



2017 FEDERAL ANNOUNCEMENT CHANGES TO SMALL BUSINESS TAXATION

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Today, on October 16, 2017, Finance Minister Bill Morneau announced further changes to the taxation of small businesses in Canada. It seems that the significant amount of negative feedback received regarding the Government's proposed changes to the taxation of private corporations, as released by consultation paper on July 18, 2017 (the "Consultation Paper"), has prompted some action on their part. While the most recent changes are significant and positive, they do not address most of the concerns raised by the small business community with respect to the Consultation Paper. As they say, something is better than nothing. Hopefully there will be more positive changes to come.

Specifically, the Government has committed to the following:

1. Reduction in the federal small business corporate income tax rate from 10.5% to 10%, effective January 1, 2018. This reduction will be pro-rated for taxation year-ends which straddle the effective date.
2. Reduction in the federal small business corporate income tax rate from 10% to 9%, effective January 1, 2019. This reduction will be pro-rated for taxation year-ends which straddle the effective date.
3. Corresponding Increases in the tax rate applicable to non-eligible dividends in 2018 and 2019 to offset the reduction in corporate income taxes noted above.
4. Elimination of the proposed restrictions in the Consultation Paper relating to access to the Lifetime Capital Gains Exemption ("LCGE").

The small business corporate income tax rate is payable on up to \$500,000 of active business income earned by a group of associated corporations each year. As a result of the above-noted changes, the combined federal/provincial income tax rate on this type of income earned by a corporation in British Columbia will decrease to 12% for taxation years ending December 31, 2018, and 11% for taxation years ending December 31, 2019.

In the Consultation Paper, the Government highlighted three areas where access to the LCGE could be limited:

1. Capital gains accruing while the property is held by a trust (with certain exceptions);
2. Capital gains that are included in split income, and
3. Capital gains accruing while the taxpayer realizing the gain was a minor.

Although specifics were not provided, we are hopeful that the Government intends to abandon each of the above proposals. If so, this would enable family members to continue to access the LCGE on an arm's length sale of eligible property in the same manner as they can currently.

While this announcement is a welcome one, there are still many valid concerns with the proposals contained in the Consultation Paper that have yet to be resolved. We hope that the Government will listen to the feedback and make further significant changes to the proposals in order to deal with those concerns. In the meantime, we encourage you to discuss your situation with your Johnsen Archer advisor in order to understand how these changes impact you and your business.

Thank you for your business!