3.2	0.7	1.9	2.3	2.1	1.9	2.0
Downside Scenario	3.1	-0.9	2.3	2.7	2.3	2.1	1.9
<b>GDP inflation<sup>1</sup></b>							
Budget 2022	3.9	1.7	1.8	1.9	1.9	---	2.3
2022 Fall Economic Statement	8.3	1.9	1.8	1.9	1.9	1.9	3.2
Downside Scenario	7.6	1.8	1.9	1.8	1.9	1.9	3.0
<b>Nominal GDP growth<sup>1</sup></b>							
Budget 2022	8.0	4.8	3.9	3.8	3.7	---	4.8
2022 Fall Economic Statement	11.8	2.6	3.7	4.2	4.1	3.9	5.3
Downside Scenario	11.0	0.9	4.3	4.6	4.3	4.0	5.0
<b>Nominal GDP level (billions of dollars)<sup>1</sup></b>							
Budget 2022	2,693	2,823	2,933	3,044	3,157	---	
2022 Fall Economic Statement (FES)	2,787	2,859	2,965	3,091	3,217	3,342	
Downside Scenario	2,767	2,793	2,913	3,046	3,177	3,305	
Difference between 2022 FES and Budget 2022	94	37	32	47	60	---	54
Difference between Downside Scenario and 2022 FES	-19	-67	-53	-45	-41	-38	-45
<b>3-month treasury bill rate</b>							
Budget 2022	0.8	1.7	2.0	2.1	2.1	---	1.7
2022 Fall Economic Statement	2.2	3.6	2.8	2.3	2.1	2.1	2.6
Downside Scenario	2.4	4.4	3.5	3.2	3.0	3.0	3.3
<b>10-year government bond rate</b>							
Budget 2022	2.0	2.4	2.6	2.8	3.0	---	2.6
2022 Fall Economic Statement	2.8	3.1	2.8	2.8	2.9	3.0	2.9
Downside Scenario	2.8	3.2	3.1	3.2	3.3	3.5	3.1
<b>Exchange rate (US cents/C\$)</b>							
Budget 2022	79.9	80.2	80.5	80.4	80.1	---	80.2
2022 Fall Economic Statement	77.9	77.1	77.9	78.8	79.2	79.7	78.2
Downside Scenario	77.0	73.0	73.9	76.9	78.2	78.4	75.8
<b>Unemployment rate</b>							
Budget 2022	5.8	5.5	5.5	5.5	5.5	---	5.5
2022 Fall Economic Statement	5.4	6.1	6.2	6.0	5.8	5.7	5.9
Downside Scenario	5.5	6.6	6.6	6.3	6.0	5.9	6.2
<b>Consumer Price Index inflation</b>							
Budget 2022	3.9	2.4	2.2	2.1	2.0	---	2.5
2022 Fall Economic Statement	6.8	3.5	2.1	2.1	2.1	2.1	3.3
Downside Scenario	6.8	5.3	2.5	1.6	2.0	2.1	3.7
<b>U.S. real GDP growth</b>							
Budget 2022	3.8	2.6	2.0	1.8	1.9	---	2.4
2022 Fall Economic Statement	1.7	0.6	1.7	2.2	2.1	2.0	1.6
Downside Scenario	1.4	-1.2	2.6	2.5	2.5	2.1	1.6
<b>West Texas Intermediate crude oil price (\$US per barrel)</b>							
Budget 2022	80	74	70	68	66	---	72
2022 Fall Economic Statement	97	88	85	82	81	81	87
Downside Scenario	95	80	76	77	77	78	81

Note: Forecast averages may not equal average of years due to rounding. Numbers may not add due to rounding.

- **Nominal and Real GDP Growth:** While nominal Gross Domestic product (GDP) was projected to expand by 8.0% in 2022 and 4.8% in 2023 before settling in at a growth rate of 3.9% in 2024, it will now come in at 11.8% in 2022, 2.6% in 2023 and 3.7% in 2024. Real GDP growth looks worse: 3.2% in 2022 and only 0.7% in 2023 – significantly off from the 3.1% projected in the April Budget. The downside scenario is worse: a – 0.9% real GDP growth factor. By the end of the forecast period (2022 to 2026) we will have seen a persistence of weak growth: and average of 2%. In the short term, real GDP growth is projected to be just above zero for the next several quarters.
- **Unemployment:** The unemployment rate is expected to increase to over 6% in 2023 and then decline to 5.7% by the end of the forecast period (2022 to 2026).
- **Strength of the Canadian Dollar:** Budget 2022 expected a strong dollar in the \$80.2 range for much of the forecast period. Now, the projections are for a weaker dollars: an average of \$78.2 for the period.

- **3 Month Treasury Bill Rates.** These are expected to be higher than in the April 7 Budget projects: 2.2% for 2022, 3.6% for 2023 and 2.8% for 2024 before settling down in the 2% range thereafter.
- **10 Year Government Bond Rates.** Also, higher than projected in the spring, they are now coming in at 2.8% for 2022, 3.1% for 2023, 2.8% for 2024 and 2025, and 3% for 2026.

## The Tax Outlook

The reduction in economic activity under the government's downside scenarios will lead to lower personal and corporate tax revenues, lower excise taxes and duties and lower proceeds from pollution pricing frameworks than earlier anticipated, at least for 2022-23. Higher interest rates will also result in a short-term decrease in Bank of Canada net profits. Still, taxes will rise:

- **Personal income tax revenues** – the largest revenue line item for government (48%) will increase to \$209.4 billion 2022-23 or 5.6%, before tapering down to 4.6% growth rate after this.
- **Corporate income tax revenues** – this will increase by 15.4% in 2022-23 and then the growth rate will taper down to 5.1% in 2023-23 due to the projected slow-down in economic growth in 2023. After this, revenues from corporate taxes are projected to grow only 1.5% per year for the remainder of the forecast period.
- **GST revenues** – these are projected to grow by 2.2% in 2022-23 and then by an average of 4.9% over the remaining forecast period.
- **EI Premium revenues** – these are projected to grow at 11.7% for 2022-23 and then taper down to 4.2% based on built in premium rate increases: \$1.58 per \$100 of insurable earnings in 2022, \$1.63 in 2023 and \$1.66 in 2024. These increases are on top of CPP increases in the forecast period, which will make the cost of labor more expensive for business owners.
- **CPP Increases** - For 2023, the CPP contribution rate increases from 5.7% to 5.95%. Starting in 2024 \$4,700 of pensionable earnings will be added to the indexed base pensionable earnings. In 2025 another \$5,000 of pensionable earnings will be added. The rate payable on the additional earnings is 4.0%. The following table shows the projected premiums to the year 2025, adjusted for known pensionable earnings for 2023 and government projections for 2024 and 2025.

Year	Regular CPP Rate	Max. Pens. Earn.	Max. Reg. Premiums	Add. Pens. Earn.	Max. Pens. Earn.	Add. Rate	Add. Prem.	Total Prem.	Max. SE Prem.
2018	4.95%	\$55,900	\$2,593.80		\$55,900	0%		\$2,593.80	\$5,187.60
2019	5.10%	\$57,400	\$2,748.90		\$57,400	0%		\$2,748.90	\$5,497.80
2020	5.25%	\$58,700	\$2,898.00		\$58,700	0%		\$2,898.00	\$5,796.00
2021	5.45%	\$61,600	\$3,166.45		\$61,600	0%		\$3,166.45	\$6,332.90
2022	5.70%	\$64,900	\$3,499.80		\$64,900	0%		\$3,499.80	\$6,999.60
2023	5.95%	\$66,900	\$3,754.45		\$66,900	0%		\$3,754.45	\$7,508.90
2024	5.95%	\$67,700	\$3,819.90	\$4,700	\$72,400	4.00%	\$188.00	\$4,007.90	\$8,015.80
2025	5.95%	\$69,700	\$3,938.90	\$9,700	\$79,400	4.00%	\$388.00	\$4,326.90	\$8,653.80



Table A1.6  
**The Revenue Outlook**  
billions of dollars

	Projection						
	2021– 2022	2022– 2023	2023– 2024	2024– 2025	2025– 2026	2026– 2027	2027– 2028
<b>Income tax revenues</b>							
Personal income tax	198.4	209.4	216.3	226.2	238.7	249.5	261.6
Corporate income tax	78.8	91.0	86.4	85.2	87.1	88.2	91.6
Non-resident income tax	10.8	13.8	13.7	12.9	13.0	13.4	14.3
Total	288.0	314.2	316.4	324.3	338.8	351.1	367.6
<b>Excise tax and duty revenues</b>							
Goods and Services Tax	46.2	47.2	51.5	53.9	55.8	57.9	60.0
Customs import duties	5.2	6.4	6.6	6.8	7.0	7.3	7.6
Other excise taxes/duties	11.3	12.3	12.6	12.9	13.0	13.2	13.3
Total	62.7	65.8	70.6	73.5	75.9	78.4	80.9
Other taxes	0.0	0.2	0.9	0.9	1.0	1.0	1.0
<b>Total tax revenues</b>	<b>350.7</b>	<b>380.1</b>	<b>387.9</b>	<b>398.8</b>	<b>415.7</b>	<b>430.6</b>	<b>449.5</b>
Proceeds from the pollution pricing framework	6.3	7.8	9.8	11.8	13.4	15.0	16.3
Employment Insurance premium revenues	23.9	26.6	28.2	29.6	30.7	31.7	32.8
<b>Other revenues</b>							
Enterprise Crown corporations	12.8	6.8	8.5	10.2	11.4	12.7	12.8
Other programs	18.7	23.4	25.9	26.4	26.7	27.3	27.8
Net foreign exchange	0.9	1.1	2.2	2.6	2.9	3.1	3.2
Total	32.4	31.4	36.6	39.2	41.1	43.0	43.8
<b>Total budgetary revenues</b>	<b>413.3</b>	<b>445.9</b>	<b>462.5</b>	<b>479.4</b>	<b>500.8</b>	<b>520.3</b>	<b>542.4</b>
<b>Per cent of GDP</b>							
Total tax revenues	14.1	13.6	13.6	13.4	13.4	13.4	13.4
Proceeds from the pollution pricing framework	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Employment Insurance premium revenues	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenues	1.3	1.1	1.3	1.3	1.3	1.3	1.3
Total budgetary revenues	16.6	16.0	16.2	16.2	16.2	16.2	16.2

Note: Totals may not add due to rounding.

Table A1.6 above provides an overview of projected budgetary revenues by major component.

### Important Note:

**Coming Soon: New Minimum Taxes on HNW Individuals:** Details for a reformed Alternative Minimum Tax, which has not been reviewed since 1986, are expected to be announced in the 2023 Federal Budget to claw back the use of otherwise legitimate tax deductions and credits.

## New Tax Measures

The following measures aim to raise taxes on certain economic activities undertaken by investors and provide economic incentives to businesses:

**Personal Tax Measures:** Two new personal tax measures were introduced in this mini-budget:

**Condo and other real estate speculators.** An extension of the residential property flipping rules to assignment sales, which are rights to purchase a residential property before constructed or lived in, will be starting January 1, 2023. Thus, a taxpayer who acquires the right to purchase a property once it is constructed and sells the property before taking possession will be taxed on any gains on the sale of those rights as business income. If the taxpayer exercises their right to purchase the property, the 12-month holding period begins again upon exercise of the right.

**Low income earners – CWB changes.** An automatic advance of up to 50% of the anticipated refundable Canada Workers Benefit for those who qualified in the previous year by filing a tax return prior to November 1 of the tax filing year (example November 1, 2022 for the 2021 year). This provision to apply for advance payments has had little uptake and will be discontinued. Automatic advances will be paid in July, October, and January with any additional CWB due paid when the next tax return is filed. There is no word yet on repayment of the automatic advance when the taxpayer does not qualify for the CWB due to income testing.

## Business Tax Measures

1. Perhaps the most controversial of these provisions is a ***Tax on Share Buybacks*** – a 2% tax on the net value of all types of share buybacks by public corporations in Canada. More details will be announced in the 2023 Federal Budget. The intent is to have corporations invest profits back into the business and employment instead of flowing profits to shareholders.
2. A new refundable ***Clean Technology Investment Tax Credit*** equal to 30% of the capital cost of eligible equipment, provided it becomes available for use on or after the day the 2023 Budget is released. This credit would be phased out starting with property acquired in 2032 and eliminated for property available for use after 2034. The phase out rates would be 20%, 10% and 5% respectively in 2032, 2033 and 2034.
  - Businesses in the Atlantic provinces will be able to claim this new credit as well as the ***Atlantic Investment Tax Credit***. Available since 2012, qualified property means property in Atlantic Canada that is used primarily for manufacturing and processing, farming or fishing, logging, storing grain, or harvesting peat. Qualified property includes new buildings and new machinery and equipment (prescribed in Regulation 4600), and new energy generation and conservation property (prescribed in Regulation 4600). Qualified property can also be used primarily to produce or process electrical energy or steam in a prescribed area (as described in Regulation 4610).
3. A refundable ***Investment Tax Credit for Clean Hydrogen Production*** of at least 40%, with reductions of 10% when certain labor conditions are not met. It is expected to come into force as of Budget Day 2023 and will be phased out after 2030.

4. **A minimum tax for multi-national corporations:** a two-pillar plan for international tax reform will ensure treaties to tax the largest and most profitable companies will come into force by 2024 across 137 countries including Canada and that a minimum effective tax rate of 15% on profits will be paid in every jurisdiction in which they operate.

## The Multi-Generational Outcome

The 2022 November Fall Economic Report has multi-generational implications. All Canadians must brace for an economic runway that includes continued high inflation and interest rates which will lead to a more pronounced economic slowdown. In downside scenarios, the government anticipates elevated and more deeply entrenched inflation, which will lead to more interest rate hikes.

These conditions, as described in the document, will impact consumer confidence, and business activity and the level of wealth in general. Financial advisors will want to take stock of current valuations of assets and debt levels, and discuss ways to shore up net worth under the circumstances. As it is expected that economic conditions will worsen in the short term, ensuring that top-ups are made to TFSAs and RRSPs, before year end can create some added security for 2023.

**Business Owners.** Small businesses will experience increases in EI and CPP source deductions, which will affect their profits as well as the take-home pay of their employees. For owner-managers, a review of their own salary, bonus, dividend mix are in order; together with those other family members who are active in the business.

**Donors.** New minimum taxes on the horizon will impact people with higher incomes and wealth, representing a clawback of tax deductions and credits. For these reasons, larger charitable donations may have more after-tax value in the current tax year.

**Investors & Real Estate Speculators.** A proposed new tax on share buybacks will impact investors including those age 65 and older and people with more than \$100,000 in annual income who the government says have disproportionate amounts of dividend and interest income. A proactive discussion on the effect of this new 2% on portfolios will likely be well received as investment solutions are reviewed. Anti-flipping rules will put personal residence dispositions under the audit microscope.

**Business Owner Retirement - Bill C-208 Response.** This Mini-Budget was silent on changes to “genuine” intergenerational rollover provisions or adjustments to capital gains inclusion rates. This points to a need to discuss business owner retirement sooner, rather than later.

**Vulnerable Senior Provisions.** Dispite the fact that over a third of all seniors (38%) and half of those over the age of 75 (47%) have a disability, and over 10% of seniors with a more severe disability live below the Official Poverty Line, this document was silent on new provisions for our aging population. This means that families will continue to bear the increased economic consequences of caregiving in the near future, at a time when financial resources are increasingly squeezed by inflation and high interest rates. Fortunately, there are existing provisions in the Income Tax Act to help with this, as outlined in the *Year End Tax Planning Checklists* attached.



## PEER-TO-PEER TRAINING OPPORTUNITIES WITH KNOWLEDGE BUREAU 2022 – 2023



☐ Jan. 18, 2023

Enrolment deadline: Jan. 15



☐ May 24, 2023

Enrolment deadline: May 15



☐ Sept. 20, 2023

Enrolment deadline: Sept. 15



☐ November 1 2023

Enrolment deadline: Oct. 15

☐ February 7, 2023 - We will once again host an in-person event in Toronto at the Pearson Convention

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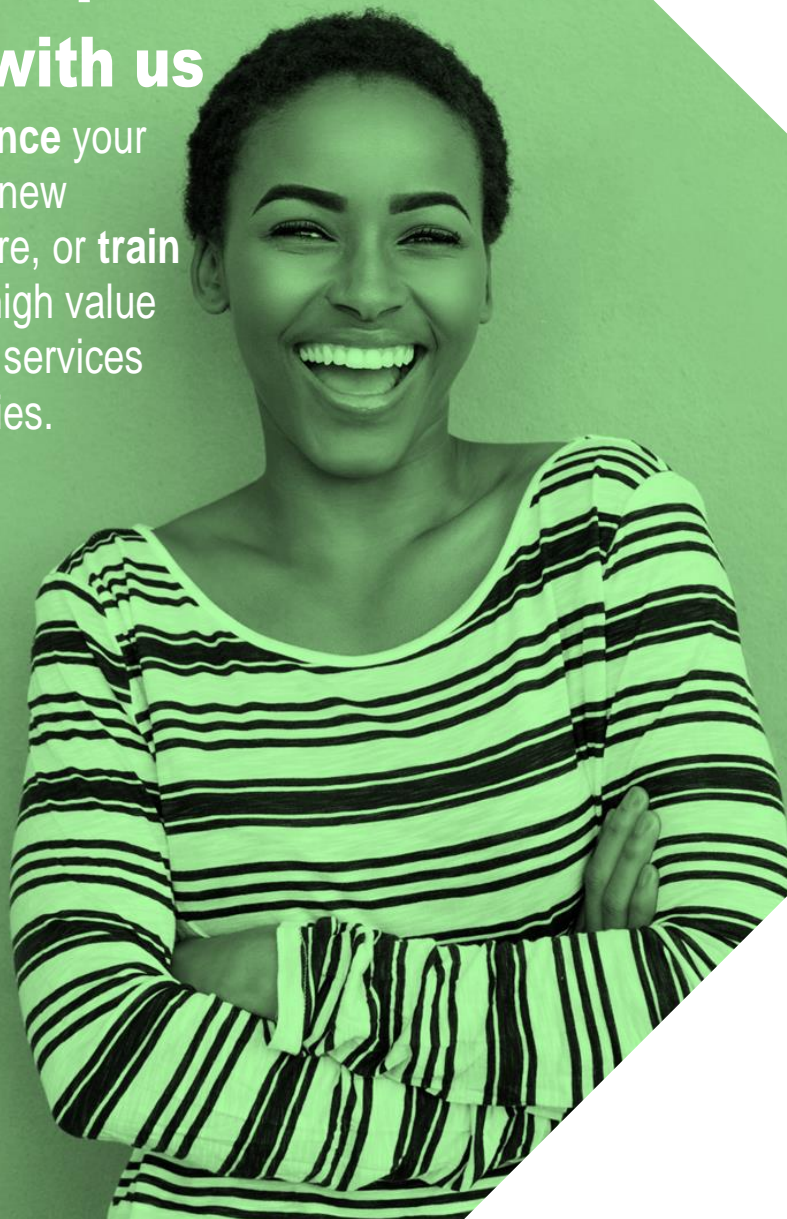


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