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The three big tax changes to watch out for in Tuesday's federal budget

By Jamie Golombek

Small business owners and employees will want to pay special attention to the budget, since several of the issues on Jamie Golombek's radar will...

On Tuesday, Finance Minister Bill Morneau will introduce the Liberals' first federal budget and Canadians will learn whether the government will follow through, temper or back down entirely from some of its pre-election promises and perhaps introduce some previously unannounced tax changes. Here are three areas of concern to some taxpayers and predictions as to what may happen on Tuesday.

Small business taxation

In its pre-election platform, the Liberal party stated it "will ensure that Canadian Controlled Private Corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses." Their platform quoted a University of Ottawa study, estimating that "approximately $500 million per year is lost, particularly as high-income individuals use CCPC status as an income-splitting tool."

When this was announced, business owners, including incorporated professionals such as doctors, lawyers and accountants, feared that the government may introduce rules to restrict access to the small business tax rate, perhaps following Quebec's lead and requiring a minimum of three employees to gain access to the small business deduction (starting in 2017). Others worried that the government may restrict the ability of professionals to income split with a spouse/partner or adult children, perhaps by imposing a version of the "kiddie tax" that currently applies to private company dividends payable to minor children, by taxing them at the highest marginal rate in the spouse's or kids' hands.

It appears, however, that these changes could be placed on hold, at least for now, if the government heeds the advice of the House of Commons Standing Committee on Finance. The committee, which issued its final report on budget 2016 consultations last week, stated that the government should "not make any changes to the current federal taxation regime and other rules as they apply to small businesses, including professional businesses, incorporated as Canadian-controlled private corporations."

Employees with stock options

Another potential tax change included in the Liberals' election platform was to limit the benefits of the 50 per cent employee stock option deduction by placing a cap of $100,000 on annual eligible stock option gains. In late November 2015, however, Morneau said that "(a)ny decision we take on stock options will affect stock options issued from that date forward." Recent news reports indicate that Morneau may postpone or even drop such a change altogether in response to intense lobbying by companies in the tech sector who rely, in large measure, on non-cash stock option compensation to attract top talent.

Capital gains rates

Finally, could the government really be considering an increase in the capital gains inclusion rate from 50 per cent to 66 2/3 per cents, 75 per cent or some other amount? While accountants and lawyers have been rushing to complete major transactions prior to any announcement in the budget, raising the tax rate on capital gains is unlikely.

In fact, if anything, the government may wish to consider dropping or even eliminating capital gains taxes altogether, based on a 2015 study by the Fraser Institute that showed reducing capital gains taxes "improves the incentives for entrepreneurs and assists those financing business startups." The study concluded that Canada can "supercharge its entrepreneurial environment" by cutting the capital gains tax rate, or "simply by eliminating the capital gains tax, as has been done in many countries around the world."

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Jamie.Golombek@cibc.com[1]

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Wealth Strategies in Toronto.

References

1. jamie.golombek@cibc.com