



Pilgrim Accounting Inc.

PROFICIENCY IN ACCOUNTING

NEWSLETTER

THE NEW RULES FOR INCOME SPRINKLING FOR SMALL BUSINESSES

Last year there was a lot of media coverage on proposed rules to change how income sprinkling happens in Canada's small businesses.

By income sprinkling, which some people call income splitting, I mean a strategy that can be used by high income owners of private corporations to divert their income to family members with lower personal taxes.

When the government first proposed changes to the rules covering this practice in 2017, there was a lot of criticism. Nonetheless, as 2018 dawns, the government still plans to put new rules in place that will hinder the illegitimate use of income sprinkling. Their goal is to ensure that legitimate contributors to a small business will still be able to receive income from the business. That has been the point of contention from the start since there are a lot of legitimate family businesses across the country where parents and their children all contribute to make the success of the enterprise.

My clients are still expressing concern about the amount of extra paperwork that may be involved this year, and it is too soon to tell just how smoothly these changes will be enacted. One good thing is that the federal government has agreed that there will be no "reasonableness test" needed in circumstances where the family members involved are a spouse over the age of 65, or someone over the age of 18 who works at least 20 hours of week for the company. Also exempted from the test would be a family member over 25 who owns 10 percent or more of the business that earns less than 90 percent of its income from "the provision of services."

If you want to engage in income sprinkling and you do not meet any of the above criteria, then you do not fit easily into the Canada Revenue Agency exceptions. For that reason, you will likely face a review.

What is this going to mean in reality to most of the small businesses across Canada in 2018?

According to federal Finance Minister, 97 percent of small businesses will see no changes at all. The new rules started Jan. 1, 2018 but businesses have until Dec. 31, 2018 to adjust to the changes before filing their 2018 taxes.

If you are not sure how all of this is going to impact your business, now is the time to see a tax specialist who can assess your unique circumstances and advise you.

Contact us for advice!

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