

# Federal Budget 2016 — Impacts On Corporation and Partnership Tax Planning Structures

March 31, 2016

On March 22, 2016 the federal government's 2016 federal budget was released. The budget introduced new measures designed to eliminate certain tax planning structures.

The primary structure targeted by these changes is one that has been utilized most widely by professionals such as doctors, dentists, orthodontists, accountants and lawyers who offered their services through a corporation to a partnership. This structure allowed service providers access to the small business deduction (the "SBD") by incorporating a Canadian controlled private corporation ("CCPC") through which to perform such services (rather than providing such services directly to the partnership and paying top marginal personal tax rates). Prior to the budget, a CCPC that had a services contract to provide services to a partnership was entitled to the SBD, a low tax rate of 15%, on the first \$500,000 of active business income (including fee-for-service income). Following the budget, such a CCPC will have restricted access to the SBD based on partnership interest. For example, for a partnership with 2 equal partners, each partner will be entitled to half of the SBD (15% tax on \$250,000). However, for large partnerships where each partner has a very small partnership interest, the CCPC's access to the SBD will effectively be denied.

It is also note worthy that the budget did not introduce any changes to the taxation of employee stock option benefits. Generally, the rules provide that where an employee has received qualifying stock options, gains associated with the shares received under such a plan will be subject to tax at capital gains rates (50%) rather than full income rates. It was anticipated that the budget might limit the favorable tax treatment that stock options receive.

To learn more read BLG's analysis of the 2016 Federal Budget.

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