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1. **Income splitting via dividends, draft legislation published**

   Income splitting involves tax planning strategies that allow shifting income that would have been realized by a high-income individual to lower-income individuals, typically family members. These strategies help minimize the total personal tax paid by utilizing lower tax brackets and personal tax credits of lower-income individuals.

   Existing legislation already limits income splitting techniques involving minor children by making income subject to the highest tax rate in the hands of the minor. The government is proposing to extend the rules to apply to all individuals receiving split income regardless of their age, subject to a reasonableness test. Income will be considered reasonable if it is consistent with what a non-arm's length individual would receive taking into account:

   - the labour and capital contributions of the individual to the business,
   - the risks assumed by the individual in respect of the business, and
   - all previous returns and remuneration paid to the individual in respect of the business.

   If the amount is found to be unreasonable, the highest personal tax rate will apply. The rules will be more restrictive for 18-24 year olds. The measures are expected to apply starting from 2018 taxation year.

2. **Multiplication of the capital gains exemption, draft legislation published**

   The lifetime capital gain exemption (LCGE) is a deduction that reduces a capital gain realized by individuals on the disposition of qualified small business corporation shares (QSBCS). In 2017 an individual can shelter capital gains realized up to a lifetime limit of $835,716. The lifetime limit is indexed to inflation every year.

   Existing tax rules allow individuals to multiply the LCGE on the sale of shares of their company if the family members also own the shares of the company, directly or indirectly through the family trust. To limit the multiplication of the LCGE, the government proposed the following changes.

- The LCGE will be disallowed on capital gains that are realized or accrued before the taxation year in which the individual turns 18.
- The LCGE will not apply to a taxable capital gain on the disposition of QSBCS if the gain is considered split income under the reasonableness test conditions.
- Gains that accrued during the time when the trust held the shares will no longer be eligible for the LCGE, with some exceptions.

The proposed measures would apply to dispositions after 2017.

3. Holding passive investments in a private corporation, only ideas floated

The government is looking for possible measures to eliminate a tax advantage of reinvesting earnings from active business by a private corporation. The following broad approaches are being contemplated.

- Apportionment method requiring tracking income taxed at the small business corporate rate, the general corporate rate, and amounts contributed by shareholders. Passive investment income of the company would be apportioned based on the company's cumulative share of these three pools.
- Elective method subjecting passive income earned in a company to non-refundable taxes at a rate approximating the highest personal income tax rate. All dividends distributed from such income would be non-eligible by default.

Both approaches would eliminate refundable taxes on investment income which will result in total taxes of up to 70% on investments within a corporation.