

# Budget 2024: Pensions, Benefits And Employment Updates



On April 16, 2024, the federal government released the [2024 Federal Budget](#), *Fairness for Every Generation*, along with [supplementary information](#) on tax measures. The Budget outlines several initiatives that will be of interest to employers and pension plan administrators. Additional details about these initiatives will be contained in legislation that will be released in the coming weeks and months, and we will provide further updates as more information becomes available.

## What you need to know

- **A working group will examine the 30% rule and other pension investment opportunities.** The Budget provides more insight into the federal government's goal of encouraging pension funds to invest in Canada and its plan to require federally regulated pension plans to disclose the jurisdictions in which their assets are invested.
- **Pension corporations can claim the Clean Electricity tax credit.** The Budget announced a 15% refundable tax credit applicable to investments in clean electricity, which is available to pension corporations.
- **The employee stock option deduction will be smaller.** The Budget proposes a reduction to the employee stock option deduction to match the lower capital gains exemption, further details of which will likely be clarified in future amendments to the *Income Tax Act* (Canada).
- **Expanded non-resident withholding tax waivers.** The Budget proposes to provide the CRA with expanded authority to waive the withholding tax on payments made to non-resident service providers.
- **Amendments to the *Canada Labour Code* will affect federally regulated employees.** The proposed amendments will require federally regulated employers to establish a right to disconnect policy and enhance protections for gig workers.
- **Modernizing the *Employment Equity Act*.** The Budget announced the federal government's intention to modernize the *Employment Equity Act*.

## Pension announcements

### ***Encouraging Canadian pension funds to invest in Canada***

The Budget elaborates on the government's initial announcement in the [Fall 2023 Economic Statement](#), which signaled the desire to provide more opportunities for pension funds to invest in Canada and to further engage with industry experts and

pension funds on how to do this.

The Budget proposes to launch a working group, chaired by former Governor of the Bank of Canada Stephen Poloz and supported by the Deputy Prime Minister and Minister of Finance, to identify priority investment opportunities that will grow Canadian pension savings while also meeting the pension plan's fiduciary and actuarial responsibilities, spur innovation and drive economic growth. The working group will focus on areas such as:

- digital infrastructure and AI investment,
- physical infrastructure,
- airport facilities,
- venture capital investments,
- building more homes, including on public lands, and
- the removal of the 30% rule under Schedule III of the *Pension Benefits Standards Regulations, 1985* for domestic investments.

The Budget also indicates that the Minister of Transport will release a policy statement this summer about existing flexibilities within the current airport governance model that may attract investment by pension funds.

### **Disclosure of pension plan investments**

As also previously announced in the Fall 2023 Economic Statement, the Budget proposes to amend the *Pension Benefits Standards Act, 1985* to require the Office of the Superintendent of Financial Institutions to publicly release information about the investments of large federally regulated pension plans. The information to be disclosed will be set out in regulations (which have not yet been released) and will include the distribution of plan investments by jurisdiction and by asset class within each jurisdiction.

The Budget reiterated the federal government's intention to continue engaging with the provinces about requiring similar disclosures by Canada's largest provincially regulated pension plans.

### **Clean Electricity investment tax credit**

The Budget announced the design and implementation details of the Clean Electricity investment tax credit, which is a 15% refundable tax credit for eligible investments in new equipment or refurbishments related to clean electricity. Pension investment corporations will be among the entities that will be able to claim the tax credit.

### **Other benefits**

#### ***Employee stock option deduction changes***

The Budget proposes a change to the employee stock option rules, which will result in employees receiving only a one-third deduction of the taxable benefit (a decrease from the current one-half deduction) realized on the exercise of stock options to reflect the new capital gains inclusion rate on annual gains above \$250,000. The Budget confirmed that individuals will continue to be eligible for a deduction of one-half the taxable benefit up to \$250,000 in a year, which is a combined limit for both employee stock options and capital gains.

Employers and employees will be keen to understand the full impact of these changes (particularly how these changes will impact employee stock options that have been outstanding for many years) and manage any potential increase in option exercise

rates and associated dilution. We anticipate that details about how the employee stock option annual \$200,000 vesting limit interacts with the new modified capital gains inclusion rate on gains above \$250,000 will be clarified in future amendments to the *Income Tax Act* (Canada) (ITA).

## **Non-resident withholding tax waivers**

The ITA presently requires a person who pays a non-resident for services provided in Canada to withhold 15% of the payment and remit it to the Canada Revenue Agency (CRA) unless the service provider applies for a waiver, which the CRA currently grants in limited circumstances.

The Budget proposes to provide the CRA with expanded authority under the ITA to waive this withholding tax requirement for a specified period rather than for a specific planned transaction. Either of the following conditions must be met:

- a tax treaty exemption applies, or
- the income from providing the services is exempt income from international shipping or from operating an aircraft in international traffic.

This proposal will allow the CRA to waive the withholding requirement on multiple transactions with a single waiver.

## **Announcements affecting federally regulated employees**

### ***Establishing a right to disconnect***

The Budget proposes funding for the Labour Program at Employment and Social Development Canada to implement legislative amendments to the *Canada Labour Code* (Code) that will require federally regulated employers to establish a right to disconnect policy that limits work-related communication outside of scheduled working hours.

### **Job protection for gig workers**

The Budget proposes to amend the Code to improve job protections for federally regulated gig workers by strengthening prohibitions against employee misclassification.

Additionally, Employment and Social Development Canada and the CRA will enter into data-sharing agreements to facilitate inspections and enforcement related to misclassified workers.

### **Technical amendments to the *Canada Labour Code***

The Budget proposes technical amendments to the Code to, among other things, recover unpaid termination and severance pay.

### **Modernizing the *Employment Equity Act***

In 2021, the federal government launched a Task Force to review the *Employment Equity Act* (EEA) and advise on how to modernize the federal employment equity framework. Following the recommendations of the Task Force, the government intends to propose legislative amendments to the EEA, which will include expanding designated equity groups.

*The content of this article is intended to provide a general guide to the subject*

*matter. Specialist advice should be sought about your specific circumstances.*

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