



New Tax Rules Small Business Owners



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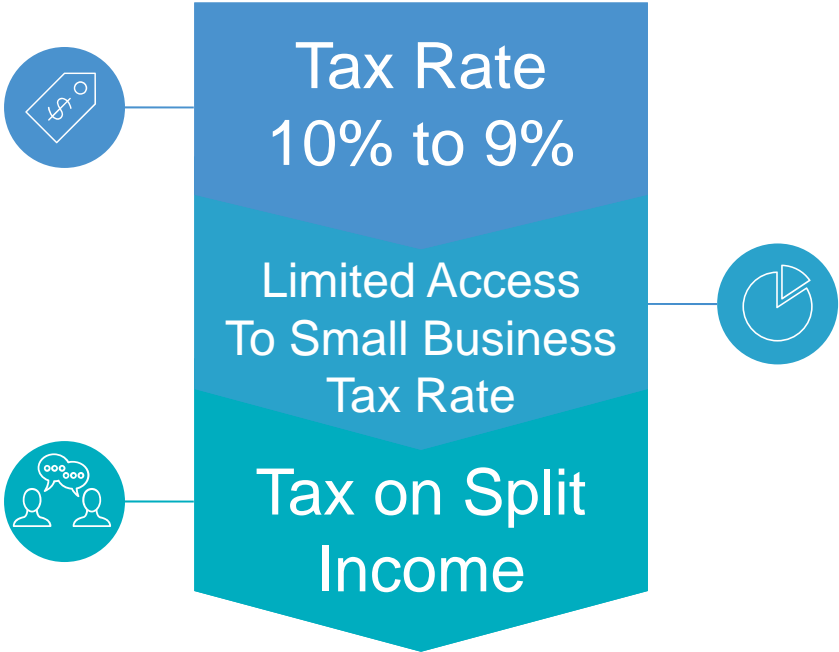
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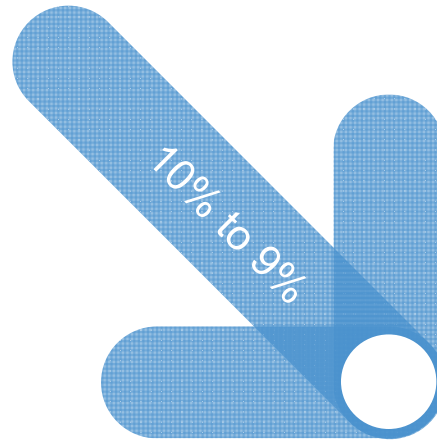
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Summary of the Rules





Small Business Tax Rate Reduction



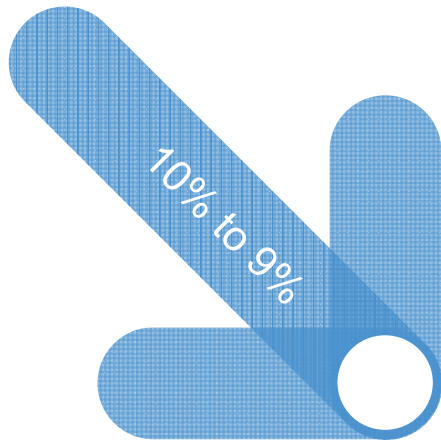
Reduction from **10% to 9%**
Effective January 1, 2019



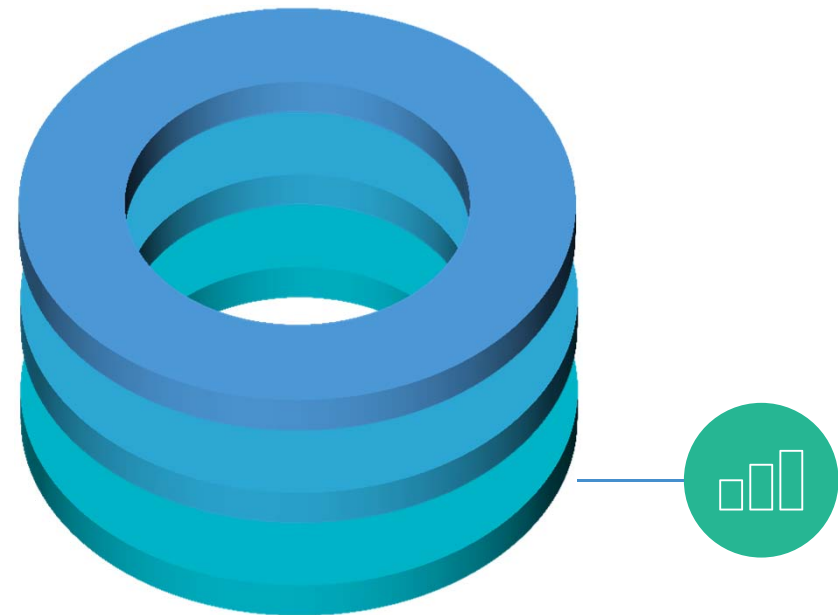
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Small Business Tax Rate Reduction Problem



Lower corporate tax rates results in more capital **trapped** inside corporation.



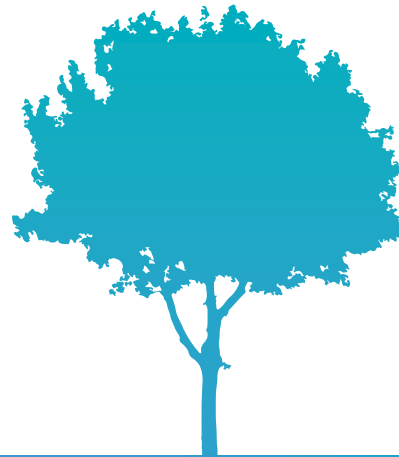
Problem:
Lower corporate tax rates results in more capital **trapped** inside corporation.





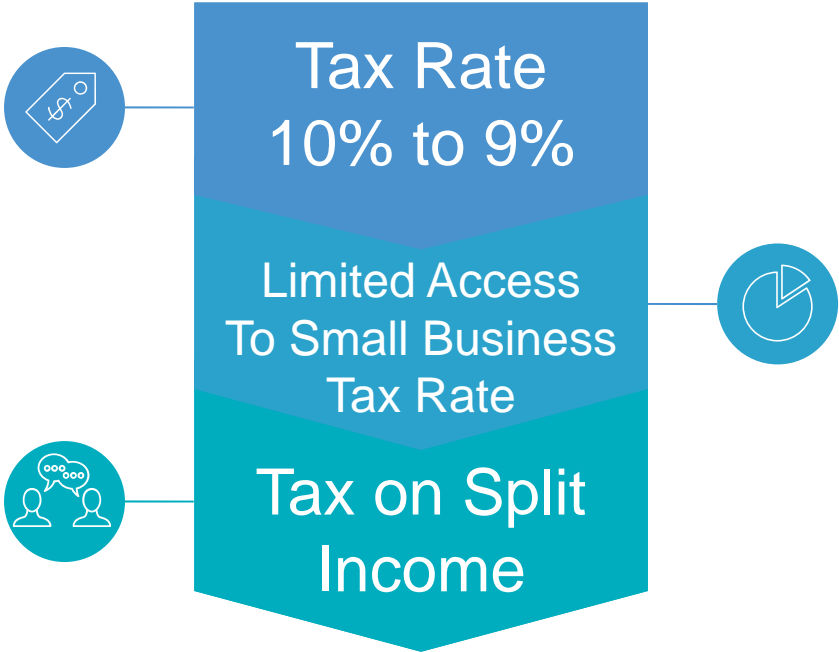
Possible Solution: Life Insurance

Life insurance proceeds credit the capital dividend account on death allowing for **tax-efficient** distribution of funds from the **corporation to the estate**



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Summary of the Rules





Limited Access to Small Business Tax Rate



Passive Investment Income greater than \$50,000 / year reduces the Small Business Limit for Small Business Tax Rate
The business limit would be reduced to zero at \$150,000 of investment income. **Effective January 1, 2019.**





Understanding the Adjusted Aggregate Investment Income (AAII)

Passive Income Tax Treatment Table

Asset type	Canadian Equities	Foreign Equities	Fixed Income
Tax Treatment in a CCPC	Dividends: 38.3% Realized Capital Gains: 25% Current tax on Deferred Gains: 0%	Dividends: 50%, otherwise the same as Canadian Equities	Interest Income Received: 50% Realized Capital Gains: 25%
Asset type	Real Estate	Alternative Strategies	Life Insurance
Tax Treatment in a CCPC	Taxable Rental Income: 50% On Return of Capital : 0% Currently on Deferred Capital Gains : 0%	Realized Capital Gains: 50% Current Tax on Deferred Gains: 0%	No tax on growth in policy, unless policy is cashed in before death.

Check what makes up your Adjusted Aggregate Investment Income.





Limited Access to Small Business Tax Rate Problem



For companies with passive income over \$50,000, the small business limit will be reduced and, thus, increase the total amount of tax you have to pay





Possible Solutions



Corporate Owned Insurance

Insured Retirement Program, Estate bond, Corporate held Critical Illness Insurance with Return of Premium



Pay enough salary/dividends to maximize RRSP and TFSA Contributions

A salary of \$145,722 will allow the max 2018 RRSP contribution is \$26,230



Individual Pension Plan (IPP)

The corporation contributes to the IPP and income earned in the IPP doesn't belong to the corporation. This should only be considered when the AAll is over \$50,000.

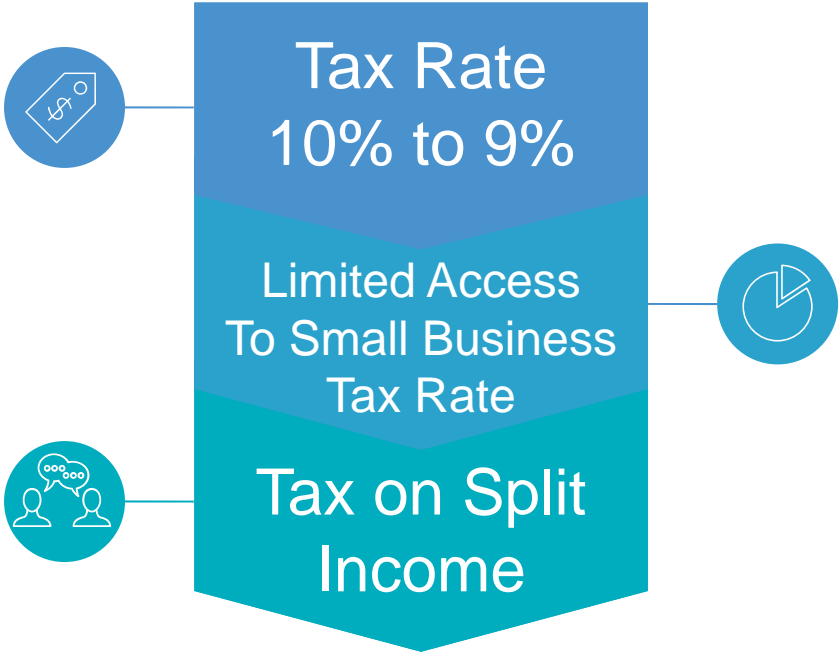


Deferred Capital Gains

Capital gains are 50% taxable and are only 50% included in the AAll.



Summary of the Rules





Tax on Split Income



Income meeting the definition of TOSI is removed from the individual's net income and taxed separately at the top marginal tax bracket in his or her province of residence. In addition to paying tax at the top tax rate, the individual may claim only the dividend tax credit, tax credit for mental or physical impairment and foreign tax deduction



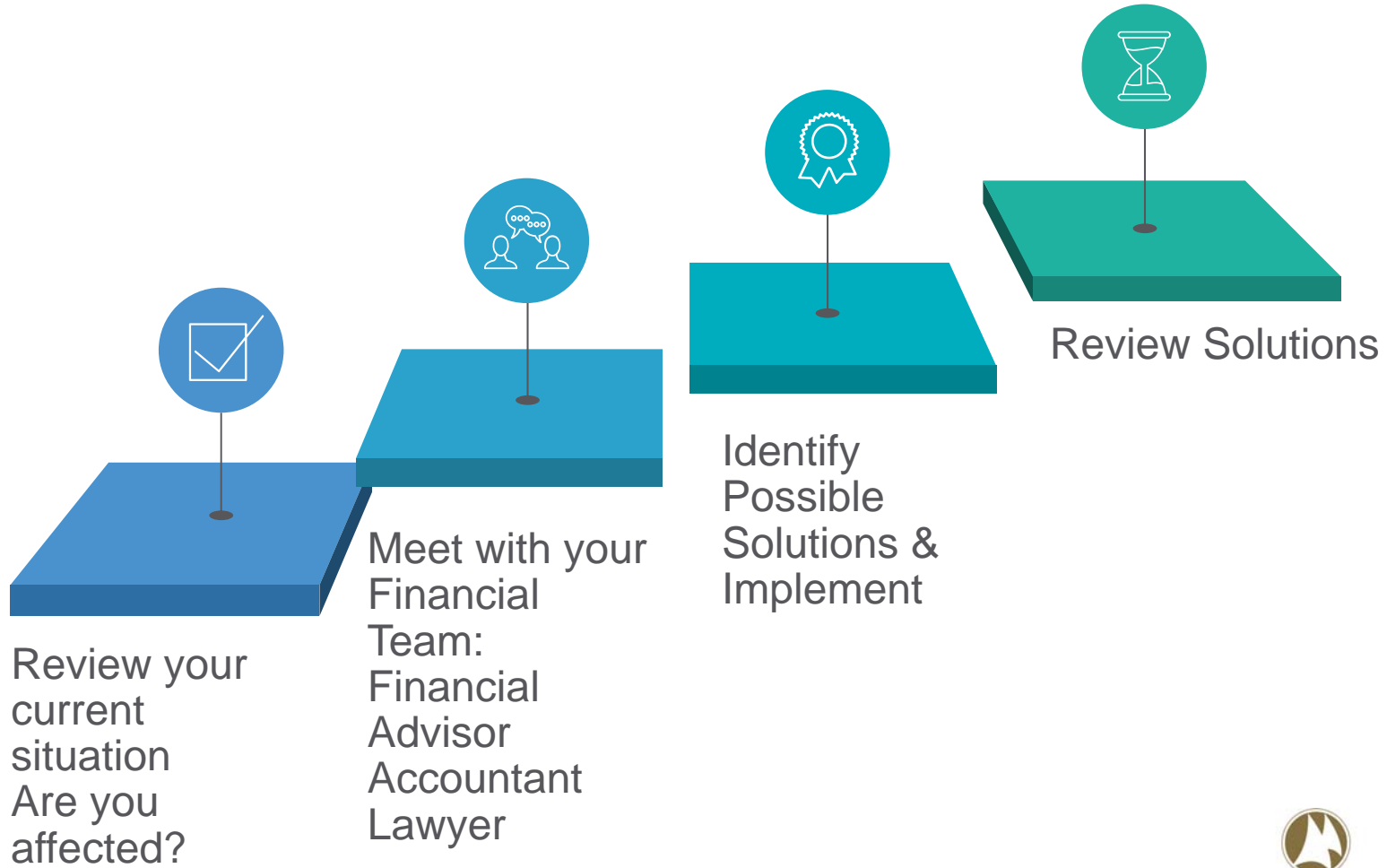


Possible Solution

Exceptions to the TOSI rules:
The rules provide that an individual is deemed to be 'Actively Engaged' if the individual works in the business at least an average of 20 hours per week during the taxation year or meets this requirement in any five prior years.



Next Steps before Jan 1, 2019 Deadline



Questions?

For more information, please contact us.

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