Canadian Federation of Apartment Associations
Fédération Canadienne Des Associations De Propriétaires Immobiliers

1600 Carling Ave. Suite 640
Ottawa, Ontario K1Z 1G3
Tel. 613-235-0101 Fax 613-238-0101
Web: www.cfaa-fcapi.org

Explanation for Members **February 27, 2018**

Budget 2018 - Passive Investment Changes for CCPCs

Budget 2018 introduces a simplified approach to address the tax deferral advantages from accumulating surplus savings in a private corporation. These new amendments abandon the complex suggestions made in the consultation paper released in July 2017, which included a "super-tax" on second generation income. The budget proposes two new measures applicable to CCPCs for taxation years beginning after 2018 — a business limit reduction and a change to limit certain tax advantages in the distribution of dividends.

CFAA reaction

While we would have preferred the government to scrap its changes to the taxation of CCPCs completely, the change of approach to passive income is certainly a simpler approach and may well be positive on balance. Over the next few days, we will consider the changes further. Please feel free to provide input on the changes to president@cfaa-fcapi.org.

Business limit reduction

CCPCs with less than $50,000 of investment income in a year will continue to be largely unaffected. The budget proposes to reduce the small business limit on a straight line basis for CCPCs that have between $50,000 and $150,000 of investment income. The budget reduces the small business deduction by $5 for every $1 of investment income above the $50,000 threshold. The business limit would be zero at $150,000 of investment income.

Currently, the small business limit is reduced where the corporation has taxable capital employed in Canada between $10 million and $15 million. The new reduction based on investment income will operate together with the reduction for taxable capital. The reduction in a corporation's business limit will be the greater of the reduction under the new measure and under the existing taxable capital reduction provisions.

For purposes of determining the reduction of the business limit of a CCPC, the budget proposes that the investment income will be measured by a new concept referred to as "adjusted aggregate investment income" (AAII). Generally, the AAII will exclude taxable capital gains (and losses) from the sale of active investments and investment income that is incidental to the business. These exclusions from AAII are intended to address the concerns regarding the encouragement of venture capital and angel investors in Canadian innovation. It is possible that they may assist some companies which both manage and own rental properties.

Limiting access to refundable taxes

To address the refund of taxes associated with portfolio dividends, the budget introduces a new Refundable Dividend Tax on Hand (RDTOH) account, referred to as "eligible RDTOH". This new account will track refundable taxes paid under Part IV of the Income Tax Act. The current RDTOH account will be redefined as "non-eligible RDTOH" and will track refundable taxes paid under Part I of the Act. Where a private corporation pays non-eligible dividends, it is required to obtain a refund from its non-eligible RDTOH account before it obtains a refund from its eligible RDTOH account.

Income sprinkling measures

The rules about income sprinkling will be as announced on Dec 13, 2017. That includes certain bright line tests under which income splitting is allowed, and the ability to split income from CCPCs with a spouse once the business owner reaches age 65.

Capital gains inclusion rate unchanged – for all investors

Despite some minor rumours about another review of the treatment of capital gains, no changes have been made, and no future consideration has been referred to.

What does the Budget mean for you?

The tax changes brought about through Federal Budget 2018 (and the December 2017 announcement) will be discussed in detail at CFAA Rental Housing Conference 2018. Join CFAA in Vancouver May 14 to 16 to find out more. Visit www.CFAA-RHC.ca for more information.

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