From 16 October 2017 to 20 October 2017, federal Finance Minister Bill Morneau announced revised or partially clarifying measures in response to the 21,000 comments received and submissions made during the consultation period on the income tax proposals released on 18 July 2017 regarding tax planning using private corporations. The consultation period ended on 2 October 2017.

The measures announced continue to target Canadian private companies and their shareholders. The following is a summary of the measures recently announced.

**Small-business corporate income tax rate**

The minister proposes to reduce the current 10.5% rate applicable on small-business income of a Canadian-controlled private corporation (CCPC) to 10%, effective 1 January 2018, and to 9%, effective 1 January 2019.

This reduction is essentially a reinstatement of the gradual rate reduction to 9% that had been enacted in 2015 by the previous government, but was halted by the current government in its 2016 budget.

In conjunction with this reduction in the small-business corporate income tax rate, the minister also announced that the personal gross-up factor and dividend tax credit for non-eligible dividends will be adjusted, although he provided no details. It is anticipated that personal income tax rates on non-eligible dividends will increase.

**Lifetime capital gains exemption**

The minister announced that the government will not be moving forward with the 18 July 2017 measures that were proposed to address the multiplication of the lifetime capital gains exemption.

**Income sprinkling**

The minister announced that the government will simplify the 18 July 2017 proposed measures that were designed to limit the ability for a shareholder of a private corporation to split income with family members.

Without providing details, the minister indicated that the government will work on;

- Reducing the compliance burden associated with establishing the contributions of spouses and family members, including labour, capital, risk and past contributions.
- Better targeting the proposed rules.
- Addressing double taxation concerns identified during the consultation period.

The minister indicated that revised draft legislative proposals outlining the proposed changes will be released later this fall and will be effective for the 2018 and subsequent taxation years.
Finance confirms the intent to move ahead with measures targeting passive investment income of private businesses

The federal finance minister confirmed that the government will move forward with measures to limit the tax deferral opportunities related to passive investments held by private corporations. However, in response to the significant concerns raised by various stakeholders following the release of the 18 July 2017 consultation paper, the measures will specifically target private corporations with passive investment income in excess of $50,000 per year.

The minister’s announcement focused on the general framework that will be used to develop the new measures, but specific details were not provided, including the effective date of the measures or which approach or method (as set out in the consultation paper) would be followed. It was rather announced that the details of the new measures, including how the passive investment income threshold would be applied, will be released as part of the 2018 federal budget, together with draft legislation.

Without providing further details, the minister indicated that the new measures would ensure that:

• Past investments, and income earned from those investments, would be sheltered from the new measures.
• Private corporations would be able to save for contingencies (such as possible downturns) and make future investments in growth.
• A $50,000 annual threshold on passive income on go-forward investments would be available to business owners for various purposes (including parental leave, sick days and retirement). There would be no tax increase on investment income below this threshold.
• Incentives would be maintained to enable Canada’s venture capitalists and angel investors to continue to support investment in the next generation of Canadian innovation.

© 2017 Ernst & Young LLP. All Rights Reserved.
A member firm of Ernst & Young Global Limited.
2444305
ED 00
This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact Ernst & Young or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com/ca/private