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Proposed Tax Changes & Income Splitting

- On July 18, 2017 the Department of Finance issued a discussion paper and some draft legislation that addressed three areas relating to private corporations:
    - Income splitting
    - Passive investments
    - Conversion of income into capital gains

- Scrapped from the original proposals
    - Initially included with the income splitting proposals were limitations for multiplication of the Capital Gains Deduction with family members.
    - Conversion of income into capital gains
        - This area also included a very broad piece of draft legislation that many were concerned could apply to transactions such as transferring land or a farm partnership interest to a company
        - The broad piece of legislation could have converted what would have been a non-taxable amount from a company to a taxable dividend

Income Splitting

- Modified draft legislation reintroduced on December 13, 2017
- Income splitting previously had rules to tax dividend income and certain partnership income received by a minor child from a related private company or partnership
    - Tax on split income (TOSI) – taxed at the highest marginal income tax rates
    - Top rate for ineligible dividends in Saskatchewan is 40%
- Draft legislation focuses on expansion of TOSI
    - Most professional corporations and service companies will not be able to dividend sprinkle with inactive family members
    - More restrictive rules for family members aged 18 to 25
    - Effective for dividends paid after 2017
- For those aged 25 and older who are not able to access the excluded shares or business rules
    - Will need to determine if dividends are reasonable with respect to work performed, property contributed and risks assumed
    - Tracked during entire period of share ownership
- For those aged 18 to 25 who are not able to access the excluded business rules
    - Can receive a reasonable return on property contributed.
- Other rules
    - Can split income with a spouse when the principal active shareholder is 65 or older
    - Dividend income from shares received as the result of death or marriage breakdown can be excluded
    - Deemed capital gains on death are excluded