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PROPOSALS RE INVESTMENT INCOME EARNED IN PRIVATE CORPORATIONS

The Federal government's technical paper of July 18th, 2017 includes measures to change the taxation of investment / passive income earned in a private corporation. They perceive an advantage for private corporations to hold investment assets "beyond what is needed to re-invest and grow the business" and are concerned that a corporation has more after-tax dollars to invest (given the lower corporate tax rates), than an individual would have.

While the government has yet to propose draft rules to deal with this perceived "advantage" (this is still a discussion paper until October 2, 2017), they have indicated a number of measures that will inevitably increase the tax rate on investment income earned in a corporation and subsequently paid out to the shareholders.

The elimination of the current refundable tax system:

Currently, tax on investment income earned in a corporation is taxed at the high corporate rate (for example, interest income earned in an Alberta corporation is taxed at 50.67%). This can be reduced by way of the refundable dividend tax system to an effective corporate rate of 20.00% when dividends are paid to a shareholder. The shareholder will then pay personal tax at his or her marginal rate.

The proposed elimination of this refundable tax system will result in instances where the overall tax on investment income earned in a corporation and paid out to a shareholder will be in excess of 70%.

The elimination of the capital dividend account (CDA) for certain capital gains:

Currently, the non-taxable portion (50%) of a capital gain earned in a private corporation flows to a notional tax account known as the "Capital Dividend Account" (CDA). Any balance in this account can be paid out tax-free to the shareholders.

The government proposes to eliminate the inclusion in the CDA of the non-taxable portion of capital gains generated from investments acquired by a private corporation using active business income.

What these proposals do NOT recognize is that there are a number of good reasons for a private corporation to retain and invest excess cash in the corporation:

- to provide a cushion for economic downturns
- to protect and grow savings for eventual retirement of the shareholders
- to act as security for better financing terms
- to compensate for the lack of a pension plan enjoyed by many employees

We have actively and aggressively added our voice of opposition in an effort to extend the consultation period beyond October 2, 2017 and to reverse many of the proposals which will significantly increase the tax burden for small business owners. Please visit our website at **www.hamrose.com** and click on the "Announcements" tab for further dialogue on this matter.

FOOTNOTE:
Back in the 1960's, the British government introduced what was commonly referred to as the "super tax" at a rate of 95%. This prompted the "Beatles" to write a song entitled the "Taxman". A few excerpts:

"Should five percentage appear too small
Be thankful I don't take it all
'Cause I'm the taxman, Yeah, I'm the taxman
If you drive a car, I'll tax the street
If you try to sit, I'll tax your seat
If you get too cold, I'll tax the heat
If you take a walk, I'll tax your feet
'Cause I'm the taxman, Yeah, I'm the taxman"

Sounding familiar?