FOUR NEW TAX RULES FOR FISCAL 2017

Every year tax rules change. If you don't know what they are when you sit down to do your return, you may end up paying more than you should, or being offside with the Canada Revenue Agency. **Pierre Letourneau**, High Net Worth Planner at TD Wealth lists four changes.

1

Small Business Tax Rate Dips

As of January 1, 2018, the small business tax rate on the first $500,000 of active business income falls to 10 per cent from 10.5 per cent, and will fall to 9 per cent effective January 1, 2019. Note, this rate is not applicable to sole proprietorships. However, to offset this decrease, the personal tax rate on non-eligible dividends will increase in 2018 and 2019.

2

Income Splitting/Sprinkling

As a method of minimizing the overall amount of personal tax paid on family income, small business owners previously had the option of splitting corporate income by paying dividends to family shareholders who did not contribute labour or capital and had not taken on risk related to the business. As of January 1, 2018, this option will no longer be effective, and dividends issued to family members, who do not make reasonable contributions to the company, will be taxed at the highest personal tax rate. Small business owners who have taken advantage of this strategy before should discuss how the changes may affect them with their tax professionals.

3

Passive Income Threshold for Small Business

Given that corporate tax rates on business income are generally lower than the top personal marginal tax rate, small business owners, who have incorporated their business, are able to defer taxes by reinvesting after-tax business income in passive investments held inside the corporation (instead of paying dividends to shareholders). To eliminate this tax deferral advantage, the government has proposed to subject passive investment income (i.e. interest, dividends and capital gains, etc.) to additional taxation when earned by a small business corporation. However, current passive investments in a corporation will not be affected by the new rules and each corporation will be entitled to an annual exemption of $50,000 of passive investment income. While the government has yet to disclose the details of this rule change, including an effective date, people should begin to consult with their financial and tax professionals now to determine if any proactive measures are warranted.

4

Changes for Disability and Caregiver Tax Credits

The Disability Tax Credit, for individuals with a severe mental or physical impairment, has not changed but the certification procedure has. Previously, a medical practitioner was required to certify impairment but, as of March 22, nurse practitioners can now also make this certification. The federal government has also combined the Caregiver Credit, the Infirm Dependent Credit and the Family Caregiver tax credits into one: the Canada Caregiver Credit. The new tax credit is available to those who care for an eligible dependent, such as a spouse, common-law partner, minor child or other eligible relatives such as a parent.

Tax rules can change from year-to-year. It's recommended to check with a tax professional when preparing your tax return.