

## **July 20, 2017**

On July 18, 2017, Finance Minister Bill Morneau proposed drastic tax changes in an effort to correct what he perceives as an unfair advantage available to business owners and certain professionals. Like many of you, we are following the news of these proposed changes very closely. Be assured we are having discussions about the changes, and will keep you informed as more details are announced.

The highlights of the announcement are as follows:

**Income Sprinkling** – The proposed new rules will catch many dividends and other payments to family members made after December 31, 2017, and apply the top marginal tax rate to this type of income. This change addresses Finance’s dislike for income sprinkling which has been discussed in the media for some time.

**Capital Gains Exemption (CGE)** – The ability to multiply the CGE has been significantly restricted. The CGE is no longer available for gains that accrue while an individual is under the age of 18 or while the property is held by a trust. For direct ownership by an adult, there has been a reasonableness test introduced which looks at the labour and capital contributed.

**Investment Income Earned in an Active Corporation** – Mr. Morneau’s position is that accumulated surplus from an active business should be reinvested in that business, and to the extent that it is used for personal or non-business investment, he seeks to do away with the tax deferral currently available. To this end he has asked for input but has not outlined how this will be accomplished or the effective date for any new rules.

**Converting Income to Capital Gains** – The proposed legislation aims to prevent certain structures and transactions which allow funds to be stripped from a corporation as a capital gain rather than as dividends or other income. These measures are considered a targeted alternative to raising the capital gains inclusion rate which was incorrectly predicted to be in the budget for the last few years.

The consultation period for these proposed changes closes October 2, 2017. Link to the full Consultation Paper here: <http://www.fin.gc.ca/activty/consult/tppc-pfsp-eng.pdf>

We look forward to sitting down to discuss the changes and the impact on each of you individually over the coming months.