

TAX TALK

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

On October 18, 2017, Finance Minister Bill Morneau, Minister of Status of Women Maryam Monsef, and Member of Parliament for Fundy Royal Alaina Lockhart announced the next steps in the Government's plan to move forward on changes to the tax system.

Finance Minister Bill Morneau outlined the Government's intention to move forward with measures to limit the tax deferral opportunities related to passive investments, while attempting to provide business owners with more flexibility to build a cushion of savings for business purposes which include savings to deal with a possible downturn in the economy or finance a future expansion. He indicated that the intent of the new rules will be to target high-income individuals who can benefit under current rules from an unlimited, personal, tax-preferred savings account via their corporation, far beyond the pension, RRSP and TFSA limits available to other Canadians.

The Government is moving forward with measures to limit the deferral benefits of passive investments within private corporations while:

1. All past investments and the income earned from those investments into the future will be protected. The new measures will only apply on a go-forward basis;
2. Protecting the ability of businesses to save the funds they need for contingencies or future investments, such as the purchase of equipment, hiring and training of staff or business expansion;

3. Including a passive income threshold of \$50,000 per year for future investments (equivalent to \$1 million in savings based on a nominal 5 per cent rate of return) to provide more flexibility for business owners to hold savings for multiple purposes, including savings that can later be used for personal benefits such as sick leave, parental leave, or retirement. There will be no tax increase on investment income below this threshold; and
4. Ensuring that as the Government moves forward with tax changes, incentives are maintained so that Canada's venture capital and angel investors can continue to invest in the next generation of Canadian innovation. The Government will work with the venture capital and angel investment sectors to identify how this can be best achieved.

Draft legislation will be released as part of the 2018 budget. Although the new measures will apply on a go-forward basis, we are still not certain what the effective date will be.

Furthermore, on October 19, 2017, Finance Minister Bill Morneau announced that the Government will not be moving forward with measures relating to the conversion of income into capital gains. The Government has responded to concerns raised that these measures could result in several unintended consequences, such as taxation upon death and potential problems with intergenerational transfers of businesses.

Finally some welcome news that Government has indicated it will work with owners of family businesses, including farming and fishing businesses, to make it more efficient, or less difficult, to hand down their businesses to the next generation.

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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