



**JULY 18, 2017**  
A Day We Won't Soon Forget



Welch LLP<sup>®</sup>

welchllp.com

**Micheal Burch, FCPA, FCA, CFP**

Managing Partner

mburch@welchllp.com | 613-236-9191



# Welch LLP<sup>®</sup>



## **Founded in 1918**

By George A. Welch in  
Ottawa, ON



## **12 Offices & 270 Staff**

+ an independent member  
of BKR International



## **HQ in Ottawa**

Head office in Ottawa with  
160+ staff

**Helping Small & Mid-Sized Businesses succeed for almost 100 years**

# We advocate for SMEs

Welch is engaged in the consultation process and we are helping to advocate on your behalf.

Welch LLP<sup>®</sup>



## Proposed Tax Changes to Affect Business Owners



On July 18, 2017 the federal government announced proposed tax changes which will have a significant impact on business owners. The main premise of the proposed changes is that the government feels it is unfair that an employed person with a T4 cannot do the same tax planning as a business owner; the proposed changes will limit what a business owner can do to or defer tax.



### Blogs

Creating + Sharing content  
related to the matter



### Dear MP

Downloadable template  
letter on our website to use  
to send to your MP



### Coming Together

Part of a group of 5 local  
accounting firms to present  
to local MPs

# ▶ Business Owners vs. Employees

- ▶ Capital at risk
- ▶ Business owners have no pensions
- ▶ Risk of losing savings / business value
- ▶ Generate employment
- ▶ Fund key Federal & Provincial programs via payroll
- ▶ & much more



Welch LLP<sup>®</sup>

welchllp.com

**Jim McConnery, CPA, CA, TEP**

Tax Partner

jmcconnery@welchllp.com | 613-236-9191



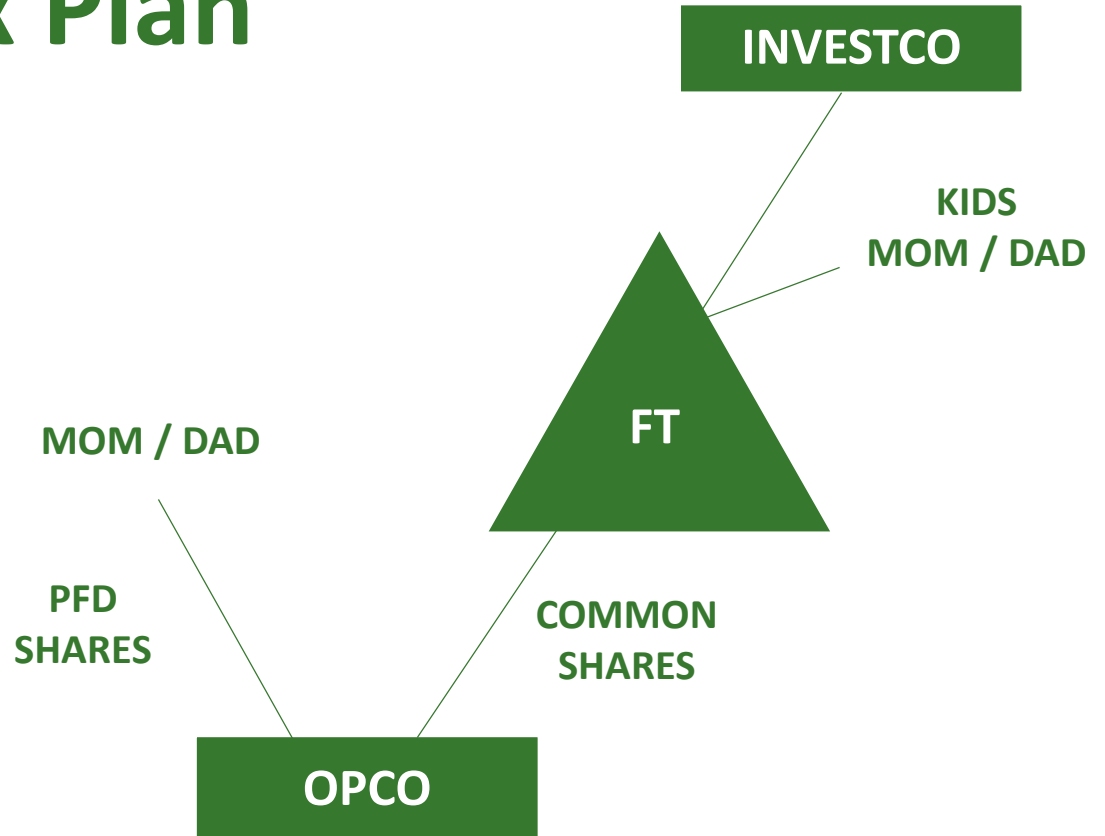
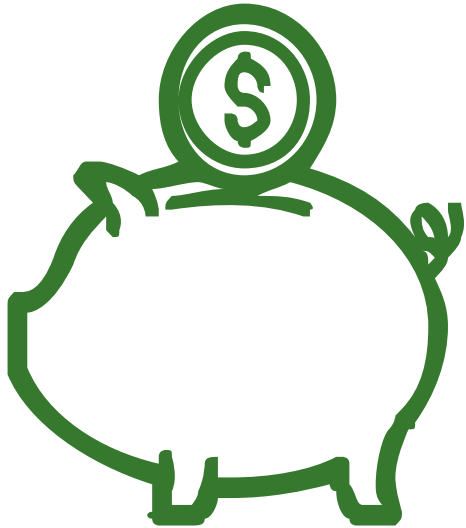


# ► Four Main Areas

- Income sprinkling - Jan 1, 2018
- Lifetime capital gains exemption - Jan 1, 2018
- Converting capital gains into dividends - Jul 18, 2017
- Corporate reinvestment - 2019?
- **Fundamental Change to Tax Regime  
Private Companies**
- **Finance Submissions Due by October 2<sup>nd</sup>, 2017**



# ► Common Tax Plan





# ► Personal & Corporate Tax Rates Combined Federal + Ontario

Personal	Rate (%)
Salary/ investment income	53.5
Eligible dividends	39.3
Non-eligible dividends	45.3
Capital gains	26.8

Corporate	Rate (%)
Regular	26.5
Small business income	15.0
Investment income	50.2

Tax deferral on business income: 27% to 38.5%

\$100,000 taxed at the small business rate leads to \$85,000 of after-tax income

\$100,000 at top personal tax rate leads to \$46,500 such that the corporation provides a \$38,500 benefit

Finance considers the corporation to lead to an improper advantage

The planning is a function of the growing gap between personal rates ↑ and corporate rates ↓

# ► Income Sprinkling

## ► Current System

- Kiddie Tax or TOSI applies to minors (TOSI: Tax on split income →45.3%)
- Income sprinkling reduces tax bill
- Accepted tax planning
- Attribution rules

## ► Proposals to Increase Tax - January 2018 implementation

- Specified Individuals/ types of income
- TOSI applicable to adults
- Required to justify reasonableness of amount
- Starting 2018 all dividends to family members should be reviewed
- Additional forecasted tax revenue \$250 MM/year

## ► Additional Reporting Requirements

## ► Bias to income split in 2017

# ► Constraining Access to the Lifetime Capital Gains Exemption (LCGE)

## ► Current System

- No restrictions as to age / relationship of shareholder
- Multiply via family trust

## ► Proposals to Increase Tax

- No LCGE on value increase when shareholder under 18
- No LCGE if TOSI applies
- No LCGE for shares owned by a trust
- Election available to crystallize in 2018

## ► Bias to realize capital gains in 2017

# ► Converting Capital Gains Into Dividends

12

## ► Current System

- Preference for capital gain vs dividend (26.8% vs. 39.3% or 45.3%)
- Current rules more concerned with LCGE and not capital gain
- “Pipeline” planning generally acceptable

## ► Proposals to Increase Tax

- Rules extended to previous non-arm’s length cap gain (not just LCGE)
- Potential for double tax
- New anti-avoidance rule
- Convert cap gain to dividend on transfer of capital asset to CCPC
- Effective July 18, 2017

# ► Converting Capital Gains Into Dividends

13

## ► Implications of the Proposals

- Impact on prior capital transactions
- No more post-mortem pipeline / must use ITA 164(6) which increases tax on death – tax incurred at dividend rates and not capital gains rates
- Must trace ownership of shares over time

## ► Intergenerational Business Transfer

- Current rules make it easier to sell to an arm's length buyer
- Rules should allow inter-family transfers on the same basis
- Government would like to hear your ideas

# ► Corporate Reinvestment

## ► Current System

- Reinvest after-corporate tax earnings
- Tax deferral because corporation retains more after-tax dollars
- Finance sees this corporate advantage as inappropriate
- Tax system on passive income means that the corporation is not reducing tax on investment income

## ► Proposal to Increase Tax

- Tax deferral should only apply if funds used in the business
- Immediate taxation proposal / Deferred taxation proposal
- Grandfathering issues
- No draft legislation or implementation timeframe set
- Government wants input

# ► Action Plan

- Make your voice heard – via local MPs, Finance, Chamber of Commerce, etc.
- Track Finance updates in light of consultation exercise
- Planning / adapting:
  - Sprinkle income in 2017 – last opportunity under current rules
  - Review corporate structure and planning options
  - Is a family trust structure still tax effective
  - Family members must own shares directly to access LCGE
  - 2018 Election to trigger LCGE based on accrued gain
  - Estate planning and post-mortem tax matters





Welch LLP<sup>®</sup>

welchllp.com

**Jim McConnery, CPA, CA, TEP**

Tax Partner

jmcconnery@welchllp.com | 613-236-9191

