Tax Changes for 2016 & beyond…

HIGHLIGHTS:

NO SURPRISE

The 2016 TFSA limit is reduced to $5,500 (with the same indexation provisions that applied to the pre-2015 limit). The 2015 $10,000 limit has been left intact.

The reduction of the second income tax bracket, from 22% to 20.5% and the new top income tax bracket of 33% on income over $200,000, are both effective January 1, 2016.

The so-called “kiddie tax”, which applies when a minor receives certain types of passive income or capital gains, the tax on excess Employee Profit Sharing Plan (EPSP) amounts and the tax on most Trusts, is modified from 29% to the highest personal tax rate.

SMALL SURPRISE

The credit for charitable donations over $200 will be increased to 33% only to the extent the individual has income subject to the new 33% personal tax rate – otherwise, the credit stays at 29%. As a result, there is a bigger tax credit in 2016 on donations. It may be preferable to delay until 2016.

BIGGER SURPRISE

The rules for investment income earned by a Canadian Controlled Private Corporation (CCPC) will change to add a further 4% surtax, phased in for days after 2015, on Specified Investment Business Income (SIBI) - looks like the Liberals want to avoid deferrals on investment income (more on this development below).

INVESTMENT INCOME EARNED WITHIN A (CCPC) CANADIAN CONTROLLED PRIVATE CORPORATION

Lots of new math here…

The new surtax will add 4% to the tax rate on Specified Investment Business Income (SIBI), phased in over the course of 2016 (eventual SIBI rate in Alberta will be 50 2/3%).

The increased surtax will also increase Refundable Dividend Tax on Hand (RDTOH), so the absolute tax cost does not change (still 20% net corporate tax in Alberta) on investment income (after declaring dividends sufficient to recover the RDTOH.

The dividend refund rate will increase from 33.33% to 38.33%. This increase is also phased in over calendar 2016; therefore the merits of paying dividends to recover RDTOH will change during 2016, solidifying in 2017. For top rate Albertans who would have to take non-eligible dividends. There is a tax deferral if such dividends are not declared. However, clients who can arrange to get GRIP (General Rate Income Pool) and RDTOH into the same company will benefit.

The tax rate on taxable dividends received by a private corporation (Part IV tax) will rise from 33.33% to 38.33% on January 1, 2016. All dividends paid after 2015, will be taxed at the new, higher rate even though the increased dividend refund will be phased in. This may motivate delaying dividends to recover this (Part IV) tax into 2017.

NOT IN THE DRAFT LEGISLATION, BUT NOTED IN THE NEWS RELEASE

Expect the new Canada Child Benefit to begin July, 2016 and the family tax cut will be repealed for 2016.

These new rules will impact corporations with year ends on or after January 1, 2016.

For more information on these highlights or on corporate or personal tax planning or any other investment or taxation matters, please contact us at 780.424.3000, info@krpgroup.com or visit our website @ www.krpgroup.com

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