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# Tax Alert – Canada

## Bill C-59 implementing certain Budget 2023 and other previously announced measures receives Royal Assent

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 20 June 2024, amended Bill C-59, *Fall Economic Statement Implementation Act, 2023*, received Royal Assent and became enacted.

Bill C-59 implements certain income and indirect tax measures from the 2023 federal budget, certain measures from the 2023 fall economic statement (FES), Canada's domestic digital services tax (DST), and other previously announced tax measures.

The original (first reading) version of Bill C-59 was subsequently amended to include a new exception to the denial of the dividend received deduction by financial institutions, applicable to insurance corporations. This amendment was reported by the House of Commons Standing Committee on Finance on 6 May 2024 and adopted on 21 May 2024.

A summary list of the tax measures contained in Bill C-59 is provided below. For a more detailed description of the various tax measures, refer to the following previously released EY Tax Alerts:

- ▶ EY Tax Alert 2023 Issue No. 44, [Bill C-59 to implement certain Budget 2023 and other previously announced measures receives first reading](#)
- ▶ EY Tax Alert 2023 Issue No. 48, [Digital Services Tax Act has been tabled in the House of Commons](#)
- ▶ EY Tax Alert 2023 Issue No. 52, [Bill C-59 to implement outstanding indirect tax measures receives first reading](#)

## Business and international income tax measures

Because of the minority status of the federal government, the business income tax measures contained in Bill C-59 are considered substantively enacted (for financial reporting purposes) on 28 May 2024, when the bill passed third reading in the House of Commons.

Bill C-59 includes the following business and international income tax measures:

- ▶ Excessive interest and financing expenses limitation (EIFEL) rules, generally applicable in respect of taxation years beginning on or after 1 October 2023 (see EY Tax Alert 2023 Issue No. 32, [Finance releases further revisions to EIFEL proposals](#))
- ▶ Hybrid mismatch arrangement rules, generally applicable in respect of payments arising, or dividends received, on or after 1 July 2022, with new reporting requirements for amounts arising, or dividends received, on or after 1 July 2023 (see EY Tax Alert 2022 Issue No. 29, [Proposed hybrid mismatch arrangement rules](#))
- ▶ Zero-emission technology manufacturing corporate income tax rate reductions (extension by three years, so that the reduced rates begin to be phased out for taxation years beginning in 2032 and expansion of eligible activities for taxation years beginning after 2023)
- ▶ Tax on repurchases of equity by certain publicly traded entities in Canada, applicable in respect of repurchases and issuances of equity that occur after 2023
- ▶ Dividend deduction denial rule for financial institutions, applicable for dividends received after 2023 and subject to certain exceptions (as noted above, Bill C-59 was amended to include an additional exception for certain dividends received by an insurance corporation)
- ▶ Substantive Canadian-controlled private corporation rules, generally effective for taxation years ending on or after 7 April 2022
- ▶ Carbon capture, utilization and storage (CCUS) investment tax credit for businesses that incur qualified expenditures related to CCUS after 2021 and before 2041 (including new capital cost allowance (CCA) Classes 57 and 58 for eligible equipment) (technical amendments to this new credit are included in Bill C-69, *Budget Implementation Act, 2024, No. 1*<sup>1</sup>)
- ▶ Clean technology investment tax credit, applicable for eligible property that is acquired and becomes available for use on or after 28 March 2023 (see EY Tax Alert 2024 Issue No. 6, [Canada's new clean technology investment tax credit](#)) (technical amendments to this new credit are included in Bill C-69)

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<sup>1</sup> For more information on the tax measures included in Bill C-69, see EY Tax Alert 2024 Issue No. 27, [2024 budget implementation bill no.1 introduced in House of Commons](#).

- ▶ Labour requirements for purposes of the new investment tax credits for CCUS and for clean technologies, applicable in respect of specified property prepared or installed on or after 28 November 2023 (the scope of these new requirements is extended by Bill C-69 to the proposed clean hydrogen investment tax credit also included in Bill C-69)
- ▶ CCA Classes 59 and 60 for intangible exploration expenses and development expenses related to the storage of captured carbon, applicable to property acquired after 2021
- ▶ Critical mineral exploration tax credit and flow-through share regime amendments (expansion to include eligible expenses related to exploration and development activities for lithium from brines), applicable to expenses incurred on or after 28 March 2023
- ▶ Amendments to the definition of credit union (elimination of the revenue test under the definition of “credit union” that is included in the *Income Tax Act* (the Act) and used in the *Excise Tax Act* (ETA) (for GST/HST purposes)), applicable as of 1 January 2016
- ▶ General anti-avoidance rule (GAAR) amendments (various changes to modernize and strengthen the GAAR, including a new GAAR preamble, a reduction in the threshold for the avoidance transaction test, addition of an economic substance test, a new 25% penalty (subject to certain exceptions), and an extended reassessment period), generally applicable to transactions that occur after 2023, except that the preamble applies as of 20 June 2024 and the penalty provision applies to transactions that occur on or after 20 June 2024)
- ▶ Voluntary reporting under reportable transaction rules (consequential to the GAAR penalty and reassessment period changes noted above), applicable to transactions that occur on or after 1 January 2024

## Other international tax measure - digital services tax

Bill C-59 also includes the introduction of the *Digital Services Tax Act* and related regulations to implement a domestic DST on certain revenue earned by large businesses from certain digital services that engage Canadian users, as an interim measure until an acceptable OECD/G20 multilateral approach can be implemented. The DST, which will apply in respect of revenue earned as of 1 January 2022, will come into effect on a day to be fixed by order of the governor in council. As of the time of writing, no effective date has been announced. For more information, see EY Tax Alert 2023 Issue No. 48, [Digital Services Tax Act has been tabled in the House of Commons](#).

## Personal and trust income tax measures

Bill C-59 includes the following income tax measures affecting individuals and trusts:

- ▶ Employee ownership trust (EOT) rules, applicable as of 1 January 2024 (the proposed temporary exemption on up to \$10 million in capital gains realized on the sale of a business to an EOT is included in Bill C-69 rather than in Bill C-59<sup>2</sup>)
- ▶ First home savings accounts technical amendments (to clarify the rules and make consequential changes to a number of other provisions of the Act and Regulations), generally applicable as of 1 April 2023
- ▶ Registered disability savings plans (RDSP) amendments (relating to qualifying family members of an RDSP beneficiary becoming successor holders), applicable as of 20 June 2024
- ▶ Retirement compensation arrangements amendments (relating to fees or premiums paid to secure or renew a letter of credit or a surety bond)
- ▶ Climate action incentive payment amendments (to increase the rural top-up rate), effective for 2023 and subsequent taxation years
- ▶ Taxpayer information sharing for the Canadian Dental Care Plan, applicable as of 20 June 2024 (similar amendments are made to the ETA and the *Excise Act, 2001*)

## GST/HST, excise and customs measures

Bill C-59 contains various amendments to the ETA and the related regulations, including the following GST/HST tax measures:

- ▶ Prescribed financial services amendments (to include certain services supplied or rendered by a payment card network operator as prescribed financial services), applicable to a supply of a service for which any consideration becomes due, or is paid without becoming due, after 28 March 2023, as well as retroactively (see EY Tax Alert 2023 Issue No. 21, [Federal budget: Changes to the definition of “financial service” under the Excise Tax Act](#))
- ▶ Exemption for psychotherapy and counselling therapy services, effective as of 20 June 2024
- ▶ Expansion of the GST residential rental property rebate to cooperative housing corporations, effective as of 14 September 2023

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<sup>2</sup> For more information, see EY Tax Alert 2024 Issue No. 29, [Finance releases details on the \\$10m capital gains exemption on sale to employee ownership trust](#).

- ▶ Amendment to the “financial instrument” definition (to include certain rights to receive an amount that can reasonably be regarded as all or part of the capital, revenue or income of a corporation that does not have share capital), effective as of 10 August 2022
- ▶ Amendments to the *de minimis* test for financial institutions (to allow partnerships to benefit from the rule that excludes certain interest and dividends under the test), applicable to taxation years beginning after 9 August 2022
- ▶ Amendments to the revocation of an election for exempt supplies of financial services (to prevent the parties to an election from revoking the election retroactively), effective as of 10 August 2022
- ▶ Amendments to the related group nil consideration election under section 156 of the ETA, effective as of 10 August 2022
- ▶ Increase in annual threshold for mandatory filing of an annual information return by financial institutions (from \$1 million to \$2 million in income for income tax purposes), applicable to fiscal years that end after 9 August 2022
- ▶ Amendments to “permitted deduction” under Division IV tax on imported taxable supplies, applicable to any specified year that ends after 16 November 2005 (subject to certain transitional rules)
- ▶ Extension in the limitation period for an assessment where an assessment is made solely to account for an amount of GST payable by a financial institution under section 218.01 of the ETA, effective as of 4 August 2023
- ▶ Input tax credit information requirement changes (to increase the information requirement thresholds and allow billing agents to be treated as intermediaries), effective as of 20 April 2021
- ▶ Expansion of the list of prescribed activities for purposes of the joint venture election, effective retroactive to 1 January 1991

Bill C-59 also includes the following excise tax and excise duties measures:

- ▶ Amendments to the rebate of excise tax for goods purchased or imported by provinces for their own use (to specify that the vendor alone is eligible to apply for the rebate only if it makes a joint election with the province to be the eligible party), applicable in respect of goods purchased or imported after 2021
- ▶ Removal of quarterly period filing threshold for cannabis licensees, effective as of 1 April 2023
- ▶ Changes to the posting of security requirements regarding cannabis products, effective as of 1 April 2023

- ▶ Amendments to the timing of the imposition of duty on vaping products manufactured in Canada, as well as on imported packaged vaping products, applicable to domestically manufactured vaping products that are packaged after 2023, and to vaping products that are imported into Canada or released under the *Customs Act* after 2023
- ▶ Vaping product licence expansion (to authorize a licence holder to import packaged vaping products for stamping by the person), effective as of 1 January 2024
- ▶ Vaping products warehousing requirement amendments, applicable to vaping products manufactured in Canada that are packaged after 2023 and to vaping products imported into Canada or released under the *Customs Act* after 2023
- ▶ Additional prescribed information requirements for packages of vaping products, effective as of 1 January 2025
- ▶ Broadening of prescribed persons that may possess vaping excise stamps that have not been affixed to a vaping product, effective as of 23 June 2022

Lastly, Bill C-59 includes the following customs duty measure:

- ▶ Amendment to the exemption from customs duties for returning persons (to provide that the exemption does not apply to vaping products (other than a vaping product drug) imported by a person who is under the age of 18), effective as of 20 June 2024

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