



# TaxNewsFlash Canada

## Tax Accounting — Q2 2016 Update

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If you are involved in preparing financial reports for corporations or other organizations, certain 2016 income tax rate and other changes may need to be reflected in your interim period financial statements under International Financial Reporting Standards (IFRS), Accounting Standards for Private Enterprises (ASPE) or U.S. generally accepted accounting principles (U.S. GAAP).

### **When do new tax measures have to be taken into account?**

Under IFRS and ASPE, the tax effect of changes in tax law and rates is recognized in the period that includes the date that the changes were substantively enacted. Under U.S. GAAP, tax law and rate changes are recognized in the period that includes the date that the changes were enacted.

### **Corporate tax rates for 2016**

Although the federal general income tax rate for 2016 has not changed, New Brunswick and Newfoundland and Labrador have both increased their general corporate income tax rates for 2016. Note that Quebec's gradual reduction of its general corporate tax rate as proposed in its 2015 budget is still not substantively enacted or enacted for tax accounting purposes. Under the proposal, Quebec plans to gradually reduce its general corporate tax rate to 11.5% (from the 11.9% current level) over four years starting in 2017.

The federal small business income tax rate had been scheduled to fall but the federal government cancelled further cuts in the rate in its 2016 budget. (The rate was scheduled to fall to 9% by 2019.) As a result, the federal small business rate will remain at its current

level of 10.5% for 2016 and subsequent years. Two provinces, Alberta and New Brunswick, both decreased their small business tax rates.

The following federal and provincial corporate tax rates for active business income earned by a general corporation are substantively enacted and enacted as of June 30, 2016:

| <b>Tax Rates for Active Business Income Earned by a General Corporation<br/>Substantively Enacted and Enacted as of June 30, 2016</b>  |             |                        |
|--|-------------|------------------------|
|  | <b>2015</b> | <b>2016 and beyond</b> |
| Federal rate   | 15.0%       | 15.0%                  |
| Provincial rates   |             |                        |
| British Columbia   | 11.0%       | 11.0%                  |
| Alberta <sup>1</sup>   | 10.0/12.0%  | 12.0%                  |
| Saskatchewan   | 12.0%       | 12.0%                  |
| Manitoba   | 12.0%       | 12.0%                  |
| Ontario  | 11.5%       | 11.5%                  |
| Quebec   | 11.9%       | 11.9%                  |
| New Brunswick <sup>2</sup>   | 12.0%       | 12.0/14.0%             |
| Nova Scotia  | 16.0%       | 16.0%                  |
| Prince Edward Island   | 16.0%       | 16.0%                  |
| Newfoundland and Labrador <sup>3</sup>   | 14.0%       | 15.0%                  |
| <sup>1</sup> Alberta Bill 2 (introduced June 18, 2015 and enacted on June 29, 2015) increased the general corporate income tax rate for active business, investment and manufacturing and processing income to 12% (from 10%), effective July 1, 2015.<br><sup>2</sup> New Brunswick's 2016 budget increased the general corporate income tax rate to 14% (from 12%) effective April 1, 2016.<br><sup>3</sup> Newfoundland and Labrador's 2016 budget increased the general corporate income tax rate to 15% (from 14%), retroactive to January 1, 2016. The budget also eliminated the manufacturing and processing profit tax credit, effective January 1, 2016. |             |                        |

As a result of tax measures announced by the 2016 federal budget and the 2016 provincial budgets, the following federal and provincial corporate tax rates for general active business income earned by a Canadian-controlled private corporation (CCPC) on its income that is eligible for the small business deduction are substantively enacted and enacted as of June 30, 2016:

**Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of June 30, 2016<sup>2</sup>**

|                            | 2015  | 2016 and beyond       |
|----------------------------|-------|-----------------------|
| Federal rate               | 11.0% | 10.5%                 |
| Provincial rates           |       |                       |
| British Columbia           | 2.5%  | 2.5%                  |
| Alberta                    | 3.0%  | 3.0/2.0% <sup>2</sup> |
| Saskatchewan               | 2.0%  | 2.0%                  |
| Manitoba                   | 0.0%  | 0.0%                  |
| Ontario                    | 4.5%  | 4.5%                  |
| Quebec                     | 8.0%  | 8.0%                  |
| New Brunswick <sup>1</sup> | 4.0%  | 4.0/3.5% <sup>3</sup> |
| Nova Scotia                | 3.0%  | 3.0%                  |
| Prince Edward Island       | 4.5%  | 4.5%                  |
| Newfoundland and Labrador  | 3.0%  | 3.0%                  |

<sup>1</sup> New Brunswick's small business income tax rate decreased to 4% (from 4.5%) effective January 1, 2015. The province further decreased its small business income tax rate to 3.5% effective April 1, 2016.

<sup>2</sup> Alberta Bill 20 (enacted June 13, 2016) decreases then small business corporate tax rate to 2% (from 3%) effective January 1, 2017

<sup>3</sup> The New Brunswick small business income tax rate decrease to 3.5% (from 4%), effective April 1, 2016 is not enacted as at June 30, 2016.

The latest rates and small business deduction thresholds are always available on our [Canadian Corporate Tax Tables](#) page.

### Status of recent tax legislation at June 30, 2016

The tables below provide more information on selected 2016 federal and provincial corporate tax measures that may have an impact on your June 30, 2016 interim financial statements.

For more information about these changes, contact your KPMG adviser or see the editions of *TaxNewsFlash-Canada* noted below.

## Federal tax legislation

| Federal Bill C-2                             |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| December 9, 2015                             | Not enacted                    |

Federal Bill C-2 includes two personal tax rate changes for individuals that result in consequential changes affecting CCPCs, surplus accounts and the concept of integration on their income. Bill C-2 includes tax measures to:

- Increase the refundable tax on CCPCs’ investment income to 10 2/3% (from 6 2/3%) effective for tax years ending after 2015
- Increase the Part IV tax rate to 38 1/3% (from 33 1/3%) for tax years ending after 2015 (for tax years beginning before 2016, assessable dividends are taxed at 38 1/3% if received after 2015 and at 33 1/3% if they are received before 2016)
- Increase the dividend refund rate to 38 1/3% (from 33%) effective for tax years ending after 2015
- Amend the definition of refundable dividend tax on hand (RDTOH) effective for tax years ending after 2015 to adjust:
  - The percentage of aggregate investment income that can be included in RDTOH to 30 2/3% (from 26 2/3%)
  - The foreign tax credit reduction related to foreign investment income to 8% (from 9 1/3%) of foreign investment income
  - The adjustment factor for taxable income of a corporation for the year that exceeds the total of the portions of that income that has benefited from either the small business deduction or foreign tax credits to 30 2/3% (from 26 2/3%)
  - The gross-up factor for foreign non-business income to 100/ (38 2/3) from 100/35.
- Increase the percentage of unused non-capital losses and farm losses that may reduce Part IV tax to 38 1/3% (from 33 1/3%) for tax years that end after 2015. For tax years that begin before 2016, losses applied to reduce Part IV tax are used first to offset assessable dividends that are subject to the higher 38 1/3% rate.

| Federal Bill C-4                             |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| January 28, 2016                             | Not enacted                    |

Federal Bill C-4 will repeal certain contentious reporting requirements for labour organizations and labour trusts previously enacted in Bill C-377, which came into force on December 30, 2015. On December 21, 2015, the CRA announced that it had waived Bill C-377’s reporting requirements. Bill C-4 will repeal related legislation in Bill C-377, which

would have required labour organizations and labour trusts to track their financial and other prescribed activities for fiscal years beginning on or after December 31, 2015.

| Federal Bill C-15                            |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| April 20, 2016                               | June 22, 2016                  |

Bill C-15 enacts certain tax measures proposed in the 2016 federal budget.

### What’s included in Bill C-15

Bill C-15 includes corporate tax measures under the *Income Tax Act* to:

- Amend the anti-avoidance rules in section 55 that prevent the conversion of capital gains into tax-deductible inter-corporate dividends and make consequential stock dividend changes in section 52
- Keep the small business tax rate at 10.5% for 2016 and subsequent taxation years under section 125
- Modify the dividend rental arrangement rules to deny the inter-corporate dividend deduction under synthetic equity arrangements, under sections 112 and 248
- Expand the definition of Canadian exploration expense to include the costs of environmental studies or community consultations to obtain certain permits, under section 66.1
- Tighten the anti-avoidance rules for captive insurance companies by amending the foreign accrual property income rules in section 95.

Other tax measures proposed in Bill C-15 include measures to:

- Adjust the gross-up and dividend tax credit for non-eligible dividends consequential to holding the small business tax rate for 2016 and subsequent taxation years at 10.5%
- Introduce changes consequential to the introduction of the new 33% personal tax rate, such as increasing to 33% (from 28%) the tax rate on personal services business income earned by corporations
- Provide an exemption to the withholding tax requirement on payments made by “qualifying non-resident employers” to “qualifying non-resident employees” under Regulation 102 (in the form of amendments to section 153)
- Extend the mineral exploration tax credit for flow-through share investors by one year
- Reinstate the labour-sponsored venture capital corporations tax credit for purchases of shares of provincially registered labour-sponsored venture capital corporations for 2016 and subsequent taxation years
- Permit investments in limited partnerships by registered charities and registered Canadian amateur athletic associations.

### Outstanding 2016 federal budget measures

Measures announced in the 2016 federal budget that are not included in Bill C-15 and remain outstanding include:

- Changes to preclude the multiplication of the small business deduction
- Repeal of the eligible capital property regime and replacement with a new capital cost allowance (CCA) class
- Amendments related to the taxation of life insurance proceeds, including tightening up the use of life insurance policies to distribute amounts tax-free to shareholders
- International tax changes relating to cross-border paid-up capital, back-to-back loan and debt parking rules
- Amendments relating to the taxation of switch fund shares
- Amendments relating to the sale of linked notes
- Measures providing for accelerated CCA for clean energy equipment
- Country-by-country reporting rules.

The 2016 federal budget announced that the government would not make changes following its consultations on the "five employee" test rules used to determine whether income from a business, the principal purpose of which is to earn income from property, qualifies as active business income eligible for the SBD.

For more details of these measures, see *TaxNewsFlash-Canada* 2016-12, ["2016 Federal Budget Highlights"](#).

### Outstanding 2015 federal budget measures

Budget 2016 announced that the federal government did not intend to proceed with the measure announced in the previous government's 2015 budget that would provide an exemption from capital gains tax for certain dispositions of private corporation shares or real estate where cash proceeds from the disposition are donated to a registered charity or other qualified donee within 30 days.

For details of the 2015 federal budget announced April 21, 2015 see *TaxNewsFlash-Canada* 2015-18, ["2015 Federal Budget Highlights"](#).

### Provincial tax legislation

#### British Columbia

| British Columbia Bill 10                     |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| February 16, 2016                            | March 10, 2016                 |

B.C. Bill 10 contains tax measures announced in B.C.'s 2016 budget, including measures to:

- Extend the mining exploration tax credit to the end of 2019 and the B.C. mining flow-through share tax credit to the end of 2016

- Increase the property transfer tax rate on the portion of the property's value that exceeds \$2 million
- Introduce a new non-refundable farmer's food donation tax credit, effective February 17, 2016. The credit is available when the gift is made after February 16, 2016 and before January 1, 2019. This credit will be available to corporations and individuals that carry on the business of farming and who donate qualifying agricultural products to a registered charity that provides food to those in need or assists in operating a school meal program.

Bill 10's personal tax measures include an extension of the mining flow-through share tax credit by one year to December 31, 2016.

For details of these measures, see *TaxNewsFlash-Canada* 2016-08, "[Highlights of the 2016 British Columbia Budget](#)".

| British Columbia Bill 25                     |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| May 2, 2016                                  | May 19, 2016                   |

B.C. Bill 25 enacts, among other things, B.C. film tax credit reductions. This bill implements previously announced film tax credit reductions; however, the determination of the tax credit rates are based, in part, on rates prescribed in related regulations. These proposed adjustments were the result of the B.C. consultations with the film and television industry that were announced as part of the 2016 B.C. budget.

## Alberta

| Alberta Bill 10                              |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| April 14, 2016                               | June 13, 2016                  |

Alberta Bill 10 amends the *Alberta Corporations Tax Act* to clarify the functional currency election rules. Bill 10 also clarifies the method by which the minister can make a demand to a taxpayer to file a return.

| Alberta Bill 20                              |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| May 24, 2016                                 | June 13, 2016                  |

Alberta Bill 20 contains measures announced in Alberta's 2016 budget. Bill 20 amends the *Alberta Corporate Tax Act* to reduce Alberta's small business corporate tax rate to 2% (from 3%), effective January 1, 2017.

Bill 20 also introduces a carbon levy starting January 1, 2017.

For details of these measures, see *TaxNewsFlash-Canada* 2016-20, "[Highlights of the 2016 Alberta Budget](#)".

### Saskatchewan

| Saskatchewan Bill 22                         |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| June 6, 2016                                 | June 30, 2016                  |

Saskatchewan Bill 22 enacts technical amendments clarifying the Manufacturing and Processing Exporter Hiring Incentive, the Manufacturing and Processing Exporter Head Office Incentive and the Primary Steel Production Rebate that were all introduced in Saskatchewan's 2015 budget.

For details of these tax incentives that were announced in Saskatchewan's 2015 budget, see *TaxNewsFlash-Canada* 2015-11, "[Highlights of the 2015 Saskatchewan Budget](#)".

### Manitoba

| Manitoba Bill 11                             |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| June 15, 2016                                | June 30, 2016                  |

Manitoba Bill 11 enacts legislation to amend the *Manitoba Income Tax Act* to implement the following corporate tax measures:

- Extend the small business venture capital tax credit by three years to the end of 2019
- Modify the interactive digital media tax credit by eliminating the 24-month and \$500,000 per project labour expense limits from the existing 40% credit and by adding a 35% credit for a corporation that pays less than 25% of its wages to Manitoba employees, but pays wages of at least \$1 million each year to Manitoba employees working on eligible projects
- Enable the Manitoba Minister of Finance to make regulations specifying the types of equipment that will qualify for a green energy equipment tax credit.

For details of these measures, see *TaxNewsFlash-Canada* 2016-30, "[Highlights of the 2016 Manitoba Budget](#)".

### Ontario

| Ontario Bill 173                             |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| February 25, 2016                            | April 19, 2016                 |



Ontario Bill 173 contains tax measures announced in Ontario's 2016 budget, including measures to reduce rates for the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

Bill 173 reduces the ORDTC rate to 3.5% (from 4.5%) and the OITC rate to 8% (from 10%), effective for eligible R&D expenditures incurred in taxation years ending on or after June 1, 2016. Transitional rules are provided. Additionally, Bill 173 amends the recapture rules relating to the ORDTC to permit the Minister of Finance to make regulations setting out different rules for determining amounts under those rules and to provide that those rules apply to different periods.

For details of these measures, see *TaxNewsFlash-Canada* 2016-09, "[Highlights of the 2016 Ontario Budget](#)".

| Ontario Bill 186                             |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| April 14, 2016                               | June 9, 2016                   |

Ontario Bill 186 enacted the *Ontario Retirement Pension Plan Act (Strengthening Retirement Security for Ontarians), 2016*, which establishes the new Ontario Retirement Pension Plan (ORPP). However, it appears that the ORPP may no longer be implemented due to planned enhancements to the Canada Pension Plan (CPP). This bill stated that the collection of contributions will be phased in, based on employer size, starting January 1, 2018. The ORPP does not apply to individuals who are currently in a comparable workplace pension plan.

The Ontario Minister of Finance stated in a press release, dated June 21, 2016, that Ontario reached an agreement in principle to expand the Canada Pension Plan at a recent Federal-Provincial-Territorial Finance Ministers' Meeting in Vancouver. A joint federal-Ontario news release dated June 21, 2016 states that the federal government and Ontario agree that the agreement in principle to enhance the Canada Pension Plan must be approved by all signatories no later than July 15, 2016.

### New Brunswick

| New Brunswick Bill 18                        |                                |
|--|--------------------------------|
| Date "substantively enacted" under ASPE/IFRS | Date "enacted" under U.S. GAAP |
| February 3, 2016                             | June 28, 2016                  |

New Brunswick Bill 18 enacts tax measures announced in New Brunswick's 2016 budget, including measures to:

- Increase the corporate tax rate to 14% (from 12%) effective April 1, 2016

- Increase the financial corporation capital tax rate for banks to 5% (from 4%) effective April 1, 2016
- Introduce a financial corporation capital tax credit for banks operating a business services centre in New Brunswick effective April 1, 2016.

| New Brunswick Bill 32                        |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| March 29, 2016                               | Not enacted                    |

New Brunswick Bill 32 contains legislation to:

- Reduce the small business tax rate to 3.5% (from 4%) effective April 1, 2016
- Adjust the province’s dividend tax credit rate on non-eligible dividends as a consequence of the decrease in the small business tax rate.

For details of the February 2, 2016 New Brunswick budget announcements, see *TaxNewsFlash-Canada* 2016-06, [“Highlights of the 2016 New Brunswick Budget”](#).

#### Nova Scotia

| Nova Scotia Bill 174                         |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| May 3, 2016                                  | May 20, 2016                   |

Nova Scotia Bill 174 enacts measures announced in Nova Scotia’s 2016 budget related to a food donation tax credit for individuals and corporations that carry on a farming business. These taxpayers will be eligible for a non-refundable tax credit equal to 25% of the fair market value of qualifying agricultural products that are donated to a registered charity that provides food to families in need, effective January 1, 2016.

For details of the April 19, 2016 Nova Scotia budget announcements, see *TaxNewsFlash-Canada* 2016-23, [“Highlights of the 2016 New Scotia Budget”](#).

#### Newfoundland and Labrador

| Newfoundland Bill 15, 16 and 21              |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| May 19, 2016                                 | June 7, 2016                   |

Newfoundland Bill 15 increases the general corporate income tax rate to 15% (from 14%), retroactive to January 1, 2016.

Newfoundland Bill 16 increases the financial corporations capital tax rate to 6% (from 5%), effective January 1, 2016.

Newfoundland Bill 21 increases the insurance companies tax rate to 5% (from 4%), effective July 1, 2016.

| Newfoundland Bill 17                         |                                |
|--|--------------------------------|
| Date “substantively enacted” under ASPE/IFRS | Date “enacted” under U.S. GAAP |
| June 6, 2016                                 | June 7, 2016                   |

Newfoundland Bill 17 eliminates the manufacturing and processing profits deduction, effective January 1, 2016.

For details of the April 19, 2016 Newfoundland budget announcements, see *TaxNewsFlash-Canada* 2016-19, “[Highlights of the 2016 Newfoundland and Labrador Budget](#)”.

### Prince Edward Island

Prince Edward Island did not announce and personal or corporate tax rate changes in its 2016 provincial budget. For details, see *TaxNewsFlash-Canada* 2016-24 “[Highlights of the 2016 P.E.I. Budget](#)”.

## Outstanding provincial budget legislation

### Quebec 2016 budget

Quebec has not tabled a bill to enact certain tax changes announced in the province’s 2016 budget as of June 30, 2016, including measures to:

- Implement a gradual reduction in the contribution to the Health Services Fund for all small and medium sized businesses (SMBs) over a five-year period beginning in 2017.
- Introduce on a temporary basis an income-averaging mechanism over a seven-year period for certified forest producers for the purposes of income tax and the individual contribution to the Health Services Fund (applicable to taxation years ending after March 17, 2016 and before January 1, 2021).
- Replace the qualification criterion for the increased small business deduction for corporations in the primary or manufacturing sector concerning the minimum number of employees with a qualification criterion concerning the minimum number of hours worked (applicable to taxation years beginning after December 31, 2016).
- Introduce a deduction for innovative manufacturing corporations (applicable to taxation years beginning after December 31, 2016). Qualifying innovative manufacturing corporations (paid-up capital of at least \$15 million, among other things) will be able to reduce their taxable income for a taxation year by an amount equal to a specified annual percentage of the value of all the qualified patented features incorporated into qualified property that the corporation sold or rented in the year (subject to a ceiling). The effective tax rate on the net income derived from qualified patented features will correspond essentially to 4%.

- Enhance the refundable tax credit for the integration of information technologies in SMBs in the primary and manufacturing sectors.
- Introduce a temporary refundable tax credit for major digital transformation projects corresponding to 24% of qualified wages paid by a qualified corporation to an eligible employee regarding an eligible digitization contract.
- Increase the rates of the refundable tax credit for resources in respect of mining exploration expenses in the Near North or Far North.
- Raise the exemption threshold for the tax on logging operations from \$10,000 to \$65,000 for taxation years beginning after March 17, 2016.
- Specify the technical conditions for the non-application (applicable to dispositions of shares occurring after March 17, 2016) of the anti-avoidance rules that ultimately recharacterize capital gains as dividends announced on March 26, 2015. The 2015-2016 budget announced that the Quebec *Taxation Act* would be modified to foster the transfers of family businesses in primary and manufacturing sectors.

For details of the March 17, 2016 Quebec budget announcements, see *TaxNewsFlash-Canada* 2016-11, [“Highlights of the 2016-2017 Quebec Budget”](#).

### **Quebec 2015 budget**

Quebec has not yet tabled a bill to enact certain tax changes announced in the province’s 2015 budget as of June 30, 2016, including measures to:

- Reduce the corporate general income tax rate to 11.5% (from 11.9%) by 2020. The rate will decrease by 0.1%, beginning January 1, 2017 until January 1, 2020. The rate change will be effective as of January 1 of each year. A consequential adjustment to the small business deduction will be made to maintain the minimum tax rate applicable to the income of small corporations at 8%.
- Extend the small business rate deduction available to small and medium sized manufacturing companies to small and medium sized businesses in the primary sector such that an effective small business tax rate as low as 4% (from 8%) is available for taxation years beginning after December 31, 2016.

For details of Quebec’s March 26, 2015 budget announcements, see *TaxNewsFlash-Canada* 2015-13, [“Highlights of the 2015-2016 Quebec Budget”](#).

### **Alberta 2016 budget**

Alberta has not yet tabled a bill to enact certain tax changes announced in the province’s 2016 budget as of June 30, 2016, including measures to implement a new Capital Investment Tax Credit for corporations that make investments in eligible capital assets.

For details of Alberta’s April 14, 2016 budget announcements, see *TaxNewsFlash-Canada* 2016-20, [“Highlights of the 2016 Alberta Budget”](#).

## We can help

KPMG's tax accounting and audit support professionals can help you assess the impact these changes in tax law will have on your organization's financial statements. We can also help your organization understand and manage your obligations under the Canadian, U.S. and international financial reporting standards for income tax accounts and disclosures. For details, contact your KPMG adviser.

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