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2023 Federal budget: notable measures

Federal Minister of Finance and Deputy Prime Minister, the Honourable Chrystia Freeland, tabled *Budget 2023, A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future* (Budget) on March 28, 2023.

As its name implies, much of the Budget focuses on measures designed to make life more affordable for many Canadians, such as a one-time payment to offset the rising cost of groceries. However, it also contains a range of announcements of interest to pension and benefit plans and their sponsors, including:

- Proposed amendments to certain tax rules applicable to retirement compensation arrangements (RCAs)
- Disclosures designed to protect Canadians from risks associated with crypto-assets
- The launch of the Canadian Dental Care Plan
- New and expanded leaves for federally regulated employees

This *FYI* provides an overview of these and other Budget measures and discusses their impact on employers and plan sponsors.

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Changes to RCA rules

The Tax Measures: Supplementary Information (the “Supplementary Information”) released with the Budget proposes two changes applicable to the RCA rules in the *Income Tax Act* (Canada) (ITA).

The first change relates to the refundable tax applied to fees or premiums associated with letters of credit (LoCs) or surety bonds obtained by employers to secure their supplemental retirement benefit obligations to their employees. Employers who settle their employees’ supplemental retirement benefits as they become due, in lieu of pre-funding them through contributions to an RCA trust, can obtain an LoC or surety bond to fulfill their obligations to their employees. The ITA currently provides that the fees or premiums associated with the LoC or surety bond are subject to a 50% refundable tax. The Budget proposes amending the ITA so that fees or premiums paid to secure or renew an LoC or surety bond for an RCA that is supplemental to a registered pension plan will not be subject to the refundable tax. Once enacted, this change will apply to fees or premiums paid on or after March 28, 2023.

The second change allows employers to request a refund of previously remitted refundable taxes in respect of fees or premiums paid for LoCs or surety bonds by RCA trusts. The refund will be based on the retirement benefits paid out of the employer’s corporate revenues to employees whose RCA benefits were secured by LoCs or surety bonds. Employers will receive a refund of 50% of the retirement benefits paid, up to the amount of refundable tax previously paid. Once enacted, this amendment will apply to retirement benefits paid after 2023.

Protection against crypto risks

To protect Canadians’ retirement savings from the risks associated with crypto-assets, the Budget states that federally regulated pension funds will be required to disclose their exposure to crypto-assets to the Office of the Superintendent of Financial Institutions (OSFI). In addition, the federal government will work with its provincial and territorial counterparts on the issue of crypto-asset or related activities disclosures by Canada’s largest pension plans.

OSFI will also consult with federally regulated financial institutions on guidelines for public disclosures of their crypto-asset exposure.

Expanded dental program

Following an announcement in the 2022 Federal Budget (the “2022 Budget”), the government launched the Canada Dental Benefit (CDB) in September 2022. In its first phase of operation, the CDB provides assistance to eligible families earning less than \$90,000 per year with the cost of certain dental services for children under 12 years of age who do not have private dental insurance.

In an expansion of the CDB, the Budget provides funding (\$13.0 billion over five years starting in 2023-24, and \$4.4 billion ongoing) to launch the Canadian Dental Care Plan (CDCP), which will provide dental coverage to uninsured Canadians with annual family income of less than \$90,000.

Families with annual incomes under \$70,000 will not be subject to any co-payments. The CDCP will be administered by Health Canada with support from a third-party benefits administrator. Additional details, including regarding eligible coverage, will be released later in 2023.

In related measures, the Budget:

- Provides funding to Statistics Canada for the collection of data on oral health and access to dental care in Canada;
- Provides funding to establish the Oral Health Access Fund to address oral health gaps among vulnerable populations, and supplement the CDCP; and
- Announces planned legislation:
 - Requiring that employers and employer benefit plans report on the dental coverage offered to employees and/or members through their T4/T4A reporting; and
 - Authorizing Health Canada to collect and use the Social Insurance Numbers of CDCP applicants for administration and enforcement purposes.

New and expanded leaves for federally regulated employees

The Budget proposes amending the *Canada Labour Code* (Code) to provide the following for federally regulated employees:

- *New – leave for pregnancy loss:* A proposed new stand-alone leave will be available for parents who experience pregnancy loss, whether through miscarriage or stillbirth. This leave will also be available for parents who were planning to welcome a child through surrogacy or adoption. A similar announcement was contained in the 2022 Budget.
- *Expanded – leave for child death/disappearance:* Amendments to the Code will improve eligibility for this leave.

Additional information on these changes, including their effective date, will be provided in forthcoming legislation.

Other measures

The Budget also included a number of other measures of interest to employers and plan sponsors.

Pensions

- *Legislative amendments to strengthen pension framework:* Planned amendments to the *Pension Benefits Standards Act, 1985* and the *Pooled Registered Pension Plans Act* will be made to “improve retirement security for plan members and retirees,” including provisions relating to variable payment life annuities and technical housekeeping amendments.
- *Confirmation of previously announced measures:* The government still intends to proceed with measures relating to borrowing by defined benefit pension plans, correcting contribution errors in

defined contribution pension plans, and revising reporting requirements for Registered Retirement Income Funds (RRIFs) and Registered Retirement Savings Plans (RRSPs), all of which were contained in legislative proposals released in August 2022. Updates to the proposals may be made based on the consultation process.

- *Retirement coverage for personal support workers (PSWs):* Funding is allocated to Employment and Social Development Canada to develop and test solutions for strengthening the retirement savings of PSWs who do not have access to workplace retirement plans.
- *Public sector pension plan governance:* As previously announced in the 2022 Budget, planned amendments to the *Public Sector Pension Investment Board Act* will include increasing the size of the board of directors of the Public Sector Pension Investment Board.

Miscellaneous

- *Gig worker protections:* Amendments to the Code are proposed to strengthen prohibitions against employee misclassification, ensuring that federally regulated gig workers receive the appropriate coverage, including for the Canada Pension Plan and Employment Insurance.
- *Launch of Tax-Free First Home Savings Account (FHSA):* First announced in the 2022 Budget, financial institutions can start offering FHSAs, which allow first-time buyers to save up to \$40,000 lifetime towards the purchase of a home, as of April 1, 2023.
- *Strengthening the General Anti-Avoidance Rule (GAAR):* Following a 2022 consultation, proposed amendments will strengthen the GAAR in various ways, including by strengthening the avoidance transaction standard, introducing a penalty, and extending the reassessment period in certain circumstances. The proposed amendments, which are set out in the Supplementary Information, are open for comment until May 31, 2023.

In closing

The full scope and impact of many of the measures discussed above can only be determined once the related legislation and/or regulations are released. Until then, and during what remains a challenging time for many, we are pleased to see the government introduce measures to build a stronger, more sustainable and more secure Canadian economy – for everyone. As always, we will continue to monitor the federal – and provincial – legislative and regulatory landscape, and keep you informed of developments.

For more information on the Budget and the impact of its proposals on your plan, members, and/or organization, talk to your Buck consultant or contact the Knowledge Resource Centre at talktocanada@buck.com or +1 866 355 6647.