Crowe MacKay™ INSIGHTS

The Post-Budget Tax Issue SPRING 2016

Crowe MacKay Welcomes New CEO

Crowe MacKay is pleased to announce the appointment of J.W. Bruce Picton, CPA, CA, ICD.D as its new CEO, effective immediately.

"We wanted our new CEO to be someone who shared our values and commitment to Western and Northern Canada. Bruce has a successful track record serving the needs of owner-managed business, professionals, First Nations and non- profit organizations. He knows the markets that we serve and will ensure that we continue to develop our firm to maximize the range of services we provide" said Don Turri, firm Chairman and member of the Crowe MacKay Executive Committee.

Bruce comes to Crowe MacKay with a history of driving growth through his leadership roles in accounting and advisory firms. His client-centric perspective, combined with his team building and leadership skills, have been key to his success. Bruce has extensive public company and non-profit governance experience and has provided trusted advice to successful businesses across a wide spectrum of industries. Corporate governance, strategic planning, mergers and acquisitions, financing, and taxation advice, all delivered with a strong relationship focus have been hallmarks of Bruce's career.

"I'm very excited to join Crowe MacKay - the opportunity to work with this respected team and to grow the organization in Western and Northern Canada is a tremendous privilege," Picton said. "I look forward to applying Crowe MacKay's core values in creating new opportunity for our clients and our people."

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Peter Woodruff

Reputation and Relationships

Peter Woodruff, based in Whitehorse, became Associate Partner in January of 2016, making him one of the firm's newest Associate Partners. Representing the firm's next generation of leaders, Peter is this month's feature partner.

Like many in his northern community, Peter's path north was not a straight line. With stops in Chicago, Vancouver, Victoria and Japan – it was Whitehorse's vibrant community that encouraged Peter to finally put down roots.

But in some ways, his path was really a full circle. When asked what drew him into this career, Peter said "When I was young, I really looked up to my dad who began his career as a CA in the UK and CPA in Chicago. The knowledge and skills he acquired in obtaining those designations provided the foundation that allowed him to achieve success throughout his career."

"After getting my history degree from the University of Victoria I spent two years teaching English in Japan and enjoying discovering a new culture and country. By the time I returned to Canada I had decided that accounting was the profession that married my interests and natural skills so I went to UBC to go through their Diploma in Accounting program."

But what was the pull that brought and kept him in Whitehorse? "I always thought that after I obtained my designation I would leave public practice, go into industry like my Dad, and probably leave Whitehorse. In my first year after writing the UFE (Uniform Evaluation) I was given so many interesting opportunities to explore what it means to be in public practice. No outside opportunities have interested me more than what I do here. Crowe MacKay and specifically the Whitehorse office have allowed me to always continue to seek new professional opportunities that I don't think I would have been afforded to outside of our firm or office."

Peter describes his motivation as coming from "the continuous learning and evolving nature of our profession and particularly public practice. I enjoy working with my clients to assist them through challenges to realize their goals. A big attraction to being part of a public practice CPA training office is helping others progress in their professional career by navigating the education process to earn their designation."

When it came to choosing a firm in which to start and build his career, he appreciated Crowe MacKay's history in the community. He explains further "In a smaller centre it is all about reputation and relationships. My clients are looking to get the best package of professional financial and tax services. The reputation that has been fostered by this firm in Whitehorse for the last 45 plus years is unmatched. Additionally, many of my clients are aware and appreciative of the access we have to knowledge and skill-sets beyond our office to within the entire firm and our international network."

Peter's deep affection for his adopted home would lead you to believe he was a Yukoner from birth. "It is such a vibrant small city with opportunities to satisfy all interests… the outdoors, the arts, sports, you name it. Before moving here I was concerned about the remoteness, the climate, and meeting new people. But it's only two hours to fly to BC or Alberta, a two-hour drive to the ocean, and almost everyone here came for a summer and has stayed for years - so we all were new once!"

Peter appreciates the spirit of community and unity within both Whitehorse and Crowe MacKay. "Giving back is even more important in smaller communities and I think of it as not so much "giving back" but rather "being part" of a community. Everyone has busy lives but finding time to enrich the community we live in is very important to me and why I am on several volunteer boards."

You can take the boy out of Chicago but not his love for the Bears. Peter shared that his bucket list includes "going back with my family to see the Bears at home in Solder Field, preferably beating the Green Bay Packers." We can't blame you for that Peter.

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Restricting Multiple Small Business Deductions

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The Small Business Deduction ("SBD") is a mainstay in the Canadian taxation of small-to-medium sized Canadian-controlled private corporations' ("CCPC") business profits. The SBD reduces a CCPC's tax rate on its first $500,000 of business profits to a rate of between 10.5% to 15% depending on the province or territory (Quebec being the outlier at 18.5%). This lower tax rate enables small businesses to reinvest more profits. It also provides an opportunity to split income with family members by paying dividends from after-tax profits to individuals that otherwise have low income, which results in them paying minimal personal tax.

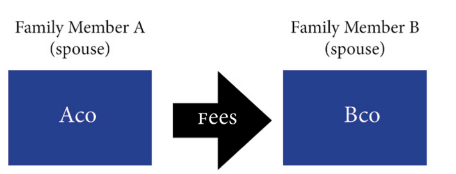
These benefits make accessing multiple SBDs an attractive business goal. The Income Tax Act contains rules that prevent SBD multiplication by restricting each "associated" group of corporations to one shared $500,000 Small Business Limit ("SBL"). A corporation's association status is determined by a number of rules that look at family ownership.

Not directly restricted under the existing rules is the payment of fees between non-associated corporations. The 2016 Federal Budget proposed a new set of rules intended to restrict perceived abuses of the ability to multiply the SBD. The new rules apply for corporate taxation years starting on or after March 22, 2016.

How will the new rules impact non-associated corporations?

The changes also impact partnerships with corporate partners but the following comments focus on the payment of fees between two non-associated corporations.

The new rules will impact any situation where fees are paid from one private corporation to another when there is even a minimally direct or indirect ownership connection between the two corporations. "Direct or indirect interest" is not defined but it is a very broad term that may not only refer to share ownership. These rules go far beyond the reach of the current association rules. For example, take the following scenario.



Aco and Bco are not associated. Therefore they each are entitled to a $500,000 SBL under the existing rules. However, under the new rules, if Aco pays fees to Bco, Bco is not able to claim a SBD with respect to that income.

Are there any relieving provisions?

The restriction on claiming the SBD does not apply if at least 90% of recipient corporation's income is derived from unrelated parties. So, in our example, if Bco generates 90% of its income from unrelated parties and 10% from Aco, the restriction will not apply and Bco will not be restricted from claiming the SBD on all of its income, including the income generated from Aco.

But what if we are not trying to multiply the SBD?

The new rules will apply regardless of whether or not the intent is to multiply the SBD. If we assume, in our example, that Aco has $500,000 of active business income prior to paying a $100,000 fee to Bco (Bco's only income), Bco will not be entitled to claim the SBD on the $100,000 income.

In this situation, relief can be found when the payor corporation assigns some of its SBL to the recipient corporation. In our example, Aco could assign $100,000 of its SBL to Bco reducing Aco's SBL to $400,000 and allowing Bco to use the $100,000 against its income derived from Aco.

The ability to assign the SBL is subject to a number of restrictions and both corporations must report the amount assigned on a form included with their tax returns.

In summary, the new rules could represent a significant change for some corporate structures. If you have circumstances where fees are being paid between two corporations, you should contact your Crowe MacKay advisor to discuss the impact and potential alternatives.

New Tax Developments May Affect Your Business Sale

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The 2016 Federal Budget released in March contained proposed changes that may impact selling your business in the near future. The proposed changes relate to the current Eligible Capital Property ("ECP") rules and may result in less favourable tax treatment for business owners who sell their businesses after 2016.

What is ECP?

Generally, ECP includes various intangible assets relating to a business, with goodwill and customer lists being common examples.

What happens when ECP is sold?

When a Canadian-controlled private corporation ("CCPC") sells ECP, its effective corporate tax rate on the sales proceeds can be as low as 7% (for an Alberta corporation). Generally, 50 percent of the gain on the sale of ECP is subject to tax as active business income and the remaining 50 percent is included in the corporation's Capital Dividend Account ("CDA") from which tax-free capital dividends can be paid. This is currently more favourable than the result under the proposed rules, where the sale will be treated as a capital gain, with 50 percent of the gain taxed at the investment income tax rate (50.7% in Alberta). The 50 percent non-taxable portion of the capital gain will still be added to the corporation's CDA under the proposed rules.

Current vs. Proposed rules for the sale of ECP

To help illustrate the corporate tax differences under the current and proposed rules, let us consider an example where Opco, an Alberta CCPC, sells its ECP for a gain of $500,000. Using the general corporate tax rate of 27%, Opco will pay taxes of $67,500 ($500,000 x 50% x 27%) under the current rules. Under the proposed rules, the taxable portion of the gain will be taxed at the investment income tax rate and Opco will pay taxes of $126,750 ($500,000 x 50% x 50.7%).

Of this $126,750 of taxes, up to $76,750 can be refunded to Opco as it pays taxable dividends to its shareholders. However, the opportunity for tax deferral by delaying the payment of taxable dividends to shareholders is effectively eliminated due to the higher corporate taxes paid up front under the proposed rules.

Current vs. Proposed rules for the purchase of ECP

The proposed rules will also affect the tax treatment of ECP acquired by a business. Under the current rules, 75 percent of the cost of ECP is added to a separate pool called Cumulative Eligible Capital ("CEC") which is depreciated at a rate of 7 percent per annum on a declining balance basis.

Under the proposed rules, a new class of depreciable property for Capital Cost Allowance ("CCA") will be introduced. The new rules will add 100 percent of the ECP to a newly introduced class 14.1 having an amortization rate of 5 percent per annum on a declining balance basis.

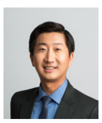
Transitional rules will transfer December 31, 2016 CEC pool balances to the new CCA Class 14.1. For 10 years, pre-2017 balances will be amortized at the rate of 7 percent per annum on a declining balance basis.

In addition, to simplify the transition for small businesses, small initial balances may be eliminated quickly. A taxpayer will be permitted to deduct as CCA, in respect of expenditures incurred before 2017, the greater of: (i) $500 per year; and (ii) the amount otherwise deductible for that year. This additional allowance will be available for taxation years that end prior to 2027.

What if I am considering selling my business?

If you are considering selling your business, there may be a significant tax advantage to accelerating the sale to occur before January 1, 2017. This of course should be considered in conjunction with various other non-tax factors. Please feel free to contact your Crowe MacKay tax advisor if you have any questions about these new rules.

New Tax Measures For Families



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One of the major themes of this year's Federal Budget was the "Strengthening of the Middle Class." Along with tax rate cuts for the second lowest tax bracket and the creation of a new top tax bracket for the wealthiest Canadians, there have been significant changes to the various tax credits and allowances available to families. Gone or being phased out are:

- Family tax cut. 2015 was the final year for which families could claim this tax credit, which allowed a higher-income spouse to notionally transfer up to $50,000 of taxable income to his/her spouse resulting in tax savings of up to $2,000.

- Children's fitness and arts tax credits. 2016 is the last year for which these credits can be claimed. Furthermore, the maximum eligible amounts for these credits have been reduced to $500 for the fitness credit and $250 for the arts credit.

- Universal Child Care Benefit ("UCCB") and the Canada Child Tax Benefit ("CCTB"). These are being replaced by the new Canada Child Benefit, which is discussed further below.

Child benefits will effectively be consolidated in the new Canada Child Benefit ("CCB").

What is the CCB?

The CCB is a non-taxable monthly benefit of up to $6,400 per year per child under the age of 6 and $5,400 per year per child aged 6 through 17.

How do I apply for the CCB?

To apply for the CCB, form RC66 Canada Child Benefits Application should be completed and sent to the Canada Revenue Agency (CRA). The form can be downloaded from the CRA's website. Alternatively, you can sign up for the benefit online through the "My Account" feature on its website.

Families that are currently receiving the UCCB or the CCTB do not need to apply for the new CCB. However, their 2015 tax returns should be filed so that the CRA can calculate the CCB payment. If you have not filed your 2015 tax return yet, please feel free to contact your Crowe MacKay tax advisor for assistance.

How much will I receive under the CCB?

Benefits under the CCB will be determined based upon the number of children in a family and the adjusted family net income. Families with adjusted family net income of $30,000 or less will receive the maximum benefits under the CCB. As adjusted family net income exceeds $30,000, the CCB will be reduced using the rates summarized below:

Number of children	Phase-Out Rates (%)		
	$0 to $30,000	$30,000 to $65,000	Over $65,000
1 child	0%	7.00%	3.20%
2 children	0%	13.50%	5.70%
3 children	0%	19.00%	8.00%
4 or more	0%	23.00%	9.50%

To illustrate how the CCB will be calculated, let us consider the Crowe family, which consists of father Russell, mother Sheryl, and sons Brandon (15 years old) and Cameron (5 years old). Their adjusted family net income is $90,000 and their CCB is calculated as follows:

Benefit for Brandon		$ 5,400
Benefit for Cameron		6,400
Less: Phase-out	[13.5% x ($65,000 - $30,000)]	(4,725)
	[5.7% x ($90,000 - $65,000)]	(1,425)
Total Canada Child Benefit		**$ 5,650**

Is the CCB better for me and my family?

Under the old UCCB and CCTB the Crowe family would expect to receive approximately $3,375 of benefits after tax (assuming a 15% tax rate is applicable to the UCCB), meaning additional benefits of $2,275 under the new CCB. It should be noted that because the UCCB is not phased out when family net income exceeds a certain level, there may be situations where families with high net family incomes are worse off under the new program. For example, a family's CCB may be phased out but they still would have been entitled to receive the UCCB under the old programs.

When will I receive my CCB?

The first payment under the CCB will be issued on July 20, 2016, replacing the current UCCB and CCTB. The last regular payments under these two old programs will be issued on June 20, 2016. It is expected that provincial benefits that are currently included with monthly CCTB payments will continue to be included with monthly CCB payments.