Tax Insights
from High Net Worth/Private Company Services
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Taxes for high earners to increase January 1, 2016: Act now to save!

December 7, 2015

In brief

Today, Finance Minister Bill Morneau commented on the following personal tax changes, which were promised in the Liberal party platform:

- personal tax rates – starting January 1, 2016:
  - the tax rate on incomes over $200,000 will increase from 29% to 33%
  - the second lowest tax rate will drop from 22% to 20.5%, decreasing taxes by up to $671 (based on 2015 tax brackets)
- Tax-Free Savings Account (TFSA) contribution limit – will be rolled back from $10,000 to $5,500 and indexing will be reinstated, for contributions made in respect of the 2016 and later years
- income-splitting – the measure that allows some families with children under 18 to reduce their taxes by up to $2,000 will be cancelled, starting 2016
- Universal Child Care Benefit, Canada Child Tax Benefit and National Child Benefit Supplement – will be replaced with a new Canada Child Benefit, for payments starting July 1, 2016; the Liberal party platform had stated that the new benefit would be income-tested and tax-free

The first two measures appeared in a Notice of Ways and Means Motion (NWMM) that was released today. The latter two will be in the 2016 federal budget.

Today's NWMM also increases:

- the Canadian-controlled private corporation (CCPC) investment income surtax from 6 2/3% to 10 2/3%, which therefore raises the overall tax on investment earned in a CCPC by 4%
- the Part IV Tax rate from 33 1/3% to 38 1/3%
- the dividend refund rate on taxable dividends paid by a corporation from 33 1/3% to 38 1/3%

We will issue a *Tax Insights* in a few days that will compute the overall effect of earning income in a corporation.

If the hike in the top personal tax rate will increase your tax bill, there may be steps you can take to reduce the bite. Many of these steps must be implemented before January 1, 2016, so act now.

In detail

Increase in top personal tax rate

If your income will exceed $200,000 in 2016, today's announcement will increase your 2016 tax liability.

The Appendix to this *Tax Insights* gives you an idea of how much more tax you will pay. It also shows your top marginal tax rate – the percentage of tax you pay on income over $200,000.

There may be steps you can take to benefit from the lower top rate in 2015 and to avoid paying tax at the higher rate after 2015. However, many of these strategies must be implemented before January 1, 2016.

Steps you can take

- Accelerate income to 2015:
    - It may be possible to receive bonuses and discretionary dividends in 2015, instead of later.
    - If you are planning to dispose of capital or income property for a gain, you may want to do so in 2015, rather than after the year end.
    - If you sold capital property and are entitled to claim a reserve in 2015 in respect of uncollected proceeds, consider not claiming it.
    - You may want to withdraw funds from a Registered Retirement Savings Account (RRSP) or Registered Retirement Income Fund (RRIF) in 2015, especially if you would otherwise make the withdrawal in the near future.
- Delay losses and deductions until after 2015:
    - If you are planning to dispose of capital or income property for a loss, consider deferring the sale until after year end.
    - If you contributed to a RRSP in 2015 or before, you may want to defer claiming the deductions until 2016.
- Avoid having taxable income over $200,000 after 2015:
    - Consider lending money (at an interest rate that equals or exceeds the prescribed rate – currently 1%) to a spouse, child or grandchild who is in a lower tax bracket and will invest the funds, so that the investment income will be taxable to your lower-income family members, instead of you.
    - Think about gifting funds to your adult family members, so that they can contribute to their TFSAs; the investment income earned in the TFSA will be tax free.
    - After 2015, you may want to defer income that you could otherwise receive (e.g. by slowing or stopping the annual redemption of preferred shares you received on a freeze).
    - Speak with your employer about whether setting up a retirement compensation arrangement (RCA) is feasible; you would not pay any tax until your retirement when you receive distributions from the RCA.
    - Consider revising your compensation package to receive non-taxable benefits (e.g. a scholarship program that may benefit you and other employees' children, contributions to private health service plans and group sickness or accident insurance, paying your education expenses).
    - If you will be receiving a retirement allowance and are planning to retire abroad, consider waiting until you are non-resident to get the payment.

Non-tax considerations

Of course tax is only one aspect of a sound financial plan. Some of the steps discussed require reporting income in 2015, rather than 2016 and, therefore, paying taxes up to one year earlier. In these cases, the time value of money should be considered before acting.

In addition, your strategy should take into account your cash flow needs.

Stock options

The Finance Minister did not address the Liberal party's pledge to cap the amount that can be claimed through stock option deductions. However, on November 20, 2015, he confirmed that any changes would not apply to options granted before the effective date of the change.

Steps you can take

If possible, receive stock option grants before the stock option changes are made. For more information, see our *Tax Insights* "Expected changes for taxing stock options: Be prepared" at www.pwc.com/ca/taxinsights.

Appendix

How much more tax will you pay?

The table below shows how much additional tax you would pay, at select income levels, assuming all your income is interest or ordinary income (such as salary).

Taxable income	Additional tax[1]
$1,000,000	$31,330
$800,000	$23,330
$600,000	$15,330
$400,000	$7,330
$300,000	$3,330

1. Ignores indexing

Top personal tax rates

The following table shows top combined tax rates for 2015 and what they will be for 2016 as a result of today's announcement.

	Ordinary income		Capital gains		Canadian dividends Eligible[1]		Canadian dividends Non-eligible[1]	
	2015	2016	2015	2016	2015	2016	2015	2016
Federal	29.00%	33.00%	14.50%	16.50%	19.29%	24.81%	21.22%	26.30%
Alberta	40.25%	48.00%	20.13%	24.00%	21.02%	31.71%	30.84%	40.25%
British Columbia	45.80%	47.70%	22.90%	23.85%	28.68%	31.30%	37.99%	40.61%
Manitoba	46.40%	50.40%	23.20%	25.20%	32.26%	37.78%	40.77%	45.69%
New Brunswick	54.75%	58.75%	27.38%	29.38%	38.27%	43.79%	46.89%	51.75%
Newfoundland and Labrador	43.30%	48.30%	21.65%	24.15%	31.57%	38.47%	33.26%	39.40%
Northwest Territories	43.05%	47.05%	21.53%	23.53%	22.81%	28.33%	30.72%	35.72%
Nova Scotia	50.00%	54.00%	25.00%	27.00%	36.06%	41.58%	41.87%	46.97%
Nunavut	40.50%	44.50%	20.25%	22.25%	27.56%	33.08%	31.19%	36.35%
Ontario	49.53%	53.53%	24.76%	26.76%	33.82%	39.34%	40.13%	45.30%
Prince Edward Island	47.37%	51.37%	23.69%	25.69%	28.70%	34.22%	38.74%	43.87%
Quebec	49.97%	53.31%	24.98%	26.65%	35.22%	39.83%	39.78%	43.84%
Saskatchewan	44.00%	48.00%	22.00%	24.00%	24.81%	30.33%	34.91%	40.06%
Yukon	44.00%	48.00%	22.00%	24.00%	19.29%	24.81%	35.18%	40.18%

1. The rates do not reflect any changes that may be made to the dividend gross up and tax credit.

Let's talk

For a deeper discussion of what the changes mean for you, please contact:

- your PwC adviser
- any of the individuals at www.pwc.com/ca/pcscontacts or:

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