PREPARE YOUR BUSINESS FOR THE NEW TAX CHANGES

Six corporate planning ideas to discuss with your trusted advisor.

For small businesses and professional corporations alike, the 2017 tax proposals represented the most substantive changes to the Income Tax Act in the last 40 years. The Liberal Government presented these as an attempt to remedy perceived tax advantages in the current tax system. After much anticipation and speculation, late fall announcements and the recent 2018 Federal Budget delivered on several, but not all, of the proposed tax changes announced last year.

Below is a summary of the tax changes that may impact you, your business or professional corporation, including our best ideas and strategies to discuss with your trusted tax professionals and Richardson GMP Advisor.

Major Changes for Small Businesses and Professional Corporations:

- Reduction of the small business tax rates – 10% for 2018, and 9% for 2019.
- Reduction to the Small Business Deduction (SBD) limit when passive income exceeds $50,000.
- New Refundable Dividend Tax On Hand (RDTOH) accounts – Eligible and Non-Eligible.
- New rules to minimize income sharing – Tax on Split Income (TOSI).

For more detailed information about these changes, ask your Richardson GMP Advisor for a complimentary copy of our Federal Budget 2018 education article.

Am I Impacted?

The Federal Government anticipates only a small number of corporations will be impacted by higher tax rates. Small businesses, including professional corporations, are expected to benefit from a lower small business tax rate. Holding companies are expected to be largely unaffected by these changes since all, or substantially all, of the income earned by a holding company is considered passive income and ordinarily would not qualify for the SBD.

Active businesses with profit in excess of the Federal $500,000 SBD threshold and whose passive investment income will likely exceed $50,000 per year will be impacted. Affected companies are also unlikely to benefit from reductions to the small business tax rate, to the extent that income is in excess of their

Tax & Estate Planning

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reduced SBD. Moreover, this group will likely be faced with a higher tax bill moving forward and should consider strategic planning now, prior to 2019 when the new measures are fully in place.

Changes to the RDTOH accounts may affect the type of dividends you receive from your corporation on an annual basis while still being able to receive a refund. Speak to your tax professional to determine if this will impact you.

Six of our best ideas to minimize taxes you should be discussing with your trusted advisor.

Strategies and Planning Options

1. Revisit your personal and corporate investment strategy

Now is a good time to meet with your Richardson GMP Advisor to review your investment holdings across different investment accounts, including those you hold personally and those within the corporation. Investments held within these accounts should be chosen based on their tax characteristics. Passive investment income in the corporation may include interest, dividends, the taxable portion of capital gains, as well as other income from property not considered to be related to an active business. Buying and holding long term equity investments within the corporation could defer the impact of annual passive investment income realized in the corporation.

2. Permanent Life Insurance within the corporate structure

Life insurance can provide tax-exempt growth and improve portfolio diversification through returns that are uncorrelated to the market. Investment income earned within an exempt life insurance policy is not included in the calculation of the corporation's passive investment income. Generally, life insurance premiums are not deductible in the corporation. While these premiums may not be deductible, the tax-sheltered growth in addition to future tax efficient withdrawal of funds from the corporation can ensure its benefit.

3. Corporate Class Funds

Like mutual funds, corporate class funds hold many of the same underlying investments, however their unique "corporate" structure can provide specific tax benefits by minimizing annual distributions of investment income.

4. Establish an Individual Pension Plan (IPP) or Retirement Compensation Arrangement (RCA)

An IPP is a registered pension plan established for a business owner or professional, enabling substantially increased accumulation of retirement assets compared to an RRSP. Contributions are tax deductible to the company and investments grow on a tax deferred basis. Similarly, an RCA also allows for tax deductible company contributions and tax deferred retirement savings. Since investments accumulate inside these plans, they are not included in the calculation of corporation's passive investment income.

5. Review your corporate structure

Beware, in most situations a holding company would be considered associated with an operating company for tax purposes. The small business deduction limit must be shared by an associated group of companies and similarly, the reduction calculated will be based on the passive income earned by the group in total. The investment income earned by the passive parent company will reduce the SBD available to the operating company. A relationship like this can sometimes exist between business partners, or family businesses. Corporate association rules as well as the determination between passive and active income can be complex, ensure you consult with your tax advisor to determine if this will affect you.

6. Review your income distributions from the corporation to family members

Meet with your tax advisor to review your income distribution plans to family members and other shareholders. The new TOSI rules have placed further restrictions on which shareholders can receive dividends from a private corporation as well as extended the tax on other split income. Going forward a dividend must be considered "reasonable". While reasonable has not been defined in legislation, guidance suggests it should be based on capital contributed and/or work performed for the business. Salaries paid to related individuals have long been subject to these rules and continue to be. These rules also extend the age from 18 to 24 for the purpose of applying punitive tax on any income splitting with these individuals. Prescribed rate loans and certain family trust structures are still viable income splitting strategies.[1]

CONCLUSION

Business owners should consult with their tax and insurance professionals to ensure that they can mitigate any negative results of the tax changes and find new opportunities for planning within their corporate structures.

For more detailed information about these changes, ask your Richardson GMP Advisor for a complimentary copy of our Federal Budget 2018 education article.

1 See our education articles on *Spousal Loans and Family Trusts* for more information.