TOP TAX CHANGES AFFECTING YOU AND YOUR BUSINESS IN 2017

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With the New Year comes new tax changes that impact the amount of tax we pay in the coming year. In order to save you some time to put towards those New Year resolutions, we have compiled a summary of the changes you can expect to see when you file your 2016 tax return and what to look forward to in 2017. As with most tax changes, some will save you tax and others may cost you a little more.

Changes To The Tax Rates

During the 2015 election, the Liberal government campaigned on a promise to reduce taxes for the middle class by asking the wealthiest 1% to give a little more. In their first months in government, they made good on this promise and have reduced the taxes for the middle class. When you file your taxes in 2016 you will see your federal tax reduced by 1.5% (from 22% to 20.5%) on earnings between $44,700 and $89,400, a potential tax savings of $670. In addition, a new tax bracket has been created for income over $200,000. Canadians will now pay an additional 4% on income earned over this threshold (from 29% to 33%) plus their provincial rate. With this new tax change, income earned in Ontario over $200,000 will now bear a tax burden of approximately 52% and income over $220,000 a rate of 53.5%.

The Beginning Of The End For Boutique Tax Credits

The 2016 year brought about the beginning of the end for what have been termed "boutique" (specific) tax credits… mostly.

Our goal is to provide updates on topical accounting and tax issues. Information contained in this newsletter is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients and readers. We would be pleased to discuss any questions that you, the reader, might have in greater detail.

Going forward expect to see fewer tax credits that aren't income tested. That is tax credits will tend to be geared to lower income Canadians with those in higher tax brackets receiving reduced benefit or no benefit at all.

Tax Credits That Will Be Phased Out Include:

- Family Tax Cut – This cut allowed families with minor children to split income with their spouse where one spouse was in a lower tax bracket than the other. This allowed for a non-refundable tax credit of up to $2,000. 2015 was the last year for this credit as it has been eliminated for 2016.
- Children's Fitness and Arts Credits – For the 2015 year, families could claim a 15% tax credit on up to $1,000 of fitness and $500 arts related expenses per child (a tax saving of up to $225 per child). This credit will be phased out over 2016 and 2017. For 2016 these credits will be cut in half to $500 and $250 respectively each and will be fully phased out for the 2017 tax year.
- Education and Textbooks Tax Credit – This credit is on the chopping block for 2017. Up until now, students have been eligible for a $465 tax credit for every month of full-time study and $140 for each month of part-time study. In a typical 8 month full-time program, of study this amounts to a $550 tax savings for students that will be eliminated.

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One exception to this rule of income tested benefits appears to be a new teachers and early childhood educator school supply credit. This new credit, effective for the 2016 tax year, will give eligible educators the ability to claim a credit for up to $1,000 of school supplies purchased by the educator. The credit will have a maximum tax saving $150.

The Universal Child Care Benefit (UCCB) Gets A Facelift… And New Name

Those with children under the age of 18 may be familiar with the UCCB which until recently

provided all parents $160 a month per child under 6 years of age and $60 a month per child aged between 6 and 17. The UCCB was available for all parents regardless of income and was required to be reported as taxable income on the parents' tax returns. Keeping with the trend of income tested benefits, the UCCB has been significantly revamped including the flashy new name, Canadian Child Benefit or CCB for short. Under the revised program, the maximum benefits will be received by lower income families and will be phased out as family income rises.

The new Canadian Child Benefit starts at $6,400 a year for children under six and $5,400 a year for children between 6 and 17. The maximum child benefit is available to families with "adjusted family net income" below $30,000. After this, the benefit is reduced with an accelerated reduction for family income between $30,000 to $65,000 and then a more modest reduction from $65,000 to $188,000 of family income at which point the credit is entirely phased out. In addition, unlike the UCCB, the CCB will not be required to be reported as taxable income on your tax return. If you have children and want to know what benefit you may be entitled to, the Government of Canada has released an online payment calculator which can be found here.

Scaled Back Annual Tax-Free Savings Account Limits

The tax-free savings account (TFSA) was introduced 2009 as a vehicle for Canadians to earn investment income on a tax-free basis. Similar to RRSP's, there is a maximum annual amount that can be contributed to a TFSA. By the end of 2015, Canadian residents who were over 18 in 2009 and have not contributed to their TFSA yet will have a cumulative balance of $41,000 that can be contributed to their TFSA, which includes a $10,000 increase in 2015. Starting in 2016, the TFSA annual limit increase has been reduced to $5,500 annually.

New Reporting Requirements When Selling Your House

When selling real-estate in Canada, taxpayers are required to report the disposition on their tax returns and pay tax on any gains. The exception has always been when selling your principal residence, a transaction, which if certain rules are met, is tax free. While the rules making your principal residence tax free have not changed for Canadian residents (they have for non-residents), starting in 2016 you will now be required to report this on your tax return even if there is no tax. The rules relating to this can be complex and we recommend seeking advice when selling your principal residence. For more information on the principal residence changes you can review Hendry Warren's October tax newsletter on the topic which can be found on our website here.

Selling Your Goodwill? Expect To Pay A Little More Tax In The New Year

Many small businesses have inherent value in excess of the value of their tangible assets, better known as goodwill. Starting January 2017, small business owners will be required to pay a little more tax when selling goodwill through a corporation. Prior to 2017, goodwill was considered Eligible Capital Property (ECP) and when sold, 50% of the gain was included in business income. With corporate tax rates of 26.5%, and only 50% of the gain being taxed, the sale of goodwill previously attracted a corporate tax rate of only 13%. Under the new rules effective in 2017, ECP will no longer be taxed as business income. Instead, it will be taxed as inactive income and subject to capital gain rates. Similar to the old rules, only 50% of the gain is subject to tax, however the new tax rate is 50.17% which works out to about 25% tax. This is almost double the 2016 rate! While there is some opportunity for refunds in the corporation when taxable dividends are paid, business owners should expect to pay more tax when selling goodwill in 2017.

Questions?

If you have any questions or want more information on the changes noted above we would be happy to discuss these with you.

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