

## **Department of Finance announces changes to previously announced proposals affecting the taxation of small businesses and their shareholders**

Acknowledging the significant response from small business owners, industry groups and opposition political parties, the Prime Minister Justin Trudeau, together with Federal Finance Minister Bill Morneau and the Department of Finance (DOF) made a number of announcements last week concerning the proposed changes and the taxation of small businesses in general.

### Reduction in small business tax rate (SBR)

On October 16, 2017, the Prime Minister announced that the federal small business rate (SBR) - currently at 10.5% - will be reduced to 10 per cent, effective January 1, 2018, and to 9 per cent, effective January 1, 2019. This represents a continuation of the tax cuts announced by the Harper government that had previously been put on hold by the Trudeau government. The Ontario SBR remains at 4.5%

### Lifetime Capital Gains Exemption (LCGE)

On October 16, 2017, the Prime Minister announced that the DOF will not be moving forward with measures that limit access to the lifetime capital gains exemption (LCGE) due to a number of identified potential unintended consequences.

### Taxation of Corporate Investment Income

On Wednesday October 18, 2017, Federal Finance Minister Bill Morneau announced that the new rules will not apply to existing savings and income from those savings; and the existing rules will apply on investment income earned from new savings up to a maximum of \$50,000 of passive income in a year (equivalent to \$1 million in savings, based on a nominal 5% rate of return). To the extent investment income from new investments exceeds \$50,000 in a year, the new punitive tax rates may apply.

### Conversion of Income to Capital Gains

On Thursday, October 19, 2017, the DOF announced that it will not pursue its proposed measures targeting transactions which are intended to convert income into capital gains.

### Income sprinkling

On several occasions, the DOF stated that it still intends to proceed with its proposed income sprinkling measures, but will make amendments to simplify the proposed changes ensuring that businesses with family members who "meaningfully contribute" to the business will not be affected. The DOF promised to provide further clarification on this area shortly.

**SPEAK WITH YOUR ADVISOR AT INNOVO LLP**

Please contact us if you have any questions regarding the proposals or the latest changes and how they may impact you or your business/corporation/trust.



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