AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

Nakamun
ADVISOR

SPRING 2018

FEDERAL BUDGET
2018 HIGHLIGHTS

The February 2018 Federal Budget, which announced an expected Government deficit of $18.1 billion in 2018 — 2019, reducing to $12.3 billion in 2022 — 2023, contained some items of interest for individual investors and incorporated business owners. Below are the highlights:

Working Women and Women Entrepreneurs

As expected, the Budget focused heavily on helping working women and women entrepreneurs. The Business Development Bank will provide $1.4 billion over 3 years to provide financing to women entrepreneurs, while Export Development Canada will provide $250 million in financing and insurance over the next 3 years to businesses owned and led by women.

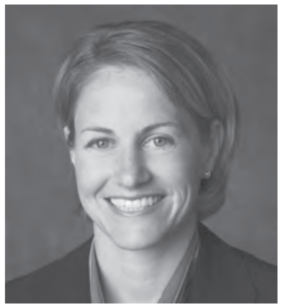
A new employment insurance parental sharing benefit was also proposed, and is designed to encourage women to re-enter the workforce.

Private Corporations

In July 2017, the Federal Department of Finance announced significant changes to private corporations and how certain strategies were taxed. Three specific strategies used by business owners to reduce their taxes were tackled, and after much discussion with stakeholders the Government finalized their positions as follows:

- Income sprinkling to family members, particularly those with income low enough to pay little or no taxes — in July 2017, the Government looked to expand anti-avoidance "kiddie tax" rules on dividends to children under the age of 18, and to certain adults, to encompass more types of income. In December 2017, the Government revised those recommendations to recognize that children over the age of 17 who are actively involved in the business and who work significant hours for the company shouldn't be penalized. Children older than 24, who are shareholders owning at least 10% voting rights and market-value shares, should also not be penalized on income received. Other recommended revisions included comparable pay for family members and others doing similar work in the business; and exceptions to retirement and capital gains. These new income sprinkling rules, with the December proposed exceptions, were confirmed in the Budget and will apply for the 2018 tax year

continued on page 2...



SHAUNA BLACKBURN-COOK
BCOM, CEBS
shauna@ngebi.com

NAKAMUN GROUP EMPLOYEE BENEFITS INC.
3263 Parsons Road, 2nd Fl.
Edmonton, AB T6N 1B4
Phone (780) 469-6067
Fax (780) 469-6068
Toll Free 1-888-469-6068
shauna@ngebi.com
nakamunbenefits.ca

A MEMBER OF THE NAKAMUN FINANCIAL GROUP

VANCOUVER
EDMONTON
CALGARY
WINNIPEG

Independent Advisors in Retirement, Financial and Estate Planning, Employee Benefits and Corporate Insurance.

...continued from page 1

- Passive investment income earned within a corporation — the Budget proposed that retained earnings within a private corporation, that are invested passively (mutual funds, stocks, bonds, ETFs, GICs, etc.), when earning more than $50,000 in any given year, will begin to reduce the small business deduction (a reduced tax rate on active business income up to $500,000). This reduction will be $5 for every $1 of passive investment income more than $50,000, meaning that at $150,000, the small business deduction would reach zero. Considering this, when designing an investment portfolio within a corporation, look at investment strategies that could potentially reduce or defer income (that is, a buy-and-hold strategy with growth-oriented investments). In addition, the Budget also proposed that private corporations will no longer be eligible for refunds on taxes paid on investment income when dividends are distributed from income that was taxed at the general corporate rate
- Conversion of regular income from the corporation to capital gains — this issue was withdrawn in October 2017

Business Income and International Tax Matters

With respect to business, accelerated capital cost allowance rates for investment in clean energy generation has been expanded to include geothermal equipment. In addition, the Budget dealt with more complex corporate issues such as Artificial Losses Using Equity-Based Financial Arrangements, Stop-Loss Rules on Share Repurchase Transactions, At-Risk Rules for Tiered Partnerships, and Health and Welfare Trusts.

There were also international tax measures announced with topics including Cross-Border Surplus Stripping Using Partnerships and Trusts, Foreign Affiliates, Reassessment Periods (for Information and Compliance Orders, and for Non-Resident Non-Arm's Length Persons), and Sharing Information on Criminal Matters.

Reporting Requirements for Trusts

The Government has become concerned that since trusts are not required to file a T3 return when they don't have any income, and they are not obligated to report the identity of all their beneficiaries, there is a risk that insufficient information is available to determine taxpayers' tax liabilities. Also missing could be information to combat aggressive tax avoidance as well as tax evasion, money laundering, and other criminal activities. As a result, the Budget proposes that trusts be required to provide a T3 return regardless of whether there is income or not. The return will be required to identify all trustees, beneficiaries, and trust settlors, and the "identity of each person who has the ability to exert control over trustee decisions regarding the appointment of income or capital of the trust". This change will come into effect in 2021.

Mineral Exploration Tax Credit for Flow–through Share Investors

This credit, which is equal to 15% of specified mineral exploration expenses incurred in Canada, has been renounced to flow-through share investors. However, the Budget has agreed to extend it for share agreements that are entered into before April 1, 2019.

Sales and Excise Tax Measures

With respect to limited partnerships, the Government has proposed that GST/HST must be charged on management and administrative services rendered by a general partner on or after September 8, 2017.

In addition, increases on tobacco excise taxes were announced, as was a framework on cannabis taxation.

Canada Workers Benefit

The goal of the Working Income Tax Benefit was to provide a refundable tax credit to supplement the earnings of low-income workers and improve work incentives for low-income Canadians. The Budget proposed to rename the program the Canada Workers Benefit and the amount of the benefit for 2019 to be equal to 26% of each dollar of earned income in excess of $3,000 to a maximum benefit of $1,355 for single individuals without dependents and $2,335 for families (couples and single parents).

The Canada Workers Benefit disability supplement will be increased for those eligible for the Disability Tax Credit.

The Canada Workers Benefit begins to reduce at incomes of $12,820 for single individuals and $17,025 for families, and is phased out completely at earnings of $24,111 for individuals and $36,483 for families.

Medical Expense Tax Credit

This non-refundable tax credit is available in 2018 for qualifying medical expenses in excess of the lesser of $2,303 or 3% of the individual's net income. The Budget proposed to expand the Medical Expense Tax Credit for people with severe mental impairment, who require service animals. Comfort or emotional support animals do not apply.

Registered Disability Savings Plan (RDSP) — Qualifying Plan Holders

The Budget made changes to the RDSP when a disabled person lacks capacity and must be looked after by a "legal representative". The goal in the Budget is to give family members time to ensure they've become that "legal representative".

The Bigger Picture

Many Canadians are concerned about US tax proposals and their effect on the Canadian economy. The Budget did not address this issue directly, however did state that "over the coming months, the Department of Finance Canada will conduct detailed analysis of US federal tax reforms to assess any potential impacts on Canada".

The Complete Budget

To read the full Budget, go to canada.ca and search for "Budget 2018". Should you have any questions about how the Budget affects you and your company, please contact your Nakamun Advisor.

CPP AND OAS...
SOONER OR LATER

Years ago, there was no choice — everyone applied for Canada Pension Plan (CPP) and Old Age Security (OAS) benefits when they turned 65. Now, there are options to start collecting CPP as early as age 60, starting both CPP and OAS at age 65, or deferring both or either until as late as age 70. Once you start collecting, you usually cannot go back. That's why considering the options and thinking through the consequences are so important, before making the decision to start collecting.

CPP Sooner

While CPP payments are based on the contribution amounts and length of time those contributions are made, the age when pension benefits start being collected has a significant impact on the monthly income. For example, if you start collecting CPP as early as possible, which is the month after you turn 60, you will receive almost 40% less monthly income, for the rest of your life, than you would have, had you waited until age 65.

CPP Later

Monthly CPP payments would increase by as much as 42% for the rest of your life, if you wait until age 70, compared to your pension at age 65.

The difference is significant. For example, someone eligible for the maximum CPP benefits would receive the following monthly pension:

- $676 at age 60
- $1,134 at age 65
- $1,610 at age 70

These numbers assume no additional contributions are made once benefits begin. If you are still employed when you apply for CPP benefits, you can continue to contribute, whether or not you're receiving payments, until age 70. Employers are required to pay half the contribution amount, and the additional amounts increase your payments, starting the following year.

OAS Now or Later

With OAS, there is no option to start drawing benefits before age 65, but there is an option to defer payments for as long as 5 years, to age 70. Again, waiting increases the monthly income. For example, currently, those who start drawing payments at age 65 receive $587 per month, while those who defer to age 70, receive $820 per month.

Choosing the Right Option for You

The age at which you start drawing CPP and OAS benefits depends on your individual circumstances. If you are in good health and don't need the money, waiting is advantageous. In the case of OAS payments, if you earn more than $122,000 a year, 100% of the monthly payments would be clawed back in taxes. Perhaps in future years, your income would be less and you would be able to keep more or all of the OAS payments.

For those who have not contributed enough or have not contributed for long enough, continuing to make contributions to CPP will build their account so that the deferred payments will be even larger.

In some instances, even for those who need the CPP and OAS income, withdrawing comparable funds from a Registered Retirement Savings Plan might be advantageous. Deferring the government pensions not only increases the payments, but because both are indexed to inflation, the percentage increases would be calculated on a larger amount, too.

While most people are inclined to start CPP and OAS payments as soon as they can, there are good reasons to consider the options, in the same way that people who have a pension plan at work must consider the reduced payment consequences of taking an early retirement, rather than waiting for the full amount.

Most couples who wait the maximum number of years to start CPP and OAS payments find that the total amount is enough to cover basic monthly living costs.

Deciding when to start collecting CPP and OAS payments affects you for the rest of your life. If you would like help in making those important decisions, please contact your Nakamun Advisor.

WHAT IF...?

ENSURE YOUR COMPANY SURVIVES

You've worked hard to make your corporation a success and you're proud that you did it all yourself. Now, make sure your company continues to succeed and thrive, and your employees and customers can continue to depend on the company, even if something unexpected happens to you. We cannot urge you strongly enough to ensure that you and your company are prepared in the event that a tragic accident, catastrophic health issue, or any other unforeseen occurrence suddenly disables you or worse, kills you. Corporate decisions must continue to be made, expenses must continue to be paid, and invoices must continue to be issued.

You need a plan that will be implemented in your absence. If there is no one willing and able to take over from you, in a perfect world, you would have a buyer who would step in the moment you are no longer able to continue operating the business. However, that option isn't possible, so there are steps every company owner should take to ensure the continuity of the business.

Signing Authority

The plan should provide for at least one or two individuals who have the authority, in your absence, to continue doing whatever has to be done to keep the business healthy. There should be somebody who can sign cheques and access the company's online banking when you're not available. If you are the sole director of the corporation, discuss with your lawyer the advisability of having more directors so there is always a quorum.

A Second Will

Most people have a will, but for business owners, a second will might be advisable. In some provinces, including BC and Ontario, certain assets, including company shares, can transfer without being probated. A separate will can be prepared to enable your chosen beneficiaries to immediately take over the company, upon your death.

Power of Attorney

Everybody should have a Power of Attorney. If you own a business, that document is critical to designate an individual of your choosing to make financial decisions on your behalf when you are unable to do so yourself.

Being prepared for the unexpected is wise for everyone, but if you're a company owner, that wisdom is even more important to protect, preserve, and perpetuate the business that you created, nurtured, and built to what it is today. Talk to your Nakamun Advisor about your and your company's preparedness.

Nakamun

Good Advice | Well Given

The Advisor is published as a service of The Nakamun Financial Group for the general information of its readers.
While our information is obtained from a variety of sources we consider to be reliable, we cannot guarantee accuracy. Basing decisions on the contents of this newsletter should only follow individual consultation with your financial advisor. © THE NAKAMUN FINANCIAL GROUP.