SMALL BUSINESS BONDS FOR UNINCORPORATED BUSINESSES

As announced in the November Budget, the concept of SBDB has been extended to individuals and partnerships in financial difficulty for use exclusively in Canada in an active business carried on by the issuer. Any interest paid on these obligations, called Small Business Bonds, is not deductible by the issuer, is deemed to be a dividend paid by a taxable Canadian corporation, and is deductible in computing the taxable income of the corporate holder. Qualifying obligations must be issued after November 12, 1981 and before 1983, for a principal amount of not less than $10,000 or more than $500,000, and a term of not less than one, nor more than five years. The terms of these new bonds parallel those of the Small Business Development Bonds for corporations in financial difficulty and presumably the same criteria to establish financial difficulty will apply. A similar joint election by the issuer and holder must be filed by the holder within 90 days of the later of the issue date and the date the legislation comes into force.

OTHER CHANGES

The November 12, 1981 Budget Proposals contained numerous amendments to the provisions concerning the computation of business, property and capital gains income. The following is a selection of the items of more general interest.

Extended Warranty Reserves

The draft legislation provides that where a taxpayer has entered into an arm's length agreement for an extended warranty after December 11, 1979 under which his only obligation is to provide goods or services with respect to property manufactured by him or a related corporation, he may claim a reasonable amount as a reserve for goods or services expected to be provided after the end of the year. The allowable reserve would be limited to the amount received therefor or the amount of the related liability insurance paid in respect of the period after the end of the year, whichever is the lesser.

Extended Taxation Years

As originally proposed, the draft legislation provides that if an individual has disposed of his business during a fiscal period and elects that the taxation year be deemed to have ended at its normal date, any income arising from the disposition of depreciable property or eligible capital property after ceasing to carry on the business will be included in the income for that extended year.

Employee Benefit Trusts

For 1980 and subsequent taxation years, amounts paid by an Employee Benefit Trust to the estate or heirs of an employee will qualify for purposes of determining the deduction by the employer for contributions to the plan. As well, trust income paid to an employer will not reduce his subsequent deduction. For 1981 and subsequent taxation years, an Employee Benefit Trust may deduct in determining its income only amounts paid to a beneficiary in that year.

Capital Gains

As proposed, the draft legislation specifies that an election to deem the disposition of Canadian securities to be capital property must be made by filing the prescribed form. Revenue Canada has already issued Form T123 for this purpose. The list of taxpayers who are ineligible to make this election has been extended to include all insurance corporations and any corporation whose principal business is purchasing debt obligations.

Investment Tax Credit for Trusts and Partnerships

The eligibility for the 50% investment tax credit on property acquired for use in certain designated regions will be extended to the beneficiaries of trusts and partnerships for acquisitions after October 28, 1980. Effective after November 12, 1981, the investment tax credit related to scientific research expenditures allocated to a partner or beneficiary will reduce the amount deductible by the partnership or trust in respect of those expenditures.