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ON REQUEST

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PROPOSED CHANGES TO TAX TREATMENT OF DIVIDENDS

The Federal government's technical paper on July 18th, 2017 is proposing significant changes to tax planning using private corporations.

These proposals are still in the discussion stage, but the one area of immediate concern is the proposed tax treatment of dividends paid to "non-active" shareholders after 2017.

Currently, dividends paid to a shareholder who is a minor child (less than 18 years old) are subjected to what is commonly known as the "kiddie tax" which removes any tax advantage by taxing such dividends at the top tax rate. However, any dividends paid to shareholders 18 years of age and older have full use of their lower tax brackets and various tax credits. This is particularly advantageous to family members with lower or no other income; for example, a child at university who likely has minimal income and, in addition to the 'normal' tax credits such as the personal exemption, has tuition credits.

The new proposals regarding dividends to family members is effectively expanding the application of the kiddie tax (top rate tax) to all shareholders unless such dividend is considered "reasonable". While we consider this to be somewhat subjective, the technical briefing outlines a number of factors which will be taken into consideration in assessing "reasonability". Among other things, reasonability will depend on the level in which the recipient contributed labour or capital to the business, and whether the recipient assumed any risk in connection with the business.

So, in order to address this proposed change, we suggest to those of you who are planning to pay dividends to shareholders who may fail the reasonability test as outlined above and who have little or no other income, that consideration be given to payment of sufficient dividends in 2017 to enable them to utilize their various tax credits and lower tax brackets. This may be your last 'kick at the can'!