INVESTMENT EXECUTIVE

Small biz tax changes: where we are now

The federal government’s final proposals received royal assent on June 21

By: Rudy Mezzetta
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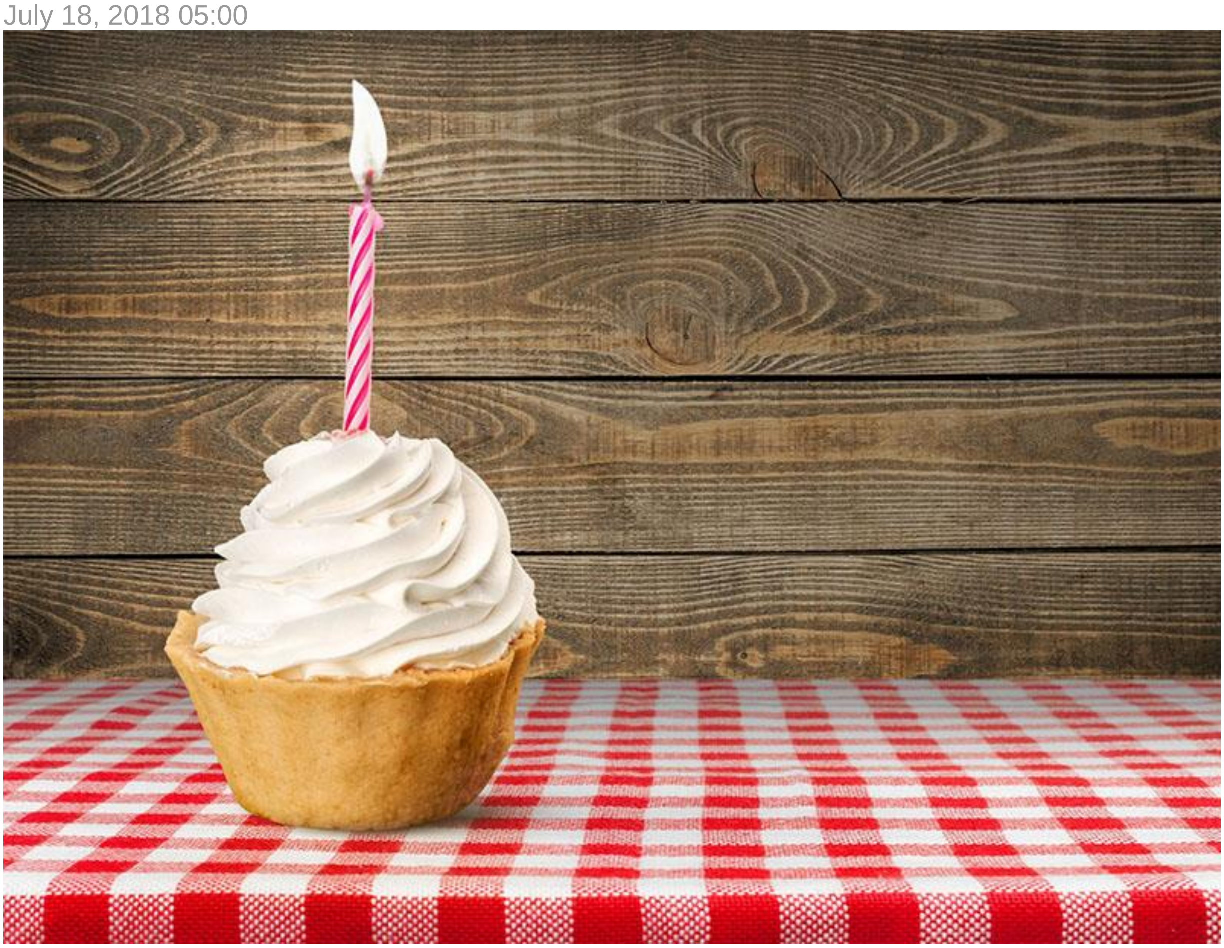

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A year ago today, the Canadian government released a consultation paper targeting “unfair tax advantages” available to small business owners, including income splitting with family members.

Though the proposals were far-reaching and complex, the feds gave taxpayers a scant 75 days to comment. What they received was a wave of overwhelmingly negative reaction from the small business sector and various tax groups. In the months afterward, and again in Budget 2018, the feds revised some proposals, and retreated completely from others. The final proposals received royal assent on June 21 as part of the act implementing the 2018 budget.

The final proposals

In Budget 2018, Ottawa proposed limiting access to the lower small-business rate for corporations instead of taxing passive income above $50,000 at potentially punitive tax rates, as the government had proposed in 2017.

"It's a complete reversal of the [original] plan," Jamie Golombek, managing director of tax and estate planning with CIBC's wealth strategies group in Toronto, told *Investment Executive* at the time. "This will be much easier for small-business owners to digest. I'm not saying that everyone is going to love it, but it will be far simpler to implement."

After the 2018 tax year, the small-business deduction limit will be reduced by $5 for every $1 of investment income above the $50,000 threshold, which is equivalent to $1 million in passive investment assets at a 5% return. The small-business deduction limit will be reduced to zero at $150,000 of investment income, which is equivalent to $3 million in passive investment assets at a 5% return. (Read the full 2018 Budget story for more details.)

The government also proposed in Budget 2018 that private corporations no longer be able to obtain refunds of taxes paid on investment income while distributing dividends from income taxed at the general corporate rate. Refunds will continue to be available when investment income is paid out.

As for the income-splitting rules, they came into effect on Jan. 1, 2018. A tax on split income now applies to dividends paid out of a private corporation to family members. These rules provide for a limited number of exceptions.

Qualifying for those exceptions typically hinges on the age of the family member receiving the dividend and his or her contribution to the business. (Read about those exceptions here.)