

TAXTALK

UPDATE ANNOUNCED BY THE DEPARTMENT OF FINANCE CONCERNING THE JULY 18, 2017 PROPOSED TAX RULE CHANGES

In July 2017, Finance released a discussion paper and draft legislation to amend the Income Tax Act which targets tax planning using private corporations. It addressed three primary issues:

- (i) Income splitting
- (ii) Tax deferral using private corporations
- (iii) Conversion of dividends to capital gains

On October 16, 2017, Prime Minister Justin Trudeau, Finance Minister Bill Morneau and Small Business and Tourism Minister Bardish Chagger announced that, the Federal Government intends to lower the federal small business tax rate from 10.5% to 10%, effective January 1, 2018, and to 9%, effective January 1, 2019.

As a result of this tax reduction, the combined small business tax for corporations in Ontario will be reduced from 15% to 14.5% effective January 1, 2018, and to 13.5%, effective January 1, 2019.

Furthermore, they indicated that the Government will take steps to ensure that Canadian-controlled private corporation status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses.

Later this week the Government intends to set out its approach to better target strategies used by the relatively small number of high-income individuals who they feel get the biggest advantage from existing tax rules.

Moreover, Ministers Chagger and Morneau reiterated the government's commitment to limit the ability of owners of private corporations to lower their personal income taxes by sprinkling their income to family members who do not contribute to the business.

According to the Ministers, corporations with family members who meaningfully contribute to the business will not be impacted by the proposed measures on income sprinkling.

Lastly, the Government announced on October 16th that it will not be moving forward with proposed measures to limit access to the Lifetime Capital Gains Exemption.

We will continue to provide further updates concerning the proposed tax changes as they are announced. If you have any questions or require additional information please do not hesitate to contact us.

A memorandum of this nature cannot be all-encompassing and is not intended to replace professional advice. Its purpose is to highlight tax planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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