"Working together for inspired solutions."

Inform

2018

A newsletter from Ritchie Shortt & Tully LLP Chartered Professional Accountants

We wish Jane Ritchie, CPA, CA a very happy and well-deserved retirement beginning January 2019 and warmly welcome two new partners to the firm, Kevin Bathe, CPA, CA and Brenda Mattacott, CPA, CA. Both Kevin and Brenda have been working closely with Jane to ensure a smooth transition for our valued clients.

Congratulations to Janine Snyder on attaining her CPA designation and to Chelsea Amorim on successfully completing her CPA exams. Well done!

2018 legislation changes that will affect tax planning strategies used by private corporations

Tax on Split Income (TOSI)

2018 is the first year where TOSI applies to certain amounts received by individuals from a private corporation. If TOSI applies, split income is taxed at the highest marginal tax rate and the only tax credits that are available are the dividend tax credit, disability tax credit and foreign tax credit. Four general exclusions from TOSI include payments received from "excluded shares", from an "excluded business", as a "reasonable return" or when the active business owner is 65 and over. It is important to consider whether an individual receiving certain payments from the corporation can rely on any of these exclusions to ensure the amounts are not subject to TOSI. These rules are complex. Please seek our advice on your particular circumstances.

Access to the small business deduction

Beginning with taxation years commencing after 2018, access to the small business deduction for Canadian Controlled Private Corporations (CCPCs) will be reduced by $1 for every $5 of passive income earned in each taxation year that ended in the previous calendar year in excess of $50,000. In general terms, passive income includes income received in the form of interest, dividends, rent, royalties and capital gains. Income may be excluded if it is incidental to the active business, or if it is received from an associated corporation as part of active business activities. Capital gains may also be excluded if the gain is from the sale of active business assets, shares in a CCPC that has an active business, or an interest in a partnership that carries on active business activities.

Recovering refundable taxes

Higher tax rates are paid on passive income and on income in excess of the small business deduction. A portion of the taxes paid at the higher rates is accumulated as Refundable Dividend Tax on Hand (RDTOH) and is recoverable by the corporation upon the payment of dividends to shareholders. Under the new rules, RDTOH will be divided into two categories, eligible and non-eligible RDTOH accounts. Recovering refundable taxes will generally require the payment of non-eligible dividends (which carry a higher personal tax burden than eligible dividends). Eligible RDTOH will track refundable taxes paid under Part IV on eligible portfolio dividends. The payment of non-eligible dividends can result in a refund from the eligible RDTOH account only when there is no balance left in the non-eligible RDTOH account. Otherwise, only the payment of eligible dividends will result in a refund from the eligible RDTOH account. These new rules apply to fiscal years that begin on or after January 1, 2018.

Ontario Employer Health Tax (EHT)

The 2017 Ontario Budget proposal to eliminate the EHT exemption for any employer that is a designated member of a partnership has been put on hold by the provincial government.

2018 Federal and Ontario Combined Corporate Income Tax Rates

Canadian Controlled Private Corporations		Other Corporations	
Small Business Income (up to $500,000)	**Investment Income*** **	**General Manufacturing and Processing**	**General Active Business Income**
13.50%*	50.17%**	25.00%	26.50%

* 12.5% in 2019

**30.667% of investment income is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

***Canadian taxable dividend income (not from a connected corporation) is taxed federally only under Part IV at a rate of 38.33%. This tax is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

Changes to Employment Insurance (EI) Benefits

Parental sharing benefit

Beginning in June 2019, this benefit will increase the total EI parental leave available to both parents by up to 5 weeks, to 40 weeks. This will require each parent to agree to take a minimum of five weeks of the combined 40 weeks available. Alternatively, where families have opted for the extended parental leave at 33% of earnings for 18 months, the second parent would be able to take up to eight weeks of additional parental leave.

EI – Working While On Claim

Budget 2018 proposed to make the current EI - Working While On Claim pilot rules permanent. These rules allow claimants to keep 50 cents of the EI benefits for every dollar they earn, up to 90% of their previous weekly earnings. These rules also apply to sickness benefits and maternity and parental benefits.

Elimination of professionals' Work in Progress (WIP) election

For taxation years that begin after March 21, 2017, designated professionals (lawyers, accountants, dentists, medical doctors, veterinarians and chiropractors) will no longer have the ability to elect to use billed-basis accounting. Consequently, these professionals will be required to include the lesser of the cost and fair market value of WIP of the business at the end of a taxation year in computing the business income for that year, similar to other taxpayers. CRA confirmed that a partner/sole proprietor's time contribution is not part of a professional's WIP cost, as they are entitled to the net residual profits of the business. Professionals should consider determining the cost of WIP to effectively defer the recognition of their profit margin into income until actual billing. Professionals that provide services on a contingency billing basis will not be subject to this WIP rule. There is a phase-in of these WIP rules over a five-year transitional period.

Requirements for Trusts

Budget 2018 proposed new disclosure requirements to improve access to beneficial ownership information. Trusts that do not meet certain exceptions will be required to report the identity of all trustees, beneficiaries and settlors of the trust as well as the identity of each person who has the ability to exert control or override trustee decisions regarding the appointment of income or capital of the trust, (e.g., a protector). These proposals apply for the 2021 and subsequent taxation years.

GST/HST holding corporation rules become more prescriptive

Proposed amendments introduced on July 27, 2018 contain restrictive circumstances and conditions that may significantly reduce a Canadian resident holding corporation's ability to claim GST/HST input tax credits (ITCs). ITCs would be allowed only on transactions relating to the shares or indebtedness of a related operating corporation (Opco) - at the time of the expense, 90% or more of Opco's assets must be used exclusively in commercial activities.

Digital Currency

Gains or losses from selling or buying digital currencies must be reported on the tax return. The gains or losses may be on account of capital or ordinary income depending on the context. You are required to keep track of the digital currency trades for the year.

2018 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %*	Eligible Canadian Dividends %	Capital Gains %
$ 0 to $ 42,960	20.05	8.00	0.00	10.03
$ 42,961 to $ 46,605	24.15	12.76	0.00	12.08
$ 46,606 to $ 75,657	29.65	19.14	6.39	14.83
$ 75,658 to $ 85,923	31.48	21.26	8.92	15.74
$ 85,924 to $ 89,131	33.89	24.06	12.24	16.95
$ 89,132 to $ 93,208	37.91	28.72	17.79	18.95
$ 93,209 to $144,489	43.41	35.10	25.38	21.70
$144,490 to $150,000	46.41	38.58	29.52	23.20
$150,001 to $205,842	47.97	40.39	31.67	23.98
$205,843 to $220,000	51.97	45.03	37.19	25.98
$220,001 and up	53.53	46.84	39.34	26.76

(This table does not include the Ontario Health Premium.)

*Ineligible dividend rates for 2019 are approximately 1 percentage point higher than the 2018 rate in each marginal tax bracket; all other rates will remain the same.