

Notice of Ways and Means Motion to Amend the Income Tax Act and the Income Tax Regulations

That it is expedient to amend the *Income Tax Act* (the “Act”) and the *Income Tax Regulations* (the “Regulations”) as follows:

Employee Ownership Trusts

1 (1) Section 15 of the Act is amended by adding the following after subsection (2.5):

When s. 15(2) not to apply – employee ownership trusts

(2.51) Subsection 15(2) does not apply to a loan made or a debt that arose in respect of a qualifying business transfer if

(a) immediately following the qualifying business transfer,

(i) the lender or creditor is a qualifying business, and

(ii) the borrower is the employee ownership trust that controls the qualifying business described in subparagraph (i),

(b) the sole purpose of the loan or the debt is to facilitate the qualifying business transfer, and

(c) at the time the loan was made or the debt incurred, bona fide arrangements were made for repayment of the loan or debt within 15 years of the qualifying business transfer.

(2) Subsection (1) applies in respect of transactions that occur on or after January 1, 2024.

2 (1) Subparagraph 40(1)(a)(iii) of the Act before clause (A) is replaced by the following:

(iii) subject to subsections 40(1.1) to (1.3), such amount as the taxpayer may claim

(2) Section 40 of the Act is amended by adding the following after subsection (1.2):

Reserve – dispositions to employee ownership trusts

(1.3) In computing the amount that a taxpayer may claim under subparagraph (1)(a)(iii) in computing the taxpayer’s gain from the disposition of a share of the capital stock of a qualifying business that subparagraph shall be read as if the references in that subparagraph to “1/5” and “4” were references to “1/10” and “9” respectively, if the shares of the qualifying business were disposed of by the taxpayer to an employee ownership trust pursuant to a qualifying business transfer.

(3) Subsections (1) and (2) apply in respect of transactions that occur on or after January 1, 2024.

3 (1) Paragraph (a.1) of the definition *trust* in subsection 108(1) of the Act is replaced by the following:

(a.1) a trust (other than a trust described in paragraph (a), (d) or (h), a trust to which subsection 7(2) or (6) applies or a trust prescribed for the purpose of subsection 107(2)) all or substantially all of the property of which is held for the purpose of providing benefits to individuals each of whom is provided with benefits in respect of, or because of, an office or employment or former office or employment of any individual,

(2) The definition *trust* in subsection 108(1) of the Act is amended by striking out “or” at the end of paragraph (f), by adding “or” at the end of paragraph (g) and by adding the following after paragraph (g):

(h) an employee ownership trust.

(3) Subsections (1) and (2) apply in respect of transactions that occur on or after January 1, 2024.

4 (1) Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

employee ownership trust means an irrevocable trust that, at all relevant times, satisfies the following conditions:

(a) the trust is resident in Canada (determined without reference to subsection 94(3));

(b) the trust is exclusively for the benefit of all individuals each of whom

(i) is an employee of one or more qualifying businesses controlled by the trust (other than an employee who has not completed an applicable probationary period, which may not exceed 12 months),

(ii) does not own, directly or indirectly (other than through an interest in the trust), 10% or more of the fair market value of any class of shares of the capital stock of a qualifying business controlled, directly or indirectly, by the trust,

(iii) does not own, directly or indirectly, together with any person or partnership that is related to or affiliated with the individual, 50% or more of the fair market value of any class of shares of the capital stock of a qualifying business controlled, directly or indirectly, by the trust, and

(iv) immediately before the time of a qualifying business transfer to the trust, did not own, directly or indirectly, together with any person or partnership that is related to or affiliated with the individual, 50% or more of the fair market value of the shares of the capital stock and indebtedness of the qualifying business;

(c) the interest of each beneficiary of the trust is determined in the same manner, based solely on a reasonable application of any combination of the following criteria

(i) the total hours of employment service provided by the beneficiary to the qualifying business,

(ii) the total salary, wages and other remuneration paid or payable to the beneficiary by the qualifying business, and

(iii) the total period of employment service the beneficiary has provided to the qualifying business;

(d) the trust is prohibited from acting in the interest of one beneficiary (or group of beneficiaries) to the prejudice of another beneficiary (or group of beneficiaries);

(e) the trust is prohibited from distributing shares of the capital stock of a qualifying business to any beneficiary of the trust;

(f) each trustee of the trust

(i) is either a corporation resident in Canada that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee or an individual (other than a trust),

(ii) is elected to the position of trustee for a period not exceeding five years by the beneficiaries of the trust that have attained at least 18 years of age at the time of the vote, and

(iii) has an equal vote in the conduct of the affairs of the trust;

(g) not more than 40% of the trustees of the trust are any combination of:

(i) individuals who, immediately before the time that the trust acquired control of a qualifying business, owned, directly or indirectly, together with any person or partnership that is related to or affiliated with the individuals,

50% or more of the fair market value of the shares of the capital stock or indebtedness of the qualifying business, and

(ii) corporations that more than 40% of the members of the board of directors are individuals referred to in subparagraph (i); and

(h) all or substantially all the fair market value of the property of the trust is attributable to shares of the capital stock of one or more qualifying businesses that the trust controls, directly or indirectly, and by which all beneficiaries of the trust are employed. (*fiducie collective des employés*)

qualifying business, at a particular time, means a corporation controlled by a trust

(a) that is a Canadian-controlled private corporation all or substantially all the fair market value of the assets of which at that time is attributable to assets (other than an interest in a partnership) that are used principally in an active business carried on primarily in Canada by the particular corporation or by a corporation that the particular corporation controls;

(b) not more than 40% of the directors of which consist of individuals that, immediately before the time that the trust acquired control of the corporation, owned, directly or indirectly, together with any person or partnership that is related to or affiliated with the director, 50% or more of the fair market value of the shares of the capital stock or indebtedness of the corporation; and

(c) that deals at arm's length and is not affiliated with any person or partnership that owned 50% or more of the fair market value of the shares of the capital stock or indebtedness of the corporation immediately before the time the trust acquired control of the corporation. (*entreprise admissible*)

qualifying business transfer means a disposition by a taxpayer of shares of the capital stock of a corporation (in this definition referred to as the "subject corporation") to a trust, or to a Canadian-controlled private corporation (in this definition referred to as the "purchaser corporation") that is controlled and wholly-owned by a trust, if

(a) immediately before the disposition, all or substantially all the fair market value of the assets of the subject corporation is attributable to assets (other than an interest in a partnership) that are used principally in an active business (referred to in this definition as the "business") carried on primarily in Canada by the subject corporation or a corporation that is controlled and wholly-owned by the subject corporation;

(b) at the time of the disposition,

(i) the taxpayer deals at arm's length with the trust and any purchaser corporation,

(ii) the trust acquires control of the subject corporation, and

(iii) the trust is an employee ownership trust, the beneficiaries of which are employed in the business; and

(c) at all times after the disposition,

(i) the taxpayer deals at arm's length with the subject corporation, the trust and any purchaser corporation, and

(ii) the taxpayer does not retain any right or influence that, if exercised, would allow the taxpayer (whether alone or together with any person or partnership that is related to or affiliated with the taxpayer) to control, directly or indirectly in any manner whatever, the subject corporation, the trust, or any purchaser corporation. (*transfert admissible d'entreprise*)

(2) Subsection (1) comes into force on January 1, 2024.

Deduction for Tradespeople's Tool Expenses

5 (1) Subclause B(I) of the description of B in subparagraph 8(1)(r)(ii) of the Act is replaced by the following:

(I) the amount that is the total of the first dollar amount referred to in paragraph (s) and the amount determined for the taxation year for B in subsection 118(10), and

(2) The portion before the formula of paragraph 8(1)(s) of the Act is replaced by the following:

Deduction – tradesperson's tools

(s) if the taxpayer is employed as a tradesperson at any time in the taxation year, the lesser of \$1,000 and the amount determined by the formula

(3) Subsections (1) and (2) apply to the 2023 and subsequent taxation years.

Registered Education Savings Plans

6 (1) Paragraph (a) of the definition *education savings plan* in subsection 146.1(1) of the Act is amended by striking out “and” at the end of subparagraph (ii) and by adding the following after subparagraph (iii):

(iv) an individual (other than a trust), who is a legal parent of a beneficiary, and the individual's former spouse or common-law partner, who is also the legal parent of a beneficiary, and

(2) Subclause 146.1(2)(g.1)(ii)(A)(II) of the Act is replaced by the following :

(II) the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 12-month period that ends at that time does not exceed \$8,000 or any greater amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to the individual, or

(3) Clause 146.1(2)(g.1)(ii)(B) of the Act is replaced by the following :

(B) the individual satisfies, at that time, the condition set out in clause (i)(B) and the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 13-week period that ends at that time does not exceed \$4,000 or any greater amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to the individual;

(4) Subsections (1) to (3) are deemed to have come into force on March 28, 2023.

Retirement Compensation Arrangements

7 The Act is modified to give effect to the proposals relating to Retirement Compensation Arrangements as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Registered Disability Savings Plan

8 (1) Clause (a)(ii)(B.1) of the definition *disability savings plan* in subsection 146.4(1) of the Act is replaced by the following:

(B.1) if the arrangement is entered into before 2027, a qualifying family member in relation to the beneficiary who, at the time the arrangement is entered into, is a qualifying person in relation to the beneficiary,

(2) The definition *qualifying family member* in subsection 146.4(1) of the Act is amended by striking out “or” at the end of paragraph (a), by adding “or” at the end of paragraph (b) and by adding the following after paragraph (b):

(c) a brother or sister (determined without reference to subsection 252(2)) of the beneficiary.

Taxpayer Information Sharing for the Canadian Dental Care Plan

9 Paragraph 241(4)(d) of the Act is amended by adding the following after subparagraph (xx):

(xx.1) to an official of

(A) the Department of Employment and Social Development or the Department of Health, solely for the purpose of the administration or enforcement of the Canadian Dental Care Plan established under the authority of the *Department of Health Act* in respect of dental service for individuals, or

(B) the Department of Health solely for the purpose of the formulation or evaluation of policy for that plan;

Alternative Minimum Tax for High-Income Individuals

10 The Act is modified to give effect to the proposals relating to the Alternative Minimum Tax for High-Income Individuals as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Intergenerational Business Transfers

11 (1) The portion of subparagraph 40(1)(a)(iii) of the Act before clause (A) is replaced by the following:

(iii) subject to subsections 40(1.1) and (1.2), such amount as the taxpayer may claim

(2) Section 40 of the Act is amended by adding the following after subsection (1.1):

Reserve – intergenerational business transfers

(1.2) In computing the amount that a taxpayer may claim under subparagraph (1)(a)(iii) on a disposition of shares of the capital stock of a corporation resident in Canada to another corporation, that subparagraph shall be read as if the references to “1/5” and “4” were references to “1/10” and “9” respectively, if the conditions in subsection 84.1(2.31) or (2.32) are satisfied in respect of the disposition.

(3) Subsections (1) and (2) come into force on January 1, 2024.

12 (1) Paragraph 84.1(2)(e) of the Act is replaced by the following:

(e) notwithstanding any other paragraph in this subsection, if this paragraph applies because of subsection (2.31) or (2.32) to a disposition of subject shares by a taxpayer to a purchaser corporation, the taxpayer and the purchaser corporation are deemed to deal with each other at arm’s length at the time of the disposition of the subject shares.

(2) Subsection 84.1(2.3) of the Act is replaced by the following:

Rules for subsections (2.31) and (2.32)

(2.3) For the purposes of subsections (2.31) and (2.32),

(a) a *child* of a taxpayer has the same meaning as in subsection 70(10) and also includes

(i) a niece or nephew of the taxpayer,

(ii) a niece or nephew of the taxpayer’s spouse or common-law partner,

- (iii)** a spouse or common-law partner of a niece or nephew referred to in subparagraph (i) or (ii), and
 - (iv)** a child of a niece or nephew referred to in subparagraphs (i) or (ii);
- (b)** if a person or partnership's share of the accumulating income or capital of a trust in respect of which the person or partnership has an interest as a beneficiary depends on the exercise by a person (referred to in this paragraph as a "trustee") of, or the failure by any trustee to exercise, a discretionary power, that trustee is deemed to have fully exercised the power, or to have failed to exercise the power, as the case may be;
- (c)** if one or more children referred to in
- (i)** subparagraph (2.31)(f)(i) have disposed of, or caused the disposition of, all of the shares in the capital stock of the purchaser corporation, the subject corporation, or all relevant group entities (within the meaning of subparagraph (2.31)(c)(iii)) to an arm's length person or group of persons, the conditions in paragraphs (2.31)(f) and (g) are deemed to be met as of the time of the disposition, provided that all equity interests in all relevant businesses (within the meaning of subparagraph (2.31)(c)(iii)) held, directly or indirectly, by the child or children are included in the disposition, or
 - (ii)** subparagraph (2.32)(g)(i) have disposed of, or caused the disposition of, all of the shares in the capital stock of the purchaser corporation, the subject corporation, or all relevant group entities (within the meaning of subparagraph (2.32)(c)(iii)) to an arm's length person or group of persons, the conditions in paragraphs (2.32)(g) and (h) are deemed to be met as of the time of the disposition, provided that all equity interests in all relevant businesses (within the meaning of subparagraph (2.32)(c)(iii)) held, directly or indirectly, by the child or children are included in the disposition; and
- (d)** if a child, or each of the children, referred to in
- (i)** subparagraph (2.31)(f)(ii) has died or has, after the disposition of the subject shares, suffered one or more severe and prolonged impairments in physical or mental functions, the conditions in paragraphs (2.31)(f) and (g) are deemed to be met as of the time of the death or mental or physical impairment, or
 - (ii)** subparagraph (2.32)(g)(ii) has died or has, after the disposition of the subject shares, suffered one or more severe and prolonged impairments in physical or mental functions, the conditions in paragraphs (2.32)(g) and (h) are deemed to be met as of the time of the death or mental or physical impairment.

Immediate intergenerational business transfer

(2.31) Paragraph (2)(e) applies at the time of a disposition of subject shares by a taxpayer to a purchaser corporation if the following conditions are met:

- (a)** immediately before the disposition of the subject shares (referred to in this subsection as the "disposition time"), the taxpayer – either alone or together with a spouse or common-law partner of the taxpayer – controls the subject corporation, and no other person or group of persons controls, directly or indirectly in any manner whatever, the subject corporation;
- (b)** at the disposition time,
 - (i)** the taxpayer is an individual (other than a trust),
 - (ii)** the purchaser corporation is controlled by one or more children (within the meaning of paragraph (2.3)(a), referred to in this subsection as the "child" or "children") of the taxpayer, each of whom is 18 years of age or older, and
 - (iii)** the subject shares are *qualified small business corporation shares* or *shares of the capital stock of a family farm or fishing corporation* as defined in subsection 110.6(1);
- (c)** at all times after the disposition time, the taxpayer does not – either alone or together with a spouse or common law partner of the taxpayer – control, directly or indirectly in any manner whatever,

- (i) the subject corporation,
 - (ii) the purchaser corporation, or
 - (iii) any other person or partnership (referred to in this subsection as a “relevant group entity”) that carries on, at the disposition time, an active business (referred to in this subsection as a “relevant business”) that is relevant to the determination of whether the subject shares satisfy the condition in subparagraph (b)(iii);
- (d) at all times after the disposition time, the taxpayer does not – either alone or together with a spouse or common law partner of the taxpayer – own, directly or indirectly,
- (i) 50% or more of any class of shares, other than shares of a *specified class* as defined in subsection 256(1.1) (in this subsection referred to as “non-voting preferred shares”), of the capital stock of the subject corporation or of the purchaser corporation, or
 - (ii) 50% or more of any class of equity interest (other than non-voting preferred shares) in any relevant group entity;
- (e) within 36 months of the disposition time and at all times thereafter, the taxpayer and a spouse or common-law partner of the taxpayer does not own, directly or indirectly,
- (i) any shares, other than non-voting preferred shares of the capital stock of the subject corporation or of the purchaser corporation, or
 - (ii) any equity interest (other than non-voting preferred shares) in any relevant group entity;
- (f) from the disposition time until 36 months after that time,
- (i) the child or group of children, as the case may be, controls the subject corporation and the purchaser corporation,
 - (ii) the child, or at least one member of the group of children, as the case may be, is actively engaged on a regular, continuous and substantial basis (within the meaning of paragraph 120.4(1.1)(a)) in a relevant business of the subject corporation or a relevant group entity, and
 - (iii) each relevant business of the subject corporation and any relevant group entity is carried on as an active business;
- (g) within 36 months of the disposition time or such greater period of time as is reasonable in the circumstances, the taxpayer and a spouse or common-law partner of the taxpayer takes reasonable steps to
- (i) transfer management of each relevant business of the subject corporation and any relevant group entity to the child or children referred to in subparagraph (f)(ii), and
 - (ii) permanently cease to manage any relevant business of the subject corporation and any relevant group entity; and
- (h) the taxpayer and the child, or the taxpayer and each member of the group of children, as the case may be,
- (i) jointly elect, in prescribed form, for paragraph (2)(e) to apply in respect of the disposition of the subject shares, and
 - (ii) file the election with the Minister on or before the taxpayer’s filing-due date for the taxation year that includes the disposition time.

Gradual intergenerational business transfer

(2.32) Paragraph (2)(e) applies to a disposition of subject shares by a taxpayer to a purchaser corporation if the following conditions are met:

(a) immediately before the disposition of the subject shares (referred to in this subsection as the “disposition time”), the taxpayer — either alone or together with a spouse or common-law partner of the taxpayer — controls the subject corporation, and no other person or group of persons controls, directly or indirectly in any manner whatever, the subject corporation;

(b) at the disposition time,

(i) the taxpayer is an individual (other than a trust),

(ii) the purchaser corporation is controlled by one or more children (within the meaning of paragraph (2.3)(a), and referred to in this subsection as the “child” or “children”) of the taxpayer, each of whom is 18 years of age or older, and

(iii) the subject shares are *qualified small business corporation shares* or *shares of the capital stock of a family farm or fishing corporation* as defined in subsection 110.6(1);

(c) at all times after the disposition time, the taxpayer does not — either alone or together with a spouse or common-law partner of the taxpayer — control

(i) the subject corporation,

(ii) the purchaser corporation, or

(iii) any other person or partnership (referred to in this subsection as a “relevant group entity”) that carries on, at the disposition time, an active business (referred to in this subsection as a “relevant business”) that is relevant to the determination of whether the subject shares satisfy the condition in subparagraph (b)(iii);

(d) at all times after the disposition time, the taxpayer does not — either alone or together with a spouse or common-law partner of the taxpayer — own, directly or indirectly,

(i) 50% or more of any class of shares, other than shares of a *specified class* as defined in subsection 256(1.1) (in this subsection referred to as “non-voting preferred shares”), of the capital stock of the subject corporation or of the purchaser corporation, or

(ii) 50% or more of any class of equity interest (other than non-voting preferred shares) in any relevant group entity;

(e) within 36 months of the disposition time and at all times thereafter, the taxpayer and a spouse or common-law partner of the taxpayer does not own, directly or indirectly,

(i) any shares, other than non-voting preferred shares of the capital stock of the subject corporation or of the purchaser corporation, or

(ii) any equity interest (other than non-voting preferred shares) in any relevant group entity;

(f) within 10 years after the disposition time (referred to in this subsection as the “final sale time”) and at all times after, the taxpayer and a spouse or common-law partner of the taxpayer does not own, directly or indirectly,

(i) in the case of a disposition of subject shares that are, at the disposition time, *shares of the capital stock of a family farm or fishing corporation* as defined in subsection 110.6(1), interests (including any debt or equity interest) in any of the subject corporation, the purchaser corporation, and any relevant group entity with a fair market value that exceeds 50% of the fair market value of all the interests that were owned, directly or indirectly, by the taxpayer and a spouse or common-law partner of the taxpayer immediately before the disposition time, or

(ii) in the case of a disposition of subject shares that are, at the disposition time, *qualified small business corporation shares* as defined in subsection 110.6(1) (other than subject shares described in subparagraph (i)), interests (including any debt or equity interest) in any of the subject corporation, the purchaser corporation, and any relevant group entity with a fair market value that exceeds 30% of the fair market value of all the interests that were owned, directly or indirectly, by the taxpayer and a spouse or common-law partner of the taxpayer immediately before the disposition time;

(g) subject to subsection (2.3), from the disposition time until the later of 60 months after the disposition time and the final sale time,

(i) the child or group of children, as the case may be, controls the subject corporation and the purchaser corporation,

(ii) the child, or at least one member of the group of children, as the case may be, is actively engaged on a regular, continuous and substantial basis (within the meaning of paragraph 120.4(1.1)(a)) in a relevant business of the subject corporation or a relevant group entity, and

(iii) any relevant business of the subject corporation and any relevant group entity is carried on as an active business;

(h) subject to subsection (2.3), within 60 months of the disposition time or such greater period of time as is reasonable in the circumstances, the taxpayer and a spouse or common-law partner of the taxpayer takes reasonable steps to

(i) transfer management of any relevant business of the subject corporation and any relevant group entity to the child or children referred to in subparagraph (g)(ii), and

(ii) permanently cease to manage any relevant business of the subject corporation and any relevant group entity; and

(i) the taxpayer and the child, or the taxpayer and each member of the group of children, as the case may be,

(i) jointly elect, in prescribed form, for paragraph (2)(e) to apply in respect of the disposition of the subject shares, and

(ii) file the election with the Minister on or before the taxpayer's filing-due date for the taxation year that includes the disposition time.

(3) Subsections (1) and (2) apply to dispositions of shares that occur on or after January 1, 2024.

13 (1) Paragraph 87(2)(j.6) of the Act is replaced by the following:

Continuing corporation

(j.6) for the purposes of paragraphs 12(1)(t) and (x), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(b) and (28)(c), subsections 13(29) and 18(9.1), paragraphs 20(1)(e), (e.1) and (hh), sections 20.1 and 32, paragraph 37(1)(c), subsection 39(13), subparagraphs 53(2)(c)(vi) and (h)(ii), paragraph 53(2)(s), subsections 53(2.1), 66(11.4), 66.7(11), 84.1(2.31) and (2.32), and 127(10.2), section 139.1, subsection 152(4.3), the determination of D in the definition *undepreciated capital cost* in subsection 13(21) and the determination of L in the definition *cumulative Canadian exploration expense* in subsection 66.1(6), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(2) Subsection (1) comes into force on January 1, 2024.

14 (1) Subsection 152(4) of the Act is amended by adding the following after paragraph (b.7):

(b.8) the assessment, reassessment or additional assessment is made before the day that is

(i) three years after the end of the normal reassessment period for the taxpayer in respect of the year and made in respect of a disposition, in the year, of shares of the capital stock of a corporation resident in Canada in respect of which the taxpayer filed an election under paragraph 84.1(2.31)(h), or

(ii) ten years after the end of the normal reassessment period for the taxpayer in respect of the year and made in respect of a disposition, in the year, of shares of the capital stock of a corporation resident in Canada in respect of which the taxpayer filed an election under paragraph 84.1(2.32)(i);

(2) Subsection (1) comes into force on January 1, 2024.

15 (1) Section 160 of the Act is amended by adding the following after subsection (1.4):

Joint liability – intergenerational business transfer

(1.5) If a taxpayer and one or more other taxpayers have jointly elected under

(a) paragraph 84.1(2.31)(h) in respect of a disposition of shares of the capital stock of a corporation resident in Canada, they are jointly and severally, or solidarily, liable for the tax payable by the taxpayer under this Part to the extent that the tax payable by the taxpayer is greater than it would have been if the disposition had satisfied the conditions of subsection 84.1(2.31); or

(b) paragraph 84.1(2.32)(i) in respect of a disposition of shares of the capital stock of a corporation resident in Canada, they are jointly and severally, or solidarily, liable for the tax payable by the taxpayer under this Part to the extent that the tax payable by the taxpayer is greater than it would have been if the disposition had satisfied the conditions of subsection 84.1(2.32).

(2) Subsection (1) comes into force on January 1, 2024.

Investment Tax Credit for Clean Hydrogen

16 The Act is modified to give effect to the proposals relating to the Investment Tax Credit for Clean Hydrogen as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Clean Technology Investment Tax Credit – Geothermal Energy

17 The Act is modified to give effect to the proposals relating to the Clean Technology Investment Tax Credit – Geothermal Energy as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Labour Requirements Related to Certain Investment Tax Credits

18 The Act is modified to give effect to the proposals relating to the Labour Requirements Related to Certain Investment Tax Credits as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Investment Tax Credit for Clean Technology Manufacturing

19 The Act is modified to give effect to the proposals relating to the Investment Tax Credit for Clean Technology Manufacturing as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Zero-Emission Technology Manufacturers

20 The Act is modified to give effect to the proposals relating to the Zero-Emission Technology Manufacturers as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Investment Tax Credit for Carbon Capture, Utilization, and Storage

21 (1) The Act is amended by adding the following after section 211.91:

PART XII.7

Carbon Capture, Utilization and Storage

CCUS knowledge sharing

211.92 (1) The following definitions apply in this section.

annual operations knowledge sharing report means the annual operations knowledge sharing report containing the information described by the *Minister of Natural Resources* in the “*CCUS-ITC – Technical Guidance Document*” as published by the *Minister of Natural Resources* and amended from time to time, in the form annexed to the CCUS-ITC – Technical Guidance Document. (*rapport annuel sur l’échange de connaissances d’exploitation*)

construction and completion knowledge sharing report means the construction and completion knowledge sharing report containing the information described by the *Minister of Natural Resources* in the “*CCUS-ITC – Technical Guidance Document*” as published by the *Minister of Natural Resources* and amended from time to time, in the form annexed to the CCUS-ITC – Technical Guidance Document. (*rapport sur l’échange de connaissances de la construction et la réalisation*)

first day of commercial operations means the day on which captured carbon dioxide is first delivered to a carbon transportation, carbon storage, or carbon use system for the purpose of storage or use. (*premier jour des activités commerciales*)

knowledge sharing CCUS project means a qualified CCUS project that

- (a) is expected to incur qualified CCUS expenditures of \$250 million or more over the life of the project based on the most recent project evaluation issued by the *Minister of Natural Resources* for the project; or
- (b) has incurred \$250 million or more of qualified CCUS expenditures before the first day of commercial operations of a CCUS project. (*projet CUSC requérant l’échange de connaissances*)

knowledge sharing taxpayer means a taxpayer that deducted a CCUS tax credit from its tax otherwise payable under Part I for a taxation year ending before the first day of commercial operations of a knowledge sharing CCUS project. (*contribuable échangeant des connaissances*)

reporting-due day means

- (a) in respect of the construction and completion knowledge sharing report, the last day of the sixth month beginning after the first day of commercial operations; and
- (b) in respect of an annual operations knowledge sharing report,
 - (i) if the report is the first such report, and
 - (A) if the first day of commercial operations is before October 1 in a calendar year, June 30 of the following calendar year, or

(B) if the first day of commercial operations is after September 30 in a calendar year, June 30 of the second calendar year after the calendar year which includes the first day of commercial operations; and

(ii) if the report is not the first report, each June 30 of the first four calendar years immediately following the calendar year which includes the June 30 referred to in subparagraph (i). (*date d'échéance de la déclaration*)

reporting period means,

(a) in respect of the construction and completion knowledge sharing report, the period that begins on the first day an expenditure for a qualified CCUS project is incurred and ends on the first day of commercial operations of the knowledge sharing CCUS project; and

(b) in respect of an annual operations knowledge sharing report, each period that begins on the first day of commercial operations and ends on the last day of the calendar year ending immediately before the reporting-due day for the annual operations knowledge sharing report. (*période de déclaration*)

Knowledge sharing report

(2) A knowledge sharing taxpayer in respect of each reporting period shall submit the annual operations knowledge sharing report and construction and completion knowledge sharing report to the *Minister of Natural Resources* on or before the reporting-due day for the report.

Report disclosure

(3) The Department of Natural Resources shall publish on a website, maintained by the Government of Canada, each knowledge sharing report referred to in subsection (2) as soon as practicable after a taxpayer has submitted the report.

Penalty

(4) Every knowledge sharing taxpayer that fails to provide the report required under subsection (2) in respect of a reporting period is liable to a penalty in the amount of \$2 million payable the day after the reporting-due day.

Provisions applicable

(5) Sections 152, 158 and 159, subsection 161(11), sections 165 to 167 and Division J of Part I apply to this section, with any modifications that the circumstances require.

CCUS climate risk disclosure

211.93 (1) The following definitions apply in this section.

exempt corporation at any time, means a corporation that does not have an ownership interest, whether directly or indirectly, in a qualified CCUS project that has incurred expenditures, or is expected to incur expenditures (based on the most recent project evaluation issued by the *Minister of Natural Resources* for the project), of \$20 million or more. (*société exonérée*)

reporting-due day means the day that is nine months after the day on which the reporting taxation year ends. (*date d'échéance de la déclaration*)

reporting taxation year means,

(a) the first taxation year in which a taxpayer, in respect of a qualified CCUS project, deducted a CCUS tax credit from its tax otherwise payable under Part I; and

(b) each taxation year that

(i) begins after a taxation year referred to in paragraph (a), and

(ii) ends before the twenty-first calendar year after the end of the taxation year which includes the first day of commercial operations (as defined in subsection 211.92(1)) of the qualified CCUS project. (*année d'imposition de la déclaration*)

Climate risk disclosure report

(2) A corporation (other than an exempt corporation) that has deducted a CCUS tax credit shall, on or before the reporting-due day for each reporting taxation year, make available to the public, in the manner prescribed by the *Income Tax Regulations*, a climate risk disclosure report for the year containing the information prescribed by the *Income Tax Regulations*.

Penalty

(3) Every corporation that fails to satisfy subsection (2) in respect of a reporting taxation year is liable to a penalty in the amount that is the lesser of,

(a) 4% of the total of all amounts, each of which is a CCUS tax credit deducted by the corporation in respect of each taxation year that ended before the reporting-due day for the reporting taxation year; and

(b) \$1 million.

Provisions applicable

(4) Sections 152, 158 and 159, subsection 161(11), sections 165 to 167 and Division J of Part I apply to this section, with any modifications that the circumstances require.

(2) Subsection (1) is deemed to have come into force on January 1, 2022.

22 (1) The Regulations are amended by adding the following after section 8200.3:

Prescribed information – Climate risk disclosure report

8200.4 (1) For the purposes of subsection 211.93(2) of the *Income Tax Act*, prescribed information in a corporation's climate risk disclosure report means information that

(a) describes the climate-related risks and opportunities for the corporation based on the following thematic areas:

(i) the corporation's governance in respect of climate-related risks and opportunities,

(ii) the actual and potential impacts of climate-related risks and opportunities on the corporation's businesses, strategy, and financial planning where such information is material,

(iii) the processes used by the corporation to identify, assess, and manage climate related risks, and

(iv) the metrics and targets used by the corporation to assess and manage relevant climate-related risks and opportunities; and

(b) explains how the corporation's governance, strategies, policies and practices contribute to achieving Canada's

(i) commitments under the Paris Agreement made on December 12, 2015, and

(ii) goal of net-zero emissions by 2050.

(2) For the purposes of subsection 211.93(2) of the *Income Tax Act*, a climate risk disclosure report is deemed to have been made public in a prescribed manner if the report includes the date it was published and is made publicly available by, or on behalf of, the corporation on its internet website for a period of at least three years after the reporting-due day.

(2) Subsection (1) is deemed to have come into force on January 1, 2022.

23 The Act is modified to give effect to the other proposals relating to the Investment Tax Credit for Carbon Capture, Utilization, and Storage as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Flow-Through Shares and Critical Mineral Exploration Tax Credit – Lithium from Brines

24 The Act is modified to give effect to the proposals relating to the Flow-Through Shares and Critical Mineral Exploration Tax Credit – Lithium from Brines as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.

Tax on Repurchases of Equity

25 (1) The Act is amended by adding the following after section 183.2:

PART II.2

Tax on Repurchases of Equity

Definitions

183.3 (1) The following definition apply in this Part.

covered entity for a taxation year, means an entity that is a corporation, trust or partnership if at any time in the taxation year

(a) equity of the entity is listed on a designated stock exchange; and

(b) the entity is

(i) a corporation resident in Canada (other than a mutual fund corporation),

(ii) a mutual fund trust that

(A) is a *real estate investment trust* (as defined in subsection 122.1(1)),

(B) is a SIFT trust, or

(C) would be a SIFT trust if each reference to “subject entity” in paragraph (a) of the definition *non-portfolio property* in subsection 122.1(1) was read as “partnership, trust or corporation”, paragraph (b) of that definition was read without references to the word “Canadian” and paragraph (c) of that definition was read without reference to the words “in Canada”, or

(iii) a partnership that

(A) is a SIFT partnership, or

(B) would be a SIFT partnership if each reference to “subject entity” in paragraph (a) of the definition *non-portfolio property* in subsection 122.1(1) was read as “partnership, trust or corporation”, paragraph (b) of that definition was read without references to the word “Canadian” and paragraph (c) of that definition was read without reference to the words “in Canada”. (*entité visée*)

equity of an entity, means, if the entity is

(a) a corporation, a share of the capital stock of the corporation;

- (b) a trust, an income or capital interest in the trust; and
- (c) a partnership, an interest as a member of the partnership. (*capitaux propres*)

reorganization or acquisition transaction means

- (a) an issuance of equity by a covered entity unless
 - (i) cash is the only consideration paid to the entity in exchange for the issuance, or
 - (ii) the issuance is made to an employee of the covered entity (or an entity related to the covered entity) in the course of the employee's employment; and
- (b) a redemption, acquisition or cancellation of equity by a covered entity in the course of
 - (i) an exchange of equity by a holder if no consideration other than equity (that does not include any substantive debt) of the covered entity is received by the holder for the equity,
 - (ii) a winding-up of the covered entity during which all or substantially all of the property owned by the covered entity is distributed to the equity holders of the covered entity,
 - (iii) an amalgamation of the covered entity with one or more other predecessor corporations to which subsection 87(1) applies if each person or partnership who, immediately before the amalgamation, owns equity of the covered entity, receives no consideration for the disposition of their equity on the amalgamation, other than equity (that does not include any substantive debt) of the *new corporation* referred to in subsection 87(1), or
 - (iv) a reorganization of the covered entity's business to which paragraph 55(3)(a) or (b) applies. (*opération de réorganisation ou d'acquisition*)

specified affiliate at any time, of a covered entity, means a corporation, trust or partnership (in this definition referred to as an "affiliate") if at that time, the covered entity

- (a) controls, directly or indirectly, the affiliate, or
- (b) owns, directly or indirectly, more than 50% of the fair market value of the equity of the affiliate. (*société affiliée déterminée*)

substantive debt of an entity means equity that, pursuant to its terms

- (a) is not convertible or exchangeable (other than for equity that if issued would be substantive debt of the same entity);
- (b) is non-voting;
- (c) the annual rate of the dividend or other distribution payable on the equity, if any, is expressed as a fixed percentage of an amount equal to the fair market value of the consideration for which the equity was issued; and
- (d) the amount that any holder of the equity is entitled to receive on the redemption, cancellation or acquisition of the equity by the entity or by a person or partnership with whom the entity does not deal at arm's length or is affiliated with cannot exceed the total of an amount equal to the fair market value of the consideration for which the equity was issued and the amount of any unpaid distributions or dividends thereon. (*dette substantielle*)

Tax payable

(2) Every person or partnership that is a covered entity for a taxation year shall pay a tax for the taxation year equal to the amount determined by the formula

$$0.02 \times (A - B)$$

where

- A** is the total fair market value of equity (other than substantive debt) of the covered entity that is redeemed, acquired or cancelled (other than by a reorganization or acquisition transaction) in the taxation year by the covered entity (except equity acquired from a specified affiliate that was previously deemed to have been acquired by the covered entity under subsection (5)); and
- B** is the total fair market value of equity (other than substantive debt) of the covered entity that is issued (other than in the course of a reorganization or acquisition transaction) in the taxation year.

Tax payable — anti-avoidance

(3) Equity that is redeemed, acquired or cancelled or that is issued by a covered entity as part of a *transaction* (as defined in subsection 245(1)), or series of transactions, shall be included in variable A or excluded from variable B of subsection (2) (as applicable) if it is reasonable to consider that the primary purpose of the transaction or series is to cause a decrease in the amount under variable A of subsection (2) or an increase in the amount under variable B of subsection (2).

De minimis rule

(4) Despite subsection (2), if the amount determined for variable A in subsection (2) for a taxation year is less than \$1,000,000 (prorated based on the number of days in the taxation year if the taxation year is less than 365 days), no tax is payable under this Part for the taxation year.

Similar transactions

(5) For the purposes of subsection (2), if a specified affiliate of a covered entity acquires equity of the covered entity, the equity is deemed to be acquired by the covered entity unless

- (a)** the specified affiliate is a registered securities dealer that
 - (i)** acquires the equity in the capacity of an agent in the ordinary course of business, and
 - (ii)** disposes of the equity to customers within a reasonable period of time that is consistent with the holding of equity in the ordinary course of business; or
- (b)** the specified affiliate is a trust established for the benefit of employees and former employees of the covered entity that satisfies the following conditions
 - (i)** the trust is an employee benefit plan, and
 - (ii)** the terms of the trust provide that any equity of the covered entity acquired or held by the trust cannot be transferred to, or otherwise be available for the benefit of, the covered entity or to any specified affiliate of the covered entity.

Similar transactions — anti-avoidance

(6) If it is reasonable to consider that one of the main purposes of a *transaction* (as defined in subsection 245(1)), or series of transactions, is to cause a person or partnership to acquire equity of a covered entity to avoid the tax otherwise payable under this Part, the person or partnership shall be deemed to be a specified affiliate of the covered entity from the time that the transaction or series commenced until immediately after the time the transaction or series ends.

Return

183.4 (1) Every covered entity that redeems, acquires or cancels equity of the entity in a taxation year, shall

- (a)** if the entity is a corporation, on or before the day it is required to file its return of income under Part I for the year, file with the Minister a return for the year under this Part in prescribed form;
- (b)** if the entity is a trust, the trustee of the trust shall, within 90 days from the end of the taxation year, file with the Minister a return for the year under this Part in prescribed form; and

(c) if the entity is a partnership, a member of the partnership that has authority to act for the partnership shall file with the Minister a return for the year under this Part in prescribed form on or before the earlier of

(i) the day that is five months after the end of the taxation year, and

(ii) March 31 in the calendar year immediately following the calendar year in which the taxation year ended.

Provisions applicable to Part

(2) Subsections 150(2) and (3), sections 152, 158 and 159, subsections 160.1(1) and 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

(2) Subsection (1) applies to transactions that occur after 2023.

General Anti-Avoidance Rule

26 (1) Paragraph 152(4)(b) of the Act is amended by striking out “or” at the end of subparagraph (vi), by adding “or” at the end of subparagraph (vii) and by adding the following after subparagraph (vii):

(viii) is made to give effect to the application of section 245 in respect of a transaction, unless the transaction was disclosed by the taxpayer to the Minister in accordance with section 237.3;

(2) Paragraph 152(4.01)(b) of the Act is amended by striking out “or” at the end of subparagraph (ix), by adding “or” at the end of subparagraph (x) and by adding the following after subparagraph (x):

(xi) the transaction referred to in subparagraph (4)(b)(viii);

27 Section 237.3 of the Act is amended by adding the following after subsection (12):

Optional disclosure – GAAR

(12.1) If subsection (2) does not apply to a taxpayer in respect of a transaction, the taxpayer may file an information return in prescribed form and containing prescribed information in respect of the transaction within the time limits set out in subsection (5), determined as if the transaction were a reportable transaction in respect of the taxpayer.

28 (1) Section 245 of the Act is amended by adding the following before subsection (1):

Preamble

(0.1) This section of the Act contains the general anti-avoidance rule, which

(a) applies to deny the tax benefit of avoidance transactions that result directly or indirectly either in a misuse of provisions of the Act (or any of the enactments listed in subparagraphs (4)(a)(ii) to (v)) or an abuse having regard to those provisions read as a whole, while allowing taxpayers to obtain tax benefits contemplated by the relevant provisions;

(b) strikes a balance between

(i) taxpayers’ need for certainty in planning their affairs, and

(ii) the government of Canada’s responsibility to protect the tax base and the fairness of the tax system; and

(c) can apply regardless of whether a tax strategy is foreseen.

(2) Subsection 245(3) of the Act is replaced by the following:

Avoidance transaction

(3) A transaction is an avoidance transaction if

(a) the transaction

(i) but for this section, would result, directly or indirectly, in a tax benefit, or

(ii) is part of a series of transactions, which series, but for this section, would result, directly or indirectly, in a tax benefit; and

(b) it may reasonably be considered that one of the main purposes for undertaking or arranging the transaction was to obtain the tax benefit.

(3) Section 245 of the Act is amended by adding the following after subsection (4):

Economic substance

(4.1) If an avoidance transaction is significantly lacking in economic substance, that tends to indicate that the transaction results in a misuse under paragraph (4)(a) or an abuse under paragraph (4)(b) and for these purposes, factors that tend – depending on the particular circumstances – to establish that a transaction or series of transactions is significantly lacking in economic substance include

(a) all or substantially all of the opportunity for gain or profit and risk of loss of the taxpayer – taken together with those of all non-arm's length taxpayers – remains unchanged, including because of

(i) a circular flow of funds,

(ii) offsetting financial positions, or

(iii) the timing between steps in the series;

(b) it is reasonable to conclude that, at the time the transaction was entered into, the expected value of the tax benefit exceeded the expected non-tax economic return (which excludes both the tax benefit and any tax advantages connected to another jurisdiction); and

(c) it is reasonable to conclude that the entire, or almost entire, purpose for undertaking or arranging the transaction or series was to obtain the tax benefit.

(4) Section 245 of the Act is amended by adding the following after subsection (5):

Penalty

(5.1) If subsection (2) applies to a person in respect of a transaction, the person is liable to a penalty for the taxation year to which the transaction relates, equal to 25% of the amount of the tax benefit that would, but for that subsection, result directly or indirectly from the transaction or series of transaction that includes the transaction, unless the transaction was disclosed to the Minister under subsection 237.3(2) or (12.1).

Penalty – tax attributes

(5.2) For the purposes of subsection (5.1), the amount of a tax benefit described in paragraph (c) of the definition *tax benefit* in subsection (1) is deemed to be nil.

Dividend Received Deduction by Financial Institutions

29 (1) Section 112 of the Act is amended by adding the following after subsection (2):

Mark-to-market property

(2.01) No deduction may be made under subsection (1) or (2) or 138(6) in computing the taxable income of a corporation for a taxation year in respect of a dividend received on a share if

(a) the corporation is a financial institution at any time in the year; and

(b) the share

(i) is a mark-to-market property of the corporation for the year, or

(ii) would be a mark-to-market property of the corporation for the year if the share was held at any time in the year by the corporation.

Tracking property

(2.02) For the purpose of paragraph (2.01)(b), a share (other than a share of a financial institution) that is a tracking property of a corporation at any time in a taxation year is deemed to be mark-to-market property of the corporation for the year.

(2) Paragraph 112(6)(c) of the Act is replaced by the following:

(c) *financial institution*, *mark-to-market property*, and *tracking property* have the meanings assigned by subsection 142.2(1).

(3) Subsections (1) and (2) apply in respect of dividends received after 2023.

Income Tax and GST/HST Treatment of Credit Unions

30 The Act is modified to give effect to the proposals relating to the Income Tax and GST/HST Treatment of Credit Unions as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day.