CIBC MELLON

# *Department of Finance Canada Introduces Bill C-32, Fall Economic Statement Implementation Act*

**NOVEMBER 2022**


**BY SIMON LEE**

**Vice President, Tax**


Simon Lee is Vice President, Tax at CIBC Mellon. Simon is responsible for CIBC Mellon's tax advisory, including planning and analysis, and sharing insights and considerations to the organization on tax legislation. He has over 20 years of experience in the taxation of financial services.

# On November 4, 2022, the Government of Canada introduced Bill C-32, Fall Economic Statement Implementation Act, to implement certain measures from the 2022 Federal Budget and other previously announced measures.

## Please find a set of highlights below comprising a few of the tax measures in Bill C-32:

### TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA)

With this new registered account, Canadians who are prospective first-time home buyers will be able to save up to $40,000 for a down payment on their first home. The limit of annual contributions will be $8,000, and unused contribution room up to $8,000 will be allowed to be carried forward to future years. Contributions to an FHSA will be tax deductible, and income earned in the account will not be subject to tax. Qualifying withdrawals made to purchase a first home will be non-taxable.

**These rules will enter into force on April 1, 2023, instead of January 1, 2023, as originally proposed.**

### TAXES APPLICABLE TO REGISTERED INVESTMENTS

Part X.2 tax is currently applied to trusts or corporations that are registered investments without consideration to the extent registered plans are invested in units or shares of the registered investment.

The amendment will prorate any Part X.2 tax, limiting it to the proportion of the registered investment held by registered accounts. This amendment generally applies after 2020. However, it may also apply retroactively to any month prior to 2021, provided that before April 20, 2021, no notice of assessment for Part X.2 tax had been sent to the taxpayer for the pre-2021 months, or the taxpayer had rights of objection or appeal on April 19, 2021, in respect of an assessment issued for the pre-2021 months.

**Regarding the FHSA, these rules will apply after March 2023.**

## TRUST REPORTING REQUIREMENTS

Measures (as updated in the August 9, 2022 version of the draft legislation) requiring the filing of a T3 trust return as well as the provision of additional beneficial ownership information for express trusts, with some exceptions, and to impose new penalties for failing to file a trust return in these circumstances or making a false statement or omission in a return.

Bill C-32 states that these measures will now apply to taxation years ending after December 30, 2023, instead of after December 30, 2022, as previously proposed. Thus, these rules will apply one year later beginning with their 2023 taxation year for trusts with a calendar year-end.

## MUTUAL FUNDS: ALLOCATION TO REDEEMERS METHODOLOGY

Amendments relating to previously enacted rules that ensure that any capital gains realized by a mutual fund trust in a taxation year in excess of the capital gains realized by redeeming unitholders in that year are taxed in that year either at the mutual fund trust level, or in the hands of the remaining unitholders as per amendments pertaining to rules previously enacted.

These rules deny a mutual fund trust a deduction with respect to the portion of an allocation made to a unitholder on a redemption of a unit of the mutual fund trust that is greater than the capital gain that would otherwise have been realized by the unitholder on the redemption, if the allocated amount is a capital gain and the unitholder's redemption proceeds are reduced by the allocation.

The amendments expand application of the rules to deny the deduction of certain amounts allocated to beneficiaries that have redeemed units of a mutual fund trust that is an exchange-traded fund or a fund that offers both listed and unlisted units (a "combined fund"), including consequential amendments to the qualifying exchange rules in section 132.2, as well as prevent certain unintended consequences resulting from the application of existing rules.

**These measures will apply to taxation years of mutual fund trusts that begin after December 15, 2021.**

Bill C-32 does not include the proposed mandatory disclosure rules as the government is delaying the coming into force date of the reporting requirements for reportable transactions and notifiable transactions until the date on which the relevant implementing bill receives Royal Assent.

# If You Have Further Questions

**We encourage our clients to review Bill C-32 and consult with their tax advisors. For more information on Bill C-32, please see the Department of Finance Canada's news release.**

**CIBC Mellon is not able to provide tax advice, and this document is provided for information purposes only in order to support clients as they consult their legal, tax and compliance advisors with respect to their specific obligations and duties. If you have questions regarding CIBC Mellon's role as an asset servicing provider, please do not hesitate to react out to your relationship manager.**

## About CIBC Mellon

CIBC Mellon is dedicated to helping Canadian institutional investors and international institutional investors into Canada service their financial assets throughout the investment lifecycle. Founded in 1996, CIBC Mellon is 50-50 jointly owned by The Bank of New York Mellon (BNY Mellon) and Canadian Imperial Bank of Commerce (CIBC). CIBC Mellon delivers informed investment services for investment funds, pension plans, insurance companies, banks, foundations, endowments, corporations, and global financial institutions whose clients invest in Canada. As at September 30, 2022, CIBC Mellon had more than C$2.3 trillion in assets under custody and/or administration. CIBC Mellon is part of the BNY Mellon network, which as at September 30, 2022 had US$42.2 trillion in assets under custody and/or administration.

www.cibcmellon.com

CIBC MELLON

A BNY MELLON AND CIBC JOINT VENTURE COMPANY[SM]

**https://www.cibcmellon.com**



000 - KL49 - 11 - 22