

Mar 6-18

CURRENT EDUCATION ON NEW TAX RULES FOR CORPORATIONS

Good Afternoon To All

The 2018 Federal Budget has been released and here are some important points regarding our Medical-Dental-Small Buss Inc and Holdcos.

The bottom line is that the changes are over all BETTER than we all thought regarding Passive income!

Currently the Small buss tax rate (SBR) is a reduced tax rate afforded to private Cdn Corporations on the first \$500,000 of ACTIVE buss income.

The main story for most of my clients concerns the PASSIVE INCOME earned each year in the Inc.--which includes the interest income, dividends and the taxable portion of any capital gains that you earn in the Inc. each year

Passive Income will now see higher taxation going forward...but it is better than we expected!

Yes we did lose the "grandfathering" of prior Inc. assets from being exposed to the new tax rules BUT that was going to be a nightmare for us, our accountants and Rev Canada.

To compensate for no grandfathering--Mr. Morneau REDUCED the tax hit for us all by allowing for a **GRADUAL change** on the taxes charged on PASSIVE INCOME above \$50,000 all the way up to \$150,000 per year (vs an abrupt increase above \$50,000).

If the Inc. earns more than \$50,000 per year in PASSIVE INCOME (interest from bonds, div from stocks and capital gains) then the Small Business rate (SBR) advantage starts to decline BUT continues to be advantages right up to \$150,000.

Earn Beyond \$150,000 in Passive Income each year and the SBR is lost!

So \$50,000 would roughly equate to a 5% return on passive income on \$1mill and \$150,000 would equate to a 5% on \$3mill account generally speaking.

Let us review the Outcome for the average Doctor-Dentist-Small Buss HOUSEHOLD ACCOUNT at RBC with \$1.5 mill in assets:

-firstly, recall that typically \$750,000 of this RBC account is in the RRSP-RIF and TFSA so only \$750,000 of this \$1.5 mill account is really in the Inc. and exposed to this new SBR higher taxation.

-so at a 5% of passive income “return” on \$750,000 in Inc. assets that is \$37,500 which ALLOWS for the FULL small buss lower tax rate fyi!

-furthermore--Curran clients are “sheltered” here from this new small buss tax hike as we are very focused on BUY and HOLD in our Inc. accounts so we do not attract-crystalize a lot of capital gains which MINIMIZES the annual Passive Income into your Inc. each year...our Advisor Flat fee removes a big conflict of interest and allows me to stick to Buy and Hold which will save you taxes going forward!! (plus the Advisor fee is tax deductible!!)

-Additionally, we structure our accounts so that 90% of the fixed income is in the RRSP so this regularly paid interest continues to avoid regular taxes (as it and 90% of our buy and hold-cap gain equities are in the Inc. again lowering our overall tax structure

-Finally—the new budget rules will see the SBR fall from 10.5% on the first \$500,000 in 2017 to 10% in 2018 and 9% in 2019—that is a decent win for our small Inc. accounts

So all in all the sky is not falling here folks wrt to the new Passive Income Rules!!

I have enclosed some reviews on the budget for those that want further clarification...and further coverage of other topics such as income sprinkling etc.

FINALLY—remember that I am NO ACCOUNTANT so ultimately these discussions on how to best deal with the new rules go towards the accountant.

Terry