Getting a Grip on New Passive Investment Rules and Integration

Dino Infanti, Deepk Jaswal, and Sonam Toor*****

This article discusses integration in the Canadian tax system and describes how legislation originating from changes announced in the 2018 federal budget affects Canadian-controlled private corporations. The authors point out that refundable dividend tax on hand is now split into two pools, one for eligible refundable dividend tax on hand and one for non-eligible refundable dividend tax on hand. As well, the authors discuss two recent changes to the small business deduction rules: (1) the reduction of the small business deduction where passive investment income exceeds a specified limit and (2) the expanded application of the rules for sharing the small business limit among corporations within a corporate group.

Keywords: integration ■ refundable dividend tax on hand ■ passive investment income ■ Canadian-controlled private corporations ■ CCPC ■ small business deduction

CORRIGENDUM

There is a correction to the article by Dino Infanti, Deepk Jaswal, and Sonam Toor, “Getting a Grip on New Passive Investment Rules and Integration,” Personal Tax Planning feature (2019) 67:4 Canadian Tax Journal 1267-85. On page 1276, the second paragraph should read as follows:

In general, the NERDTOH pool consists of the total of

• the least of:
  – 30.67 percent of a CCPC’s aggregate investment income (AII) minus the amount of the foreign tax deduction if this exceeds the 8 percent of foreign investment income;

(Continued on the next page.)

* Of Deloitte LLP, Winnipeg (e-mail: bjanderson@deloitte.ca).
** Of KPMG LLP, Toronto (e-mail: soniagandhi@kpmg.ca).
*** Of KPMG LLP, Vancouver (e-mail: dinfanti@kpmg.ca).
**** Of Deloitte LLP, Halifax (e-mail: jmacgowan@deloitte.ca).
***** Of KPMG LLP, Vancouver.
– 30.67 percent of the total taxable income that exceeds the SBD limit, foreign tax deduction, and foreign tax credits deducted by the relevant factor for the year; and
– the corporation’s tax for the year payable under part I;
• the total taxes payable under part IV by the corporation for the year less the amount determined for the ERDTOH balance; and
• the NERDTOH balance from the preceding year that exceeds the portion of the corporation’s dividend refund from its NERDTOH determined for its preceding taxation year.