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Tax Changes and Your Family Business

On July 18, 2017, the Federal Department of Finance released proposed changes that could impact the taxation of Family Businesses (i.e., private Canadian corporations and their shareholders), including corporations in the real estate and construction industries.

3 BENEFITS YOU'LL LOSE

Reducing overall taxes by paying dividends to family members or trusts that are shareholders in the private corporation

Deferring income taxes on excess earnings by retaining them in the corporation

Reducing taxes by allowing shareholders to withdraw corporate surplus as capital gains

5 THINGS TO KNOW

Proposed **changes** call for a subjective **"reasonability test"** for dividends paid to adult family members, so **document** shareholders' duties and contributions.

Family trusts will be **ineffective** for splitting income among family members, unless it can be shown that the amounts distributed to individuals were **reasonable.**

The **provision of labour** to a corporation in respect of its **rental activities** may **never** satisfy the "reasonability test."

Incorporation can still be **beneficial.**

Restructuring your share structure may be necessary.

{ To find out more about how the new tax rules might affect you and what you can do to prepare for the changes in store, talk to your tax advisor. }

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