

CORPORATE PARTNERSHIPS LOSE TAX DEFERRAL OPTION

Differing Year-Ends Offer No Advantage

By Armando Iannuzzi



TRADITIONALLY, the separate partners in a corporate partnership have had some flexibility to defer tax. If the fiscal period for the partnership ended after individual partners' fiscal years, the partners could then defer taxes on their share of the partnership's earnings until their following fiscal year-end. New tax rules have now halted this practice.

Effective for corporate taxation years ended after March 22, 2011, a partner (limited to those entitled to more than 10% of the partnership's income or loss, or assets of the partnership upon its dissolution) must include current partnership income allocation and a so-called stub-period accrual in its taxable income for its fiscal year.

The stub-period accrual represents a notional accrual of partnership income for the portion of the corporate partner's taxation year that falls after that partnership's last fiscal year-end. The amount is generally pro-rated for the number of days in the stub period. This can be determined formulaically or can be a designated arbitrary amount.

During the first year of application, these new tax rules could result in significant incremental partnership income for some corporations, but transitional relief has been provided. In general, the partner will be allowed to spread the first stub period income accrual over five tax years: 0% in

2011; 15% in 2012; 20% in 2013 through 2015; and 25% in 2016.

There will also be a one-time opportunity for the partnership to change its fiscal period to align it with that of its corporate partners. Intent to do so must be filed by the earliest tax filing deadline for the first tax year ending after March 22, 2011 for any corporation that is a member of the partnership.

Transitional relief is also applicable to any incremental income realized due to a change in fiscal period. Nevertheless, this option may not be beneficial where the individual corporate partners have differing taxation year-ends.

The new rules also affect joint ventures. Taxpayers who have entered into joint venture arrangements will no longer be able to compute income as if the joint venture had a separate fiscal-period end. Given the potential issues that could arise with joint ventures consisting of several participants with varying year-ends, the Canada Revenue Agency has indicated that it will also issue an amended administrative position in the near future to potentially deal with such issues. ■

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