

Economic and Fiscal Update 2021

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The Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, tabled the [Economic and Fiscal Update 2021](#) on December 14, 2021. Similar to the [Fall Economic Statement 2020](#) and the [Federal Budget 2021](#), the Update reflects the substantial and ongoing impact of COVID-19 on Canadians and the Canadian economy. The Update sets out the measures adopted and proposed by the government to address the COVID-19 pandemic and support Canada's economic recovery from the pandemic, provides general economic and fiscal information and projections, and includes a brief update on some of the tax measures announced in Budget 2021. Of note, the Department of Finance concurrently released draft legislation implementing a digital services tax (DST) as was previously proposed in Budget 2021. An Osler Update on the proposed legislation will be circulated separately reviewing the proposed legislation. The following includes a brief summary of the tax measures introduced or addressed in the Update.

The various measures to fight COVID-19 include vaccine and testing items, support for treatments, federal sick leave requirements, and a number of targeted income support measures (e.g. extending the Canada Recovery Caregiving Benefit and the Canada Recovery Sickness Benefit, providing one-time payments and debt relief relating to the former Canada Emergency Response Benefit and extending the annual \$500 Home Office Expense Deduction to 2021 and 2022). These also include the following tax-related measures:

- promoting indoor air quality improvement, including in certain public buildings such as schools (either directly or indirectly by providing funding to provinces and territories), and for the premises of small businesses by providing a new temporary refundable income tax

credit for 25% of eligible expenses; and

- increasing and expanding the existing refundable income tax credit that teachers and early childhood educators may claim for expenditures on eligible supplies.

The Update reaffirms the federal government's intention to implement the following tax measures previously announced in Budget 2021:

- the Underused Housing Tax: proposed to be effective for the 2022 calendar year, with additional proposed exemptions introduced as a result of consultations held by the Department of Finance earlier this year;
- the Digital Services Tax (DST): the Update reaffirms the government's commitment to the DST pending the implementation of a multilateral agreement, and the Department of Finance separately released draft legislation to implement the DST;
- the Tax on Select Luxury Goods, for which the government will release draft legislation in early 2022 (although not confirmed in the Update, presumably the original effective date of January 1, 2022 will be pushed back to avoid imposing a retroactive tax); and
- an investment tax credit for capital investments in carbon capture, utilization, and storage projects, the final design of which will be outlined in Budget 2022.

The Update further announces a proposal under the federal carbon pollution pricing system to return federal fuel charge proceeds directly to eligible farming businesses in so-called "backstop jurisdictions" via a refundable tax credit for eligible farming expenses, starting for the 2021-2022 fuel charge year.

Also of note, the Update fiscal projections include the following expected increases in tax revenues for the 2021-2022 fiscal year:

- personal income tax: 6.2%;
- corporate income tax: 5.8%;
- non-resident income tax: 30.4%;
- goods and services tax (GST): 29.6%;
- customs import duties: 17.3%; and
- other excise taxes and duties: 12.7%

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