2019 Tax Update

Jamie Golombek
Managing Director, Tax and Estate Planning

Estate Planning Council of Winnipeg

April 2019

Agenda

1. 2019 Federal Budget Changes
2. Registered plans update
3. CCPC tax planning

2019 Federal Budget

2019 Federal Budget

March 2019

2019 Federal Budget

Jamie Golombek and Debbie Pearl-Weinberg
Tax & Estate Planning, CIBC Financial Planning and Advice

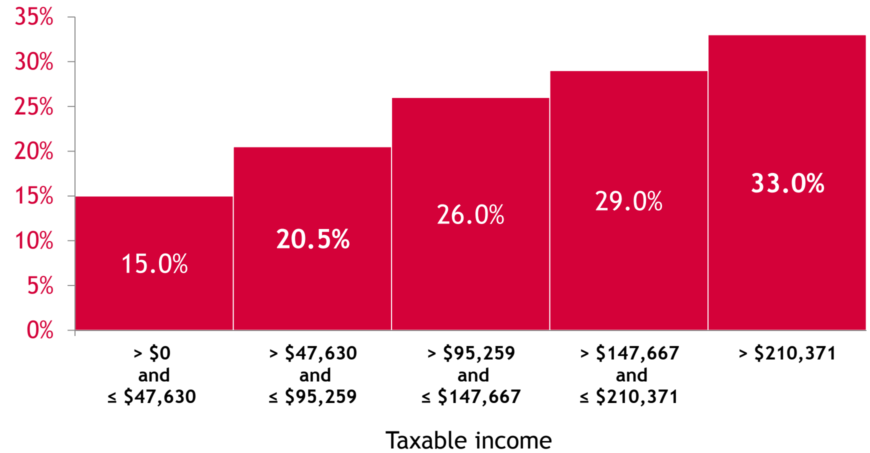
The 2019 federal budget (the "Budget") included a number of tax measures that will affect Canadian taxpayers. Rather than summarize every tax measure included in the Budget document, this report, which was prepared from within the Budget lock-up in Ottawa, will focus on some of the tax measures that are of most interest to individuals.

Canada Training Credit

Today's Budget introduces a new refundable tax credit — the "Canada Training Credit" ("CTC") — aimed at providing financial support to help cover up to half of eligible tuition and fees associated with training. Starting in 2019, eligible Canadians will begin to accumulate $250 annually in a notional government tracking account that can be accessed in a future year to help cover the costs of training.

https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/2019-federal-budget-en.pdf

Federal Income Tax Rates in 2019



2019 MB Personal Income Tax Rates

2019 Taxable Income	Interest	Capital gains	Eligible dividends*	NE dividends
Over $ 0 and ≤ $ 32,670	25.80%	12.90%	3.84%	18.38%
Over $ 32,670 and ≤ $ 47,630	27.75%	13.88%	6.53%	20.63%
Over $ 47,630 and ≤ $ 70,610	33.25%	16.63%	14.12%	26.95%
Over $ 70,610 and ≤ $ 95,259	37.90%	18.95%	20.53%	32.30%
Over $ 95,259 and ≤ $147,667	43.40%	21.70%	28.12%	38.62%
Over $147,667 and ≤ $210,371	46.40%	23.20%	32.26%	42.07%
Over $210,371	50.40%	25.20%	37.78%	46.67%

"Boutique" Tax Credits and Other Tax Inefficiencies

7

CANADIAN TAX JOURNAL / REVUE FISCALE CANADIENNE (2016) 64:1, 65-133

Policy Forum: The Case Against Boutique Tax Credits and Similar Tax Expenditures

Neil Brooks*

Liberal Senate Forum — September 29, 2016

I was very pleased by what appeared to be plans for a wide-ranging review of our taxation system… on June 17, the government did announce it was undertaking a comprehensive review of federal tax expenditures.
When are the results of that review of tax expenditures expected to be complete…?

8

Too Many "Tax Expenditures"

- Personal tax expenditures
(tax credits, deductions and other special preferences)
  - Increased 27% (to 128) in 18 years (1996 to 2014)
- Financial cost of compliance:
  - Canadians spend nearly $7 billion (~$501 per household) complying with the personal income tax system each year
- Indirect / intangible costs:
  - Adds significantly to the time and frustration in submitting a tax return
  - Must store receipts and fill out additional forms to demonstrate eligibility

"Canada's tax code is too complicated — even for CRA officials", Fraser Institute, December 2017.

9

Previously Eliminated Tax Credits

- Education amount
- Textbook amount
- Children's fitness
- Children's arts amount
- Public transit

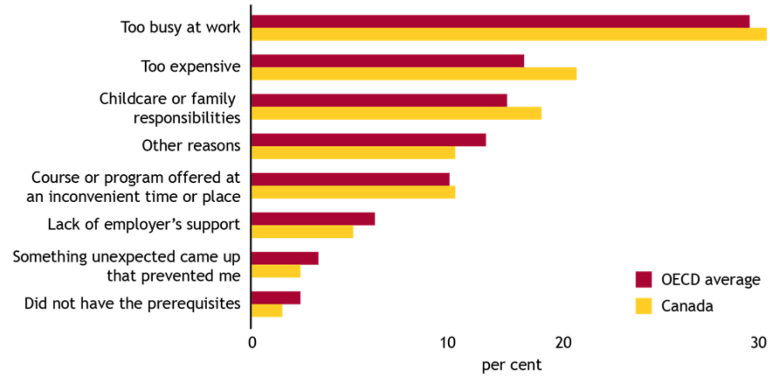
10

Two new credits - Federal Budget 2019

- Canada Training Credit
- Digital Subscriptions

What prevents people from getting additional training / education?

11



Notes: This chart reports adults' main reason for not participating in (more) formal and / or non-formal education. Figures are reported for the population aged 25 to 64 years who either participated in training and want to participate more or did not participate in training but wanted to participate.

Sources: OECD, Survey of Adult Skills (Programme for the International Assessment of Adult Competencies), 2012, 2015

Source: Budget Plan 2019

12

NEW! Canada Training Credit

"Eligible Canadians"

- Age 25 to 65
- Resident of Canada
- (Self-)employment income > $10,000
- Net income < $147,667 (third bracket)
- File return!

Accumulate $250/year

NEW! Canada Training Credit

Notional account balance tracked by CRA

- My Account (online)
- Notice of Assessment

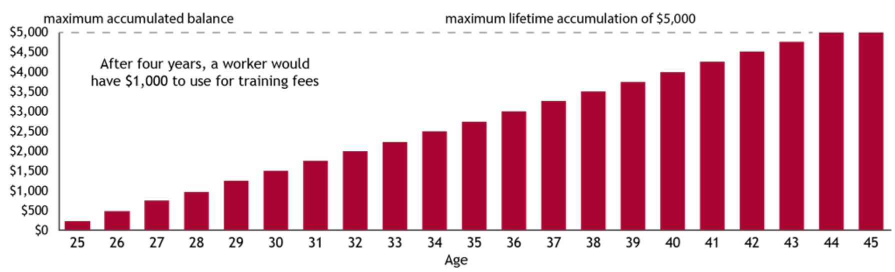
Claim CTC equal to *lesser* of:

- 50% of "eligible tuition" and
- notional account balance

Credit is *refundable*

Training Credit Balance by Age

Maximum accumulation is $5,000



Source: Budget Plan 2019

15

Canada Training Credit & Tuition Credit

Portion of fees refunded through CTC not eligible for tuition credit

– Excess is eligible

Accumulation of CTCs begins in 2019

First CTC available in 2020

16

Tax Credit for Digital Subscriptions

15% non-refundable tax credit

- Amounts paid for *eligible* digital news subscriptions
- Annual maximum $500 in costs
  - Annual maximum credit of $75
- Combined digital and newsprint subscriptions
  - Limited to cost of stand-alone digital subscription
- Temporary
  - For amounts paid after 2019 and before 2025

17

Home Buyers' Plan (2019)

- You and your spouse or common-law partner may each withdraw $35,000 (total $70,000) if:
  - Neither of you owned / occupied a principal residence in past 5 years
  - You buy or build a qualifying home (e.g., house, condo)

18

Home Buyers' Plan *(cont.)*

- Must repay to RRSP over 15 years maximum
- If you miss a repayment in any year, amount is included in income
- No penalty for early repayment
  - The sooner you repay, the longer funds can accumulate without tax

Home Buyers' Plan — *Separation / Divorce*

- Couples who separate / divorce
- No longer have to be "first-time home buyer"
- Effective 2020

Stock Options — Current Rules

- FMV price — Exercise price = Employment income
- 50% deduction generally available if:
  - Exercise price ≥ FMV on date of issue
- For CCPC, if shares held for ≥ 2 years after exercise
  - Benefit / deduction deferred until share disposal
- Tax treatment is equivalent to capital gains

Other conditions apply.

Capping the Stock Option Benefit

- In 2015, Department of Finance estimated that 8,000 "very high-income Canadians deduct an average of $400,000 from their taxable incomes via stock options."

2015 Liberal pre-election platform:

- Cap the stock option benefit

Distribution of Employee Stock Options Deduction by Income (2017)

	Stock option deduction claimed			
Individual's total income[1] ($)	Number of Individuals	Average amount ($)	Aggregate amount ($ millions)	Per cent of aggregate amount
Under 200,000	20,140	6,000	120	6
200,000 to 1,000,000	14,160	44,000	630	30
Over 1,000,000	2,330	577,000	1,340	64
Overall	**36,630**	**57,000**	**2,090**	**100**

[1] Including stock option benefits.
Note: Numbers may not add up due to rounding.
Source: Tax filer data for the 2017 taxation year.

Source: Budget Plan 2019.

2019 Budget Changes to Stock Option Taxation

23

- Cap the deduction for stock options from "large, long-established, mature firms"
  - Employees with up to $200,000 in annual stock option grants will be unaffected
  - Will not apply to "startups and rapidly-growing Canadian businesses"
- Legislation to be introduced before Summer 2019
- Will apply on a go forward basis

Mature Firms*: Grant with FMV > $200,000

Grant: 100,000 shares @ $50; FMV at exercise = $70

24

	Current Rules	Proposed Rules		
	Eligible for deduction	Eligible for deduction	Not eligible for deduction	Total
Number of shares	100,000	4,000	96,000	100,000
Exercise @ $70 / share	$7,000,000	$280,000	$6,720,000	$7,000,000
Grant @ $50 / share	(5,000,000)	(200,000)	(4,800,000)	(5,000,000)
Income inclusion	$2,000,000	$ 80,000	$1,920,000	$2,000,000
Deduction @ 50%	(1,000,000)	(40,000)	0	(40,000)
Taxable income	$1,000,000	$ 40,000	$1,920,000	$1,960,000
Tax upon exercise @ 50%	$ 500,000	$ 20,000	$ 960,000	$980,000

The government indicated that the proposals would apply to grants from "large, long-established, mature firms."

Mature Firms*: Grant with FMV ≤ $200,000

Grant: 3,000 shares @ $50; FMV at exercise = $70

25

	Proposed Rules
Number of shares	3,000
Exercise @ $70 / share	$210,000
Grant @ $50 / share	(150,000)
Income inclusion	$ 60,000
Deduction @ 50%	(30,000)
Taxable income	$ 30,000
Tax upon exercise @ 50%	$ 15,000

No change!

The government indicated that the proposals would apply to grants from "large, long-established, mature firms."

Startups & Rapidly-growing Canadian Businesses

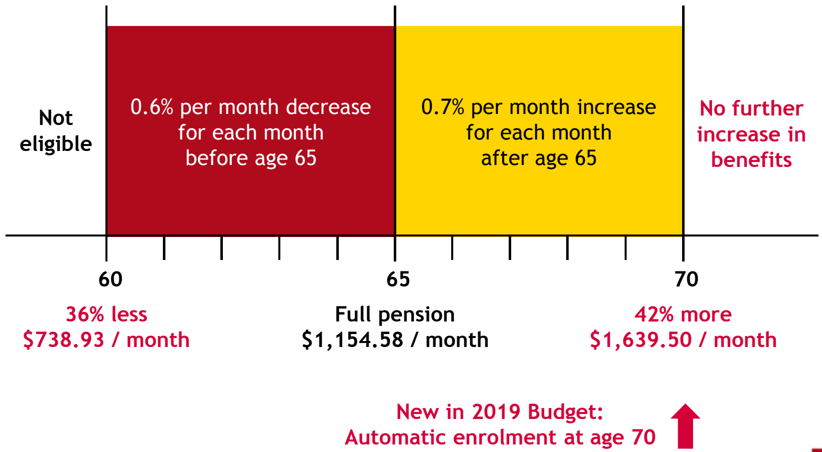
Grant: 300,000 shares @ $1; FMV at exercise = $2

26

	Proposed Rules
Number of shares	300,000
Exercise @ $2 / share	$600,000
Grant @ $1 / share	(300,000)
Income inclusion	$300,000
Deduction @ 50%	(150,000)
Taxable income	$150,000
Tax upon exercise @ 50%	$ 75,000

No change!

Canada Pension Plan (CPP) Retirement Pension



Donation of Cultural Property

No tax on resulting capital gain!

– Market value of painting	$1,000,000
– Adjusted cost base	100,000
– Capital gain	$ 900,000

NO Tax on $900,000 capital gain!

Donation of Cultural Property

Donation must be to designated institution in Canada

- Museum or art gallery

Property must be

- Of outstanding significance, *and*
- Of national importance

Donation of cultural property – *Heffel (2018 FC 605)*

- Recent court decision:
  - Painting sold at a Toronto auction to a U.K. buyer
  - Shipment blocked by Canadian Cultural Property Export Review Board, citing its importance to Canadian culture
  - Required "direction connection" with Canada's cultural heritage

Budget 2019

- Removed requirement of *national importance*

Iris bleus, jardin du Petit Gennevilliers (1892) by Gustav Caillebotte Source: Heffel Fine Art Auction House

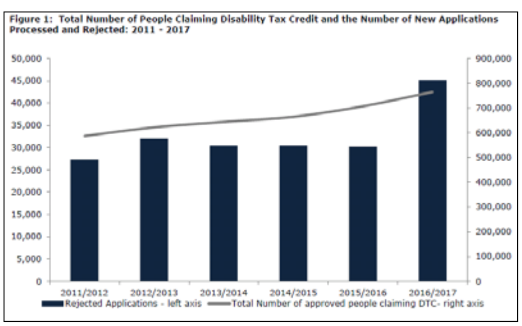
Annuities for Registered Plans

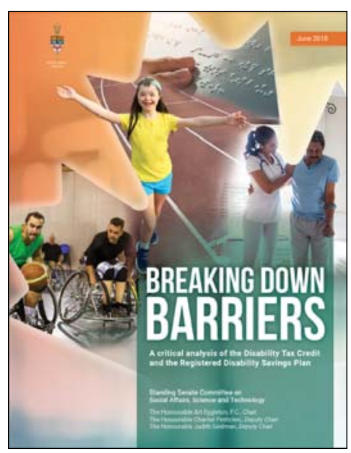
Two new types of annuities proposed for registered plans:

- Advanced life deferred annuity (“ALDA”)
  - Life annuity beginning no later than age 85
  - Guaranteed annual amount for life
- Variable payment life annuity (“VPLA”)
  - Payments vary based on investment performance of underlying annuities fund and mortality experience of annuitants
  - Only available for pooled registered pension plans (PRPPs) and defined contribution RPPs

Senate Report on the DTC and RDSP

Addresses concerns over CRA administration of the DTC and the increase in rejected applications





https://sencanada.ca/Content/SEN/Committee/421/SOCI/Reports/2018-06-18_SS5_RDSP-DTC_FINAL_WEB_e.pdf

Senate Report: Some Problems With RDSP

1. More people need to use RDSPs, especially people with disabilities and low income
2. Could better target the most vulnerable
3. DTC should not be the only gateway to the RDSP

RDSPs for family members

- Beneficiary must be eligible for Disability Tax Certificate
- Contributions up to $200,000 until beneficiary turns 59
- No deduction for contributions
- Earnings accrue on tax-deferred basis

35

Registered Disability Savings Plan (RDSP)

- Beneficiary must be eligible for Disability Tax Credit
- Contributions up to $200,000 until beneficiary turns 59
- No deduction for contribution
- Earnings accrue on tax-deferred basis

Grants & bonds	Amount*	Annual Maximum	Lifetime Maximum
CDSG	300% x first $500	$1,500	$70,000
	200% x next $1,000	$2,000	
	Total CDSG with $1,500 contribution	$3,500	
CDSB	$1,000 (No contribution needed)	$1,000	$20,000

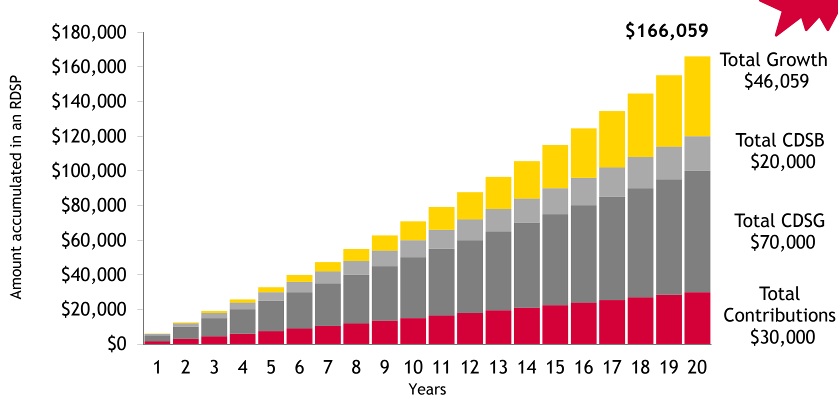
* In 2019:
- CDSGs are limited to 100% of the first $1,000 in contributions with "family income" > $95,259
- CDSBs are phased out with "family income" between $31,120 and $47,630.

36

Example: RDSPs With Low Income, Contribute $1,500 Per Year

Equivalent to a 14.5% rate of return over 20 years

Potentially tax free!



Assumes that the maximum CDSG & CDSB is received, contributions are made at the beginning of the year, and the rate of return is 3%.

Beneficiary Must be DTC-eligible (Current Rules)

RDSP beneficiary must qualify for the Disability Tax Credit (DTC)

Current rule:

- RDSP must be terminated by end of year following year in which beneficiary ceases to be eligible for DTC
  - Exception for individuals who are *temporarily* DTC-ineligible…

Temporary Ineligibility for DTC (Current Rules)

Exception for individuals who are temporarily DTC-ineligible:

- Medical practitioner must certify in writing that the beneficiary is likely to be eligible for the DTC in the foreseeable future
- May then elect to keep RDSP open
  - By December 31 after first full year in which beneficiary is DTC-ineligible
  - Election remains valid until the fifth calendar year following DTC-ineligibility

Once a Beneficiary Ceases to be DTC-eligible

Contributions:

- Not allowed (including transfers of RESP income)
- Exception: Permitted rollovers from an RRSP or RRIF

CDSGs and CDSBs:

- No payments or entitlements

Current Rule

RDSP must be closed by end of following year

- "Assistance Holdback Amount"
- Running tally of all CDSGs and CDSBs in the 10 years prior to any disability assistance payment

Full amount must be paid back to the government if RDSP closed

- Earnings and growth on those funds **do not** have to be paid back

NEW RULE — Budget 2019
Once a Beneficiary Ceases to be DTC-eligible

41

- Do NOT have to close RDSP
- "Assistance Holdback Amount"
  - Prior to age 51, withdrawals may require repayment of CDSGs / CDSBs
  - At age 51+, assistance holdback period starts to be reduced annually

42

Example — RDSP

In 2009, parents open RDSP for Bruce (age 5)

- Contribute $1,500 annually, get CDSG of $3,500/year
- Assistance holdback amount is $35,000 (10 years' worth)
- 2024 — Bruce no longer qualifies for DTC
  - RDSP can be kept open
  - Assistance holdback amount frozen at $35,000 until age 51
  - At age 51, declines by $3,500/annually
  - By age 60, no repayment of CDSGs required!

Individual Pension Plans

- Defined benefit RPP
- Provides benefits to an individual person
- Pros:
  - Annual contribution limit* often higher than maximum RRSP limit
  - Creditor-protected to the extent allowed per legislation
- Cons:
  - Setup and ongoing administrative costs
- Suitability:
  - Age 40 or older
  - Income that allows contributions > maximum RRSP contribution limit

* Determined actuarially

Transfer of Commuted Value to IPP

- Terminate employment
- Incorporate new CCPC to provide “consulting services”
- Set up an IPP
- Transfer full commuted value, tax-deferred, to IPP
- BUDGET 2019:
  - “inappropriate planning”

45

Mutual Funds: Income Conversion Transactions

Targeted anti-avoidance rules

- 2013 Federal Budget measure stopped mutual funds converting ordinary income to capital gains
  - Government concern: not all income conversion transactions caught by current provisions!
- 2019 Federal Budget
  - Expansion of anti-avoidance rule
    - Disallow multi-fund income conversion structures
    - Disallow allocation of ordinary income to specific unitholders

46

Horizons ETFs Press Release

Horizons ETFs Assessing Impact of Proposed Federal Tax Changes

NEWS PROVIDED BY
Horizons ETFs Management (Canada) Inc. →
Mar 20, 2019, 09:00 ET

SHARE THIS ARTICLE

TORONTO, March 20, 2019 /CNW/ - Horizons ETFs Management (Canada) Inc. ("**Horizons ETFs**") is assessing the potential impact of proposed legislative changes tabled by the Minister of Finance in the Federal Budget on March 19, 2019, on its family of exchange traded funds. Based on its preliminary assessment, Horizons ETFs has determined that the exchange traded funds listed on the table below (the "**ETFs**") could be impacted by the changes after their 2019 taxation years.

https://www.newswire.ca/news-releases/horizons-etfs-assessing-impact-of-proposed-federal-tax-changes-810019953.html

47

Horizons ETFs Potentially Impacted after 2019

ETF Name	Ticker
Horizons S&P/TSX 60™ Index ETF	HXT
Horizons S&P 500® Index ETF	HXS
Horizons S&P/TSX Capped Energy Index ETF	HXE
Horizons S&P/TSX Capped Financials Index ETF	HXF
Horizons Cdn Select Universe Bond ETF	HBB
Horizons US 7-10 Year Treasury Bond ETF	HTB
Horizons NASDAQ-100® Index ETF	HXQ
Horizons EURO STOXX 50® Index ETF	HXX
Horizons Cdn High Dividend Index ETF	HXH
Horizons S&P 500 CAD Hedged Index ETF	HSH
Horizons US 7-10 Year Treasury Bond CAD Hedged ETF	HTH
Horizons Intl Developed Markets Equity Index ETF	HXDM
Horizons Conservative TRI ETF Portfolio	HCON
Horizons Balanced TRI ETF Portfolio	HBAL
Horizons Equal Weight Canada REIT Index ETF	HCRE
Horizons Laddered Canadian Preferred Share Index ETF	HLPR
Horizons Equal Weight Canada Banks Index ETF	HEWB
BetaPro S&P 500 VIX Short-Term Futures™ ETF	HUV
Horizons Gold ETF	HUG
Horizons Silver ETF	HUZ
Horizons Crude Oil ETF	HUC
Horizons Natural Gas ETF	HUN
BetaPro Gold Bullion 2x Daily Bull ETF	HBU

ETF Name	Ticker
BetaPro Gold Bullion -2x Daily Bear ETF	HBD
BetaPro Crude Oil 2x Daily Bull ETF	HOU
BetaPro Crude Oil -2x Daily Bear ETF	HOD
BetaPro Natural Gas 2x Daily Bull ETF	HNU
BetaPro Natural Gas -2x Daily Bear ETF	HND
BetaPro Silver 2x Daily Bull ETF	HZU
BetaPro Silver -2x Daily Bear ETF	HZD
BetaPro S&P/TSX 60™ 2x Daily Bull ETF	HXU
BetaPro S&P/TSX 60™ -2x Daily Bear ETF	HXD
BetaPro S&P/TSX Capped Financials™ 2x Daily Bull ETF	HFU
BetaPro S&P/TSX Capped Financials™ -2x Daily Bear ETF	HFD
BetaPro S&P/TSX Capped Energy™ 2x Daily Bull ETF	HEU
BetaPro S&P/TSX Capped Energy™ -2x Daily Bear ETF	HED
BetaPro Canadian Gold Miners 2x Daily Bull ETF	HGU
BetaPro Canadian Gold Miners -2x Daily Bear ETF	HGD
BetaPro S&P 500® 2x Daily Bull ETF	HSU
BetaPro S&P 500® -2x Daily Bear ETF	HSD
BetaPro NASDAQ-100® 2x Daily Bull ETF	HQU
BetaPro NASDAQ-100® -2x Daily Bear ETF	HQD
BetaPro S&P/TSX 60™ Daily Inverse ETF	HIX
BetaPro S&P 500® Daily Inverse ETF	HIU
Horizons Morningstar Hedge Fund Index ETF	HHF

CIBC

48

BMO Funds Press Release

BMO Nesbitt Burns Inc. Assessing Impact of Proposed Federal Tax Changes

NEWS PROVIDED BY
BMO Nesbitt Burns Inc. →
Mar 20, 2019, 21:26 ET

SHARE THIS ARTICLE

TORONTO, March 20, 2019 /CNW/ - BMO Nesbitt Burns Inc. (the "Manager") is assessing the impact on certain investment funds that it manages of certain amendments to the *Income Tax Act* ("Tax Act") proposed by the Minister of Finance in the Federal Budget on March 19, 2019. Based on its preliminary assessment, the Manager has determined that, if the Tax Act were amended as proposed, the funds listed below (the "Funds") would be affected by the changes. In order to benefit from limited transitional relief, the Manager has suspended the distribution of the Funds until further notice and will not accept new purchase orders for the Funds until it completes its assessment of the proposed legislative changes and determines what further actions might be advisable.

https://www.newswire.ca/news-releases/bmo-nesbitt-burns-inc-assessing-impact-of-proposed-federal-tax-changes-805034649.html

CIBC

BMO Funds Potentially Impacted after 2019

- BMO Advantaged S&P/TSX Capped Composite TACTIC™ Fund
- BMO Advantaged Equal Weight Banks TACTIC™ Fund
- BMO Advantaged Equal Weight Oil & Gas TACTIC™ Fund
- BMO Advantaged Laddered Preferred Share TACTIC™ Fund
- BMO Advantaged Canadian Q-Model® Fund
- BMO Advantaged U.S. Q-Model® Fund

Enforcement and Administration: Real Estate Transactions

CRA to devote more resources to real estate audits

- CRA to receive $50 million over 5 years
- New residential and commercial real estate audit teams in high-risk regions
  - B.C. & Ontario
- Focus:
  - All sales of principal residence are reported
  - If no principal residence exemption available, capital gain reported
  - “Flipping” reported as business income
  - Commissions properly reported
  - Appropriate GST/HST remitted

Update on Registered Plans

52

TFSA Contribution Limit

Year	Limit
2009	$ 5,000
2010	5,000
2011	5,000
2012	5,000
2013	5,500
2014	5,500
2015	10,000
2016	5,500
2017	5,500
2018	5,500
2019	6,000
Cumulative	$63,500

18 years of age
and
resident in Canada

53

RRSP Contribution Limits

- Current RRSP contribution limit:
  - 18% of prior year's earned income
  - Maximum $26,500 in 2019

54

In Defense of RRSPs

In Defense of RRSPs: Dispelling common myths

Jamie Golombek
Managing Director, Tax & Estate Planning, CIBC Financial Planning and Advice

For over 60 years, the Registered Retirement Savings Plan (RRSP) has been available to build savings for retirement.[1] In recent years, these plans seem to be falling out of favour, with fewer Canadians contributing to RRSPs and a significant number of pre-retirees withdrawing funds from these plans. This report looks at this surprising trend and debunks some of the myths that may be keeping Canadians from saving in an RRSP.

The role of RRSPs in retirement funding

55

RRSP Myths

1. There's no point investing in an RRSP — you pay all the savings back in taxes when you retire anyway
2. It's better to invest in a TFSA than in an RRSP
3. It's better to pay off debt
4. I don't have enough money to save in an RRSP
5. I don't need an RRSP because I'll have other sources of funds for retirement
6. If I save too much in an RRSP or RRIF, there will be a large tax bill when I die

CIBC

56

Changes to Taxation for Canadian-controlled Private Corporations (CCPCs)

The updated CCPC tax proposals

Jamie Golombek & Debbie Pearl-Weinberg
Tax & Estate Planning, CIBC Financial Planning and Advice

The federal government first announced proposed changes to the taxation of Canadian-controlled private corporations (CCPCs) on July 18, 2017. The originally-proposed measures focused on three areas: income sprinkling among family members, passive investment income earned within a corporation, and converting regular income from a corporation into capital gains. The government had invited interested parties to comment on the proposals by October 2, 2017 and they ultimately received over 21,000 submissions from various business groups, industry associations and other interested parties. In response to comments received, the Department of Finance made a series of announcements in October 2017 modifying and, in some cases, withdrawing some of the proposals. On December 13, 2017, more detailed revisions were announced to the rules targeting income sprinkling. Most recently, in the 2018 federal budget, detailed proposals were released regarding passive income earned in a corporation.

https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf

CIBC

Changes to CCPC Taxation: Where do we Stand Now?

57

- Government signalled its intention to address tax planning strategies involving private corporations:
  - Sprinkling income using corporations
    - Legislation effective January 1, 2018
  - Holding passive investments in a corporation
    - Legislation effective January 1, 2019
  - Converting dividend income into capital gains (“surplus stripping”)
    - Proposals dropped…for now…Budget 2019??

Sprinkling (Splitting) Income

Tax on Split Income (TOSI): who is subject to TOSI?

Source Individual
(Resident in Canada)

Related

Specified Individual
(Resident in Canada)

Shares with ≥ 10% value OR Actively engaged on a regular basis

Corporation

Related business

Dividends / Interest

TOSI applies, subject to exceptions

Some exceptions to TOSI
No TOSI for Specified Individual (SI)

1. Excluded business	SI is 18+ and works 20+ hours/week in the year or for any five prior years
2. Excluded shares	SI is 25+ and owns shares with ≥ 10% votes & value (not available for PCs or if ≥ 90% income from services)
3. Reasonable rate of return	SI is 18+ and earns a reasonable return compared to Source Individual (more stringent requirements for an SI who is 18-24)
4. Retirement	SI is spouse/CLP of a Source Individual who is 65+ and not subject to TOSI
5. LCGE on QSBC shares or QFFP	SI has capital gains from Qualified Small Business Corporation (QSBC) shares or Farm/Fishing Property (QFFP)

These rules are complex and a tax advisor should be consulted for further details.

2019 MB Income Splitting: Example of Spousal Loan at 2%

61

- Dianne loans Jack $500,000
- Investment earns 5% interest annually

Dianne

$500,000 →

← Interest Expense 2%

Jack

Income	$10,000		Income	$25,000
			Interest expense	(10,000)
			Net income	$15,000

Income splitting opportunity: $15,000
Tax Savings: $15,000 X (50.4% - 25.8%) = $3,700 / year

CIBC

62

MB 2019 Income Splitting — Kids Action Plan

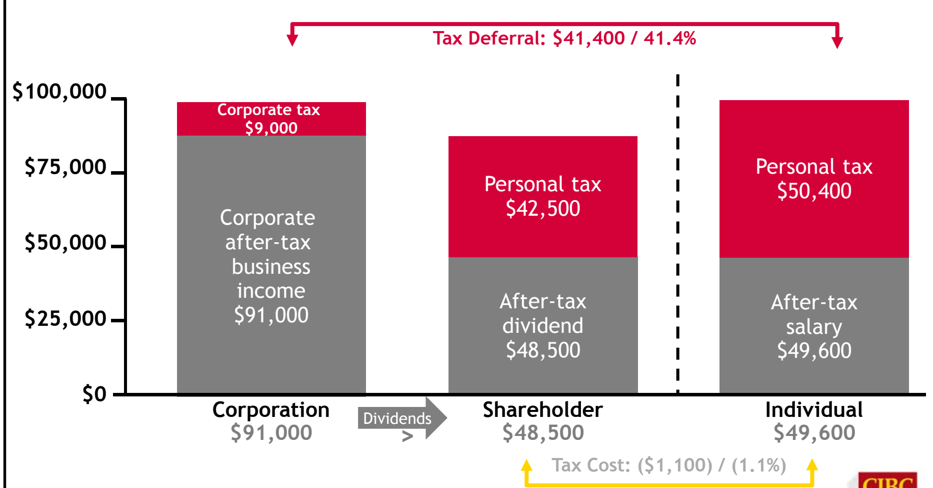
- If kids < 18, set up family trust (through lawyer)
- Loan to trust at prescribed rate(promissory note)
- Investment income earned in trust paid out to kids (or used for their benefit)
- Kids pay zero (minimal) tax
- Tax-free (public company) dividends to kids
  - about $25,000

CIBC

Passive Income

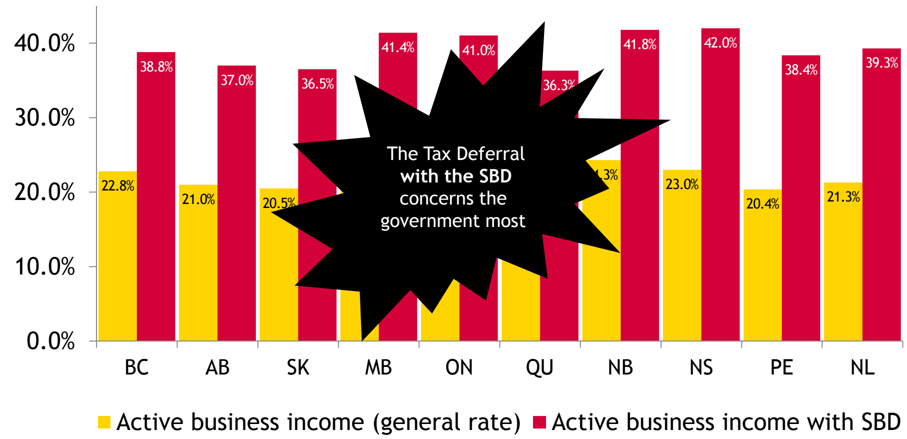
2019 MB: $100,000 Active Business Income With SBD Earned in a CCPC vs. Personally

64



2019 Tax Deferral on Active Business Income by Province

65



Adjusted Aggregate Investment Income (AAII) & the Small Business Deduction Limit (SBD Limit)

66

Current SBD Limit

- $500,000* of active business income

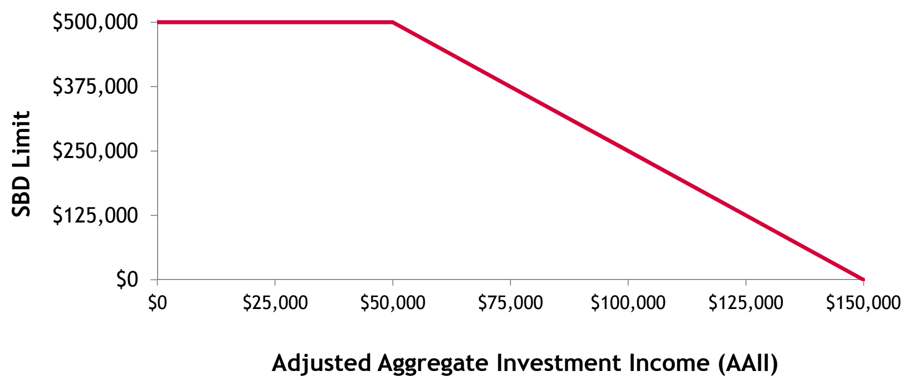
Federal SBD Limit under new rules

- Reduce $500,000 limit for CCPCs with AAII >$50,000
  - Reduced by $5 for each $1 of AAII that exceeds $50,000
  - SBD eliminated once AAII >$150,000

* The limit is $500,000 federally and in all provinces except Saskatchewan, where it is $600,000. For large CCPCs, the federal and provincial SBD Limit is reduced on a straight-line basis for CCPCs that, in the prior tax year, had taxable capital between $10 million and $15 million.

Reduction in the Federal SBD Limit Based on AAII

67



68

Impact of loss of SBD in Manitoba in 2019

	With SBD	Without SBD	Difference Without SBD
CORPORATION:			
Active business income	500,000	500,000	–
Corporate tax (9.0% / 27.0%) (A)	(45,000)	(135,000)	(90,000)
Available for dividends / investment	455,000	365,000	(90,000)
BUSINESS OWNER:			
Salary / dividend	455,000	365,000	(90,000)
Personal tax (46.67% / 37.79%) (B)	(212,348)	(137,933)	74,515
After-tax amount to business owner	242,652	227,067	(15,585)
Total corporate/personal tax (A) + (B)	**257,485**	**272,970**	**15,585**
Total effective tax rate	**51.47%**	**54.59%**	**3.12%**

Tax cost increases by $15,585
(54.59% - 51.47%) x $500,000

Tax deferral decreases by $90,000
(9.0% - 27.0%) x $500,000

Some CCPCs Are Not Affected by Passive Income Rules

69

No business income (e.g. Holdco with only investments)

- No SBD to lose

Incorporated partners of large firms

- AAII is split by associated corporations, so SBD generally not available

Distributing all income in current year or near future

- Tax deferral has little or no value

70

CCPC Tax Planning for Passive Income

November 15, 2018

CCPC tax planning for passive income

Jamie Golombek & Debbie Pearl-Weinberg
Tax & Estate Planning, CIBC Financial Planning and Advice

In 2018, the government enacted new tax legislation governing Canadian-controlled private corporations (CCPCs), including incorporated professionals. As we enter the final months of 2018, one new measure is of particular concern – the potential looming loss of the small business deduction (SBD) in 2019 for corporations with more than $50,000 of passive investment income in 2018. This Report will review the new rules, the potential financial impact of a loss in the SBD on your long term savings, and what you can do about it.

https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf

Strategies for CCPCs that are Affected by Passive Income Rules

71

1. Keep corporate passive income on investments <$50K annually
   - Buy & hold…
   - Defer capital gains
2. Continue to max RRSPs & TFSAs
3. Individual Pension Plans
4. Corporate owned life insurance

RRSPs: A Smart Choice for Business Owners

Jamie Golombek

TFSAs for Business Owners… A Smart Choice

Jamie Golombek

Managing Director, Tax & Estate Planning, CIBC Wealth Advisory Services

Incorporated business owners can choose to invest surplus funds within their corporation or to withdraw these funds and invest personally. A Tax Free Savings Account (TFSA) provides a great opportunity to earn tax-free investment income, especially now that the annual TFSA dollar limit stands at $10,000 for 2015. By investing in a TFSA, rather than leaving surplus funds in the corporation for investing, business owners will generally end up with more after-tax cash at the end of the day, especially when the time horizon is significant.

In our report Bye Bye Bonus,[1] we showed that it may be beneficial to leave funds in your corporation for investment, rather than withdrawing the funds and investing personally, due to a significant tax deferral advantage. The amount that was deferred could be used as investment capital in the corporation, which could then generate additional investment income. In that report, however, it was assumed that personal funds, once withdrawn from the corporation, would be invested in a non-registered account, leaving investment income exposed to taxes.

https://www.cibc.com/content/dam/small_business/advice_centre/business-reports/RRSPs-for-business-owners-en.pdf
https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/personal_finances/tfsas-for-business-owners-en.pdf

CIBC

72

Questions & Answers

www.jamiegolombek.com

CIBC