2018 Tax Planning Considerations

During the past year there have been significant changes made to tax legislation. The changes impact corporation and individual taxpayers and may require action. Some of the main items that have been impacted are noted below.

The Voluntary Disclosures Program

This is a program that the Canada Revenue Agency offers to all taxpayers allowing the taxpayer to disclose or correct incorrect filings or non-filings without being subject to penalty or prosecution. The program has come under fire by the media for the ability of some taxpayers that took inappropriate tax positions that resulted in avoidance of Canadian taxes, the ability to correct their positions with little Canadian tax consequences. I.e. the Panama Papers and the KPMG offshore Isle of Man scheme. As a result, the Canada Revenue Agency has made changes to the program that reduce the ability to obtain relief for making a voluntary disclosure after March 1, 2018. In order to make a valid voluntary disclosure now under the current rules the following is required:

- The taxpayer must be voluntarily making the disclosure, so if the taxpayer has been contacted or informed by the Canada Revenue Agency that the taxpayer has been selected for a review or audit the disclosure would not be considered voluntary.
- The disclosure being made must be complete, the taxpayer must disclose the tax issue for all years and not pick and chose to disclose for some tax years.
- The disclosure must involve the application or a potential application of a penalty; and
- The disclosure must be for a tax issue that is at least one year past due.

We have been advising our clients that may have any potential tax issues in their past that **you should strongly consider making a voluntary disclosure now before the new rules start on March 1, 2018**. The reason for this is that the current rules are more lenient then the new rules with regards to penalty and prosecution relief.

Income Sprinkling

The government has updated tax rules that limit the ability of income splitting amongst family members that operate a business using a corporate structure. The new rules allow income splitting only under certain situations **(see the article on Income Sprinkling on our website industry updates section)** and based on the new rules there may need to be a share reorganization completed. **Ideally any reorganization should be completed prior to the end of 2018** to ensure that there are no adverse tax consequences due to the new rules.

Holding Passive Investments in a Corporation

The government has announced that it will introduce new rules in the 2018 Federal budget that will limit the ability of a corporation to amass excess cash for passive investments. The new rules will limit the annual passive income generated on the passive investments to $50,000.

The government has indicated that they are going to provide grandfathering to existing passive investment holdings in corporations but, details of how these rules will apply will be announced in the 2018 federal budget. If you have passive investment holdings in a corporation and have unrealized gains that you may consider realizing, talk to us. The reason is that once gains have been realized on the investments there currently is the ability of paying out the non-taxable portion of the gains from the corporation. We are recommending that if a corporation has realized gains on investment holdings that the corporation consider making a capital dividend election to payout the non-taxable portion of the gain.

If you would like to discuss any of these items further or require assistance, please do not hesitate to contact us at (905) 549-8463.