

Federal Budget February 27, 2018 Highlights

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W H I T R O D L E D U C C P A I N C .

With a backdrop of measures originally brought forward in July 2017, Finance Minister Bill Morneau has tabled the 2018-2019 federal budget and has addressed most importantly the taxation of investment income held within a private corporation. The following are measures we believe to be of the greatest importance to our clients and the small business community at large:

Personal Taxes

- No change to personal income tax rates have been proposed.
- Introduction of the Canada Workers Benefit to replace the Working Income Tax Benefit. This measure will take effect in 2019 and will enhance the credit for low income taxpayers by up to \$500 per year.
- Increase in the maximum payment under the Wage Earner Protection Program from four weeks to seven weeks.
- Introduction of the EI Parental Sharing Benefit (available to parents living outside Quebec) to better support gender equality.
- An extension of the 15% mineral exploration tax credit for an additional year, being agreements entered into on or before March 31, 2019.

Business and Corporate Taxes

- Reduction in the small business deduction limit for an associated group, equal to \$5 for every \$1 of investment income over \$50,000 in a year. This would reduce the small business limit to \$0 when investment income would reach \$150,000 in a year. Incidental interest or capital gains attributable to active business activities would be exempt from the definition of investment income. This new measure will apply to taxation years commencing after 2018.

Look further for more highlights...

Business and Corporate Taxes (continued)

Restriction of the recovery of refundable taxes by corporations when active business income is effectively being paid out as dividends to shareholders. This will be accomplished by separating the refundable dividend tax on hand (RDTOH) into two pools; an eligible pool for eligible dividends received; and a non-eligible pool arising from other types of investment income (interest, capital gains and foreign investment income principally). Non-eligible dividends paid out will be able to trigger RDTOH tax refunds from either pool, but must be from the non-eligible RDTOH pool first. Eligible dividends paid out will trigger RDTOH tax refunds only from the eligible RDTOH pool. This measure will also apply to taxation years commencing after 2018. For the transition, any business with a General Rate Income Pool will have 38% allocated to the eligible RDTOH pool.

Commentary

The outrage that erupted from Finance's proposals in July 2017 has been largely quelled by the government listening to taxpayers, small businesses and their advocates. In the end, the government did not tamper with an already fair integrated corporate / personal tax regime. To the extent the use of the small business deduction will be restricted by corporate groups with \$50,000 of investment income or more, the income taxed at general corporate rates will give rise to "eligible dividends" to shareholders with a higher personal tax credit, thereby maintaining the concept of "integration", which is the backbone to a fair Canadian tax system.

The measures brought down in this budget are meant to slow down the recovery of refundable taxes, but not to stop their recovery. As always, strategic tax planning will be the key to helping small business owners keep as much of their hard earned income, as possible.

Should you wish to discuss further any of the topics covered in this summary, please give us a call.

Yours truly,

WHITROD LEDUC CPA INC.

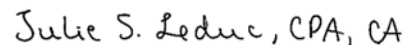
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