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February 2018

What you need to know about the new overhauled Voluntary Disclosure Program

Michael Citrome and Roxanne Wong, Toronto

On 1 March 2018, the Canada Revenue Agency's new voluntary disclosure program (VDP), as described in Information Circular IC00-1R6[1], will replace the current VDP. The new VDP is a significant departure from its predecessor, narrows the program's application and offers less generous relief. Here is a brief guide to some of the most significant changes.

What is the VDP?

Based on the taxpayer relief provisions of the *Income Tax Act* (the Act), the current VDP allows taxpayers with lapses in tax compliance to rectify those lapses while obtaining some relief from interest and/or penalties. Such relief may include correcting omissions or filings, disclosing undeclared income and other failures to comply where penalties may otherwise apply.

The types of penalty relief that may be granted include relief from late filing penalties, gross negligence penalties and in some cases criminal prosecution. This has now changed considerably under the new VDP (described below).

In order to make a valid application under the current VDP, the disclosure must meet the following criteria:

- Be voluntary
- Be complete
- Involve the application of a penalty
- Include information that is at least one year past due.

These conditions still apply to the new VDP, with some additional conditions (described below).

Like all taxpayer relief, the current VDP and new VDP do not reduce the amount of tax owed by the taxpayer. Relief under the current or new VDP is only applicable to the 10 years preceding the calendar year in which an application is filed.

[1] IC00-1R6, Voluntary Disclosures Program, 15 December 2017 (the Circular). All paragraph references below are to the Circular.

Additional conditions for a valid disclosure

Under the new VDP, applicants must comply with an additional condition: the application must include a payment of the estimated tax owing.[2] If a taxpayer does not have the ability to make payment, they may request to be considered for a payment arrangement subject to the approval of the CRA Collections Officials.[3] In other words, a taxpayer is no longer able to wait to pay the tax bill until Notices of Assessment are issued, as is the case under the current VDP. This change may adversely affect taxpayers with limited liquidity, particularly in situations where the disclosure involves payment of a refundable tax that would result in a "wash" later on.

Another new requirement under the VDP is that where a taxpayer received assistance from an advisor in respect of the subject matter of the VDP application, the name of that advisor may need to be included in the application.[4]

The two track program

A significant difference between the current and new VDPs is the introduction of tracks. Where the current VDP applies a one-size-fits-all approach to all taxpayers, the new VDP offers two mutually exclusive tracks: the General Program and the Limited Program.

Certain taxpayers will be restricted to only the Limited Program, such as:

- Corporations with gross revenue in excess of $250 million in at least two years of their last five taxation years (and any related entities)[5]; or
- Taxpayers whose applications disclose that there is an element of intentional conduct by the taxpayer or a closely related party in respect of the non-compliance[6].

In determining whether a taxpayer falls within the latter category, the CRA may consider:

- Whether there were efforts to avoid detection through the use of an offshore vehicle
- The dollar amounts involved
- The number of years of non-compliance
- The sophistication of the taxpayer
- Whether the application was made after an official CRA statement regarding its intended specific focus of compliance.[7]

Those accepted into the Limited Program will not be assessed gross negligence penalties or referred for criminal prosecution for a tax offence, but will not be eligible for relief from interest, late filing penalties or other applicable penalties.

Those accepted into the General Program will not be assessed penalties and will not be referred for criminal prosecution for tax offences, and may be granted partial interest relief.[8]

New handlers for transfer pricing matters

Once the new VDP takes effect, the CRA's VDP group will no longer handle applications involving transfer pricing issues. Instead, such applications should be sent directly to the Transfer Pricing Review Committee (TPRC). Although this change is explained by the new circular as being "for efficiency", it is not clear how the TPRC will handle voluntary disclosures, especially as transfer pricing issues largely affect taxpayers (such as large multinationals with gross revenue exceeding the $250 million threshold described above) that may be restricted to the Limited Program (which does not allow for relief from transfer pricing penalties imposed under subsection 247(3) of the Act).

Removal of no-name applications

Under the current VDP, a taxpayer can apply on a "no-name" basis, which essentially means they can apply without initially disclosing their identity for 90 days from the date of filing the application. The applicant's representative can discuss the application with the CRA and obtain preliminary advice before deciding whether to reveal their identity. If the applicant's identity is not revealed, the file will be closed and the applicant must start a new application if they wish to seek relief under the current VDP.

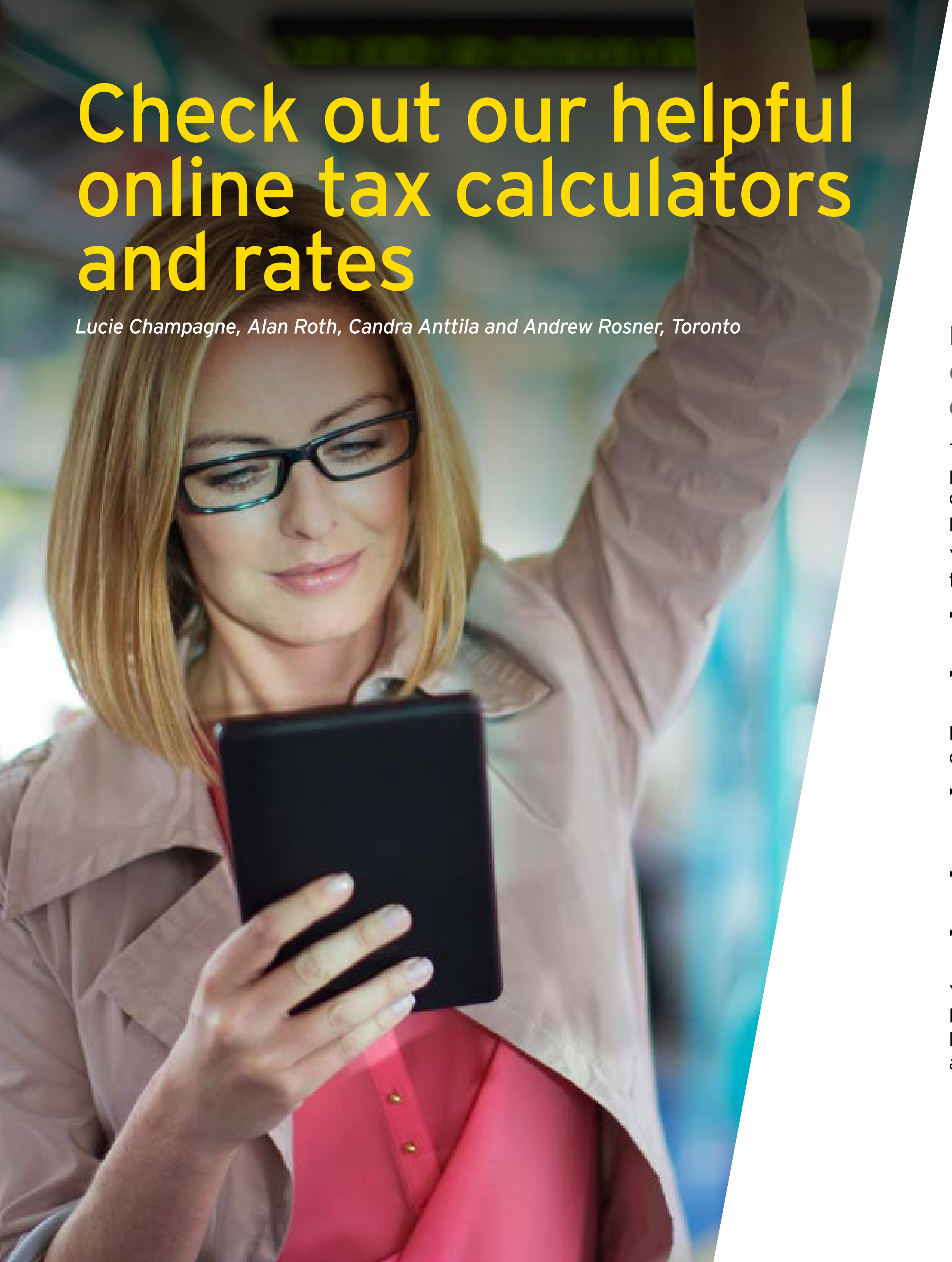
Once the applicant's identity is revealed, the application will be accepted if the information initially disclosed was accurate and complete and all conditions of a valid disclosure under the current VDP have been met. The effective date of disclosure will be the day that the no-name disclosure was filed.

The new VDP replaces no-name disclosures with a "pre-disclosure discussion" with a CRA official in order to "get insight into the VDP process" in an "informal, non-binding" manner that does not provide protection to the taxpayer and does "not constitute acceptance into the VDP."[9] As such, the effective date of disclosure will not be the date of communication of the "pre-disclosure discussion," but the date the application under the new VDP is filed. A key difference is that CRA enforcement action occurring after a no-name disclosure is made but before the applicant's identity is revealed will not affect the validity of the application, but CRA enforcement action occurring after a "pre-disclosure discussion" is commenced but before a disclosure under the new VDP is made may affect the validity of the disclosure under the new VDP.

If a taxpayer wants the benefits of the current VDP, the VDP application must be received on or before 28 February 2018. In cases where they applied with a no-name disclosure, the taxpayer's identity must be revealed on or before 28 February 2018 for the current VDP to continue to apply; otherwise, the new VDP will apply.[10]

Should you need to make a voluntary disclosure, speak to your EY or EY law advisor.

[2] Paragraph 39.
[3] Paragraph 40. It is not clear what will happen to the disclosure under the new VDP if approval is not obtained. A payment arrangement may need to be supported by adequate security.
[4] Paragraph 44.
[5] Paragraph 21; it is unclear whether the $250 million figure will be determined on a per-entity basis or on a consolidated basis.
[6] Paragraph 20.
[7] Paragraph 20.
[8] See paragraphs 6 and 15. Under the new circular, disclosures under the General Program may get relief of 50% of the interest for the years prior to the three most recent years of the disclosure. The current circular does not place a 50% limit on interest relief.
[9] Paragraphs 41-42.
[10] Paragraph 2.



Check out our helpful online tax calculators and rates

Lucie Champagne, Alan Roth, Candra Anttila and Andrew Rosner, Toronto

Frequently referred to by financial planning columnists, our mobile-friendly 2018 **Personal tax calculator** is found at ey.com/ca/taxcalculator.

This tool lets you compare the combined federal and provincial 2018 personal income tax bill in each province and territory. A second calculator allows you to compare the 2017 combined federal and provincial personal income tax bill.

You'll also find our helpful 2018 and comparative 2017 personal income tax planning tools:

- An RRSP savings calculator showing the tax saving from your contribution
- Personal tax rates and credits, by province and territory, for all income levels

In addition, our site offers you valuable 2018 and comparative 2017 corporate income tax planning tools:

- Combined federal-provincial corporate income tax rates for small-business rate income, manufacturing and processing income, and general rate income
- Provincial corporate income tax rates for small-business rate income, manufacturing and processing income, and general rate income
- Corporate income tax rates for investment income earned by Canadian-controlled private corporations and other corporations

You'll find these useful resources and several others – including our latest perspectives, thought leadership, Tax Alerts, up-to-date 2018 budget information, our monthly *Tax Matters@EY* and much more – at ey.com/ca/tax.

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Revised draft legislation narrows application of income sprinkling proposals

Alan Roth, Toronto

Introduction

On 13 December 2017, federal Finance Minister Bill Morneau released revised draft legislative proposals to limit the ability for a shareholder of a private corporation to split, or "sprinkle," income with adult family members. Consistent with the original proposals, the revised income sprinkling proposals are effective as of 1 January 2018.

The following is a brief overview of the changes to the income sprinkling proposals along with some examples to illustrate the practical application of the rules.

Background

On 18 July 2017, draft legislation, explanatory notes and a consultation paper were released proposing significant changes to the taxation of private corporations. These proposals were broad based and primarily targeted Canadian-controlled private corporations, their shareholders and family members.

The 18 July proposals targeted four tax planning strategies: income sprinkling, multiplying access to the lifetime capital gains exemption, the reinvestment of after-tax corporate earnings in passive investments, and the conversion of income into lower-taxed capital gains. For details, see "Draft proposals include fundamental changes to private corporation taxation" in the September 2017 edition of TaxMatters@EY.

In mid-October 2017 (after the consultation period for the proposals ended on 2 October), the federal government announced that it would not be moving forward with the measures that were proposed to address the multiplication of the lifetime capital gains exemption, and (for the time

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being) the conversion of income into capital gains. In addition, proposals targeting the reinvestment of after-tax corporate earnings in passive investments would be limited to private corporations with passive investment income in excess of $50,000 per year, with details of the proposed measures and draft legislation to be released as part of the 2018 federal budget. The government also announced that it intended to simplify the income sprinkling proposals designed to limit the ability for a shareholder of a private corporation to split income with family members.

The 18 July income sprinkling proposals included measures, effective in 2018, to expand the base of people subject to the so-called "kiddie tax," or tax on split income (TOSI),[11] to include children 18 and over and other related adult individuals who receive amounts from a family business that are not "reasonable" in the circumstances. Under this test, a reasonable amount would be generally based on what an arm's-length person would pay for assets and labour contributed to the business.

Stakeholders providing submissions to the Department of Finance during the consultation period generally noted that these proposals were very broad-based and complex, and that the reasonableness test was highly subjective. In response, the government released revised income sprinkling proposals on 13 December 2017 that included draft legislation and explanatory notes.

The 13 December 2017 income sprinkling proposals

The 13 December 2017 measures narrow the application of the income sprinkling proposals, but still include a revised reasonableness test. The revised proposals will generally be effective on 1 January 2018 and will limit the ability to share income within a family by expanding the base of people subject to the TOSI to include children 18 and over and other related adult individuals (including spouses or common-law partners, siblings, grandparents and grandchildren, but not aunts, uncles, nephews or nieces[12]) who receive split income[13] from a related (family) business,[14] either directly from a private corporation (such as by the receipt of dividends) or through a trust or partnership.

In addition, the types of income that are subject to the TOSI will be expanded to include interest income earned on a debt obligation of a private corporation, partnership or trust, and certain income or gains from the disposition of property (this expanded application was also included in the 18 July proposals).[15]

The revised proposals narrow the application of the TOSI due primarily to a number of exclusions that may be available. Income received or gains realized from a related business by certain adult family members will be excluded from the TOSI if a number of conditions are met. These family members are as follows:

- Adult family members who are 18 or older and actively engaged in the family business on a regular, continuous and substantial basis in either the current year or any five previous (but not necessarily consecutive) years (the "excluded business" test).

  While it's generally a question of fact whether an individual satisfies this test, an individual will be deemed to be actively engaged on a regular, continuous and substantial basis in a year if the individual meets a "bright line" test by working an average of at least 20 hours per week during the year (or in the case of a seasonal business, during the portion of the year in which the business operates).
- Adult family members who are 25 or older and directly own at least 10% of the shares of the private corporation (in terms of the votes and value of the corporation),[16] so long as the corporation earns less than 90% of its business income from the provision of services and is not a professional corporation, and at least 90% of the corporation's income for the year is not derived directly or indirectly from one or more other related businesses (the "excluded shares" test).
- Spouses (or common-law partners), if the other spouse (or partner) is 65 or older and the tax on split income would not have applied had the other spouse (or partner) received the income.
- Adult family members realizing taxable capital gains on the disposition of qualified small business corporation shares or qualified farm or fishing property (even if the lifetime capital gains exemption is not claimed), or realizing taxable capital gains on the deemed disposition of property on their death (these exclusions also apply to minor children with the exception of actual dispositions to non-arm's-length parties).
- Adult family members receiving income derived from property acquired as a result of a breakdown of a marriage or common-law partnership, if the spouses or partners are separated and living apart as a result of the relationship breakdown.

Adult family members who are 25 or older and receive split income after 2017 will be subject to a reasonableness test if they do not meet any of the above-noted exclusions. The test will be based on the extent of their contribution of labour and capital to the business, risks taken and other payments already received from the business.[17] The TOSI will apply to split income received by these adult family members to the extent it is unreasonable under this test.

If the split income recipients are 18 to 24 years old and do not meet the applicable exclusions noted above, but have contributed capital to the related business, the amount of income subject to the TOSI will be reduced by an amount equal to a prescribed rate of return (currently 1%) on the fair market value of the capital contributed (a "safe harbour capital return"). However, if the individual

[11] The tax on split income is equal to the highest federal marginal personal income tax rate, which is 33% for both 2017 and 2018.

[12] The 18 July 2017 proposals also applied to adult family members who are aunts, uncles, nieces or nephews.

[13] Split income generally arises when a stream of income is connected, either directly or indirectly, to a related business.

[14] A related business exists, for example, when a related person is active in the business on a regular basis or owns at least 10% of the fair market value of the shares in a corporation that carries on the business.

[15] Under the 18 July proposals, the types of income subject to the TOSI also included earnings on income previously subject to the tax on split income if the recipient was under 25 years old.

[16] Individuals seeking to rely on this exclusion in 2018 will have until the end of 2018 to meet the minimum 10% votes-and-value condition.

[17] Under the 18 July proposals, a "reasonable" amount was to be based on what an arm's-length person would pay for assets and labour contributed to the business.

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finances the contributed capital from non-related sources, other than salary ("the arm's-length capital test"), a higher-than-prescribed rate of return can be earned without being subject to the TOSI if the amount of income received represents a reasonable return on the individual's contributions of arm's-length capital.

Examples

The following examples illustrate the application of the 13 December 2017 proposals:

Example 1

Trevor and Linda are spouses, both over age 25, who own 100 voting Class A shares of Glassco and 100 voting Class B shares, respectively. Glassco manufactures windows that are sold to builders in the Ottawa area. There are no other shareholders. Class A and B shares are of equal value. Trevor founded the business 25 years ago and works full-time managing its operations. Linda is not involved in any way in Glassco's business and has never contributed any capital to it.

In June 2018, Glassco pays a dividend of $75,000 to Trevor on the Class A shares and $50,000 to Linda on the Class B shares.

Neither Trevor nor Linda will be subject to the TOSI on the dividend income received. Trevor is actively engaged in the family business on a regular, continuous and substantial basis and, therefore, meets the excluded business test. Linda meets the excluded shares test. She is at least 25 years old and owns at least 10% of the shares of Glassco (in terms of votes and value). Glassco is not a professional corporation and it earns less than 90% of its business income from the provision of services. Trevor also meets the excluded shares test.

Example 2

Megan and her common-law partner Amir own, respectively, 64% and 35% of the shares of EngineerCo, which provides engineering consulting services in the lower BC mainland. Their son, Gary, who is 23, owns the remaining 1% of the shares.

Megan, age 66, worked full time in the management of the business for over 20 years, but has been retired for the past three years. The business is now run by the company's employees, although Amir, age 62, still provides sales and marketing support services to the company on a part-time basis for about 40 hours a month. Amir's involvement with the company has been limited to this role. Gary will be graduating with an engineering degree next year and intends to join the family business at that time. For each of the past two summers, Gary worked at EngineerCo in order to finance his university tuition. He did not work at EngineerCo during the school year.

Two years ago, Amir provided $50,000 to Gary, which was invested in EngineerCo in return for a 1% interest in the company. Assume that throughout 2018, the prescribed rate of interest is 1%. Megan, Amir, and Gary all received dividend income from EngineerCo in December 2018.

Neither Megan nor Amir will be subject to the TOSI on the dividend income received. Although Megan has not been actively involved in the business of the company for three years, she was actively engaged in the family business on a regular, continuous and substantial basis for at least five years in the past and, therefore, is still able to meet the excluded business test. Neither Megan nor Amir can meet the excluded shares test, because EngineerCo is a professional corporation. Amir cannot meet the excluded business test because he does not meet the bright line test of working an average of at least 20 hours per week during the year in the business. The TOSI, however, still does not apply to the dividends received by Amir, because Megan is at least 65 years old and she would not have been subject to the TOSI had she received Amir's dividends.

Gary does not meet the excluded business test, as he does not meet the bright line test. The dividend income that he receives will be subject to the TOSI, with the exception of $500 of the amount received. The $500 represents Gary's safe harbour capital return, equal to 1% (the prescribed rate of interest) of the capital Gary contributed to the business. A higher amount cannot be excluded from the TOSI because Gary cannot meet the arm's-length capital test, as his capital contribution to EngineerCo was financed by his father.

Example 3

Same facts as Example #2, except that it is two years later and Amir now sells his shares in EngineerCo to Gary for a fair market purchase price. The shares are qualified small business corporation shares (QSBC).

Any taxable capital gains realized by Amir on the sale of the shares are not subject to the TOSI because the shares are QSBC shares. It doesn't matter whether or not Amir claims his lifetime capital gain exemption on the sale.

Example 4

Techco imports and distributes inventory management software to various businesses in the Montreal area. Techco's shareholders are Rejean (75% interest) and a family trust (25% interest), a discretionary trust for the benefit of Rejean's wife Marie and their 22-year-old-son Marc.

Rejean works full time in the operations of the business. When the business was in its startup phase, Techco obtained an operating line of credit from a financial institution. Marie was required to act as guarantor of the line of credit, with the guarantee secured by a mortgage on the family residence. The line of credit is still required for Techco's day-to-day operations. Marie provides occasional bookkeeping services to the company for approximately 300 hours a year. Marc is a full-time post-secondary student, but has worked during the summer at Techco for each of the last three years.

During 2018, Techco paid dividends to both Rejean and the family trust. The trust distributed all the dividends to Marie and Marc.

Rejean's dividend income is not subject to the TOSI, as he meets the bright line test by working an average of at least 20 hours per week during the year at Techco.

Marie, however, does not meet the bright line test. Also, although Marie is over 25 and Techco does not earn any income from the provision of services, she does not meet the excluded shares test, as she does not have a direct interest in at least 10% of Techco's shares (only Rejean and the family trust do). However, Marie's dividend income could possibly be excluded from the TOSI due to the risks she assumed by acting as guarantor on the line of credit, provided the amount of dividends received represents a reasonable return on the risks assumed.

All of Marc's dividend income will be subject to the TOSI, as he does not meet the bright line test and has not contributed any capital to the business.

Conclusion

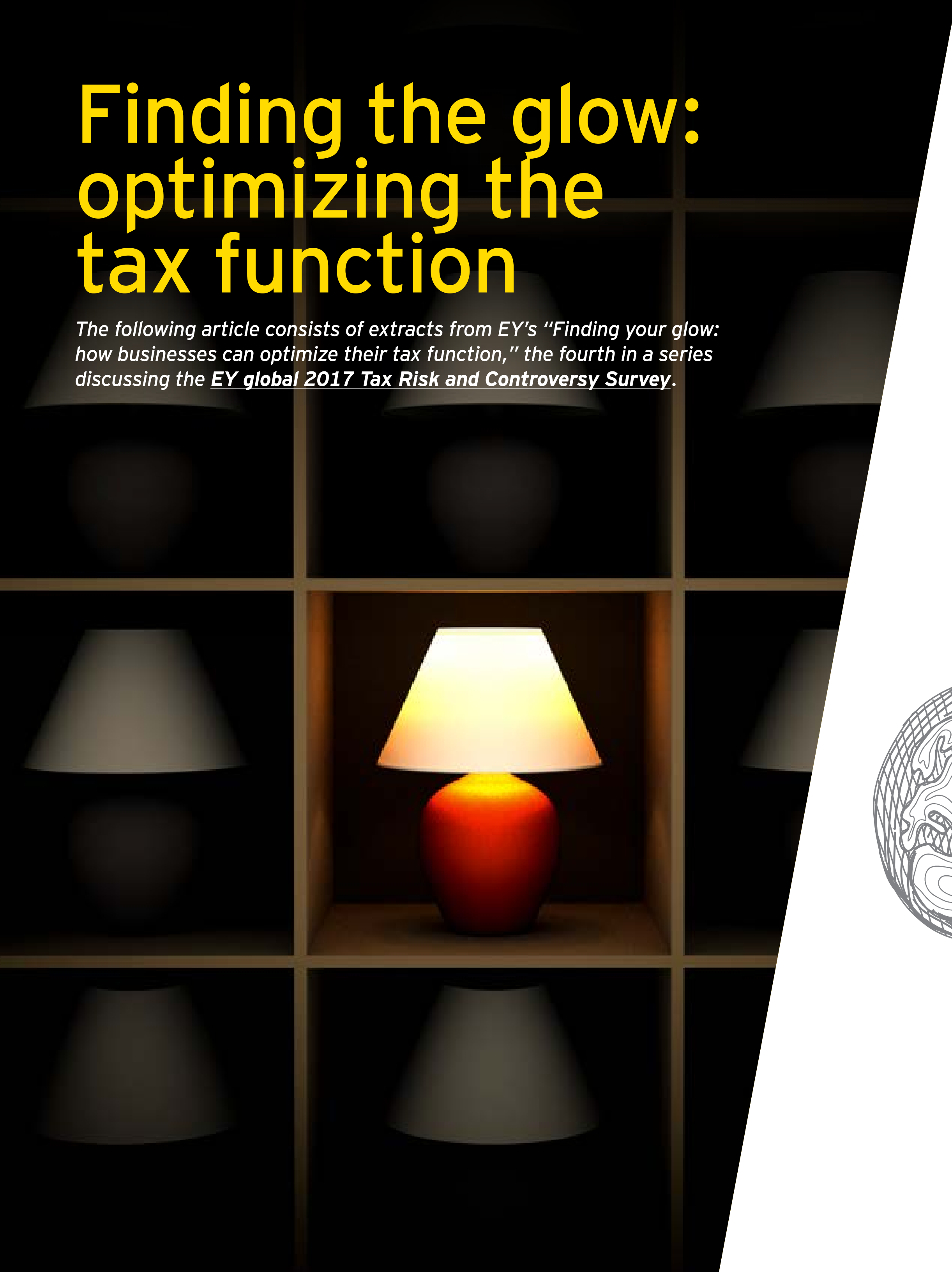
The revised proposals, while narrowing the application of the TOSI, still include certain ambiguities, particularly if the family business is carried on through a group of companies (e.g., a holding company or a related investment company).

The revised proposals also continue to contain subjective elements such as the revised reasonableness test. However, they are not expected to undergo any further significant revisions.

For more details on the 13 December 2017 proposals, see EY's Tax Alert 2017 Issue Number 52.

The Canada Revenue Agency has released guidance, along with several examples, on how it will apply the proposals, titled "Guidance on the Application of the Split Income Rules for Adults," as well as an FAQ document.

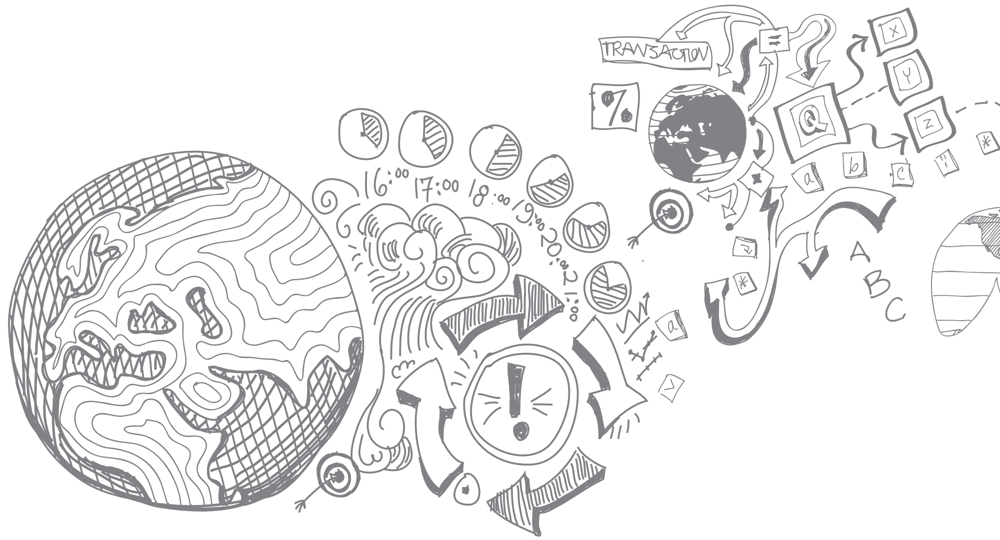
Care needs to be taken in applying these rules to a particular situation. Contact your EY advisor as soon as possible to review any existing planning arrangements that you may have that could potentially be impacted by these proposed measures, given that they are generally effective in 2018.



Finding the glow: optimizing the tax function

The following article consists of extracts from EY's "Finding your glow: how businesses can optimize their tax function," the fourth in a series discussing the ***EY global 2017 Tax Risk and Controversy Survey****.*

There are three things businesses can do immediately to help manage risk in this increasingly digitalized and globalized tax environment.



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1| Businesses need to close the digital gap

Tax functions generally have lagged behind tax administrations for years, and the digital gap is increasing risks exponentially for those who don't invest in new technology. Digitalization is accelerating the timing of tax reporting and filing obligations for businesses. It is also upping the pressure on data governance, availability and quality, as well as refocusing controversy professionals on "digital audit defense."

There is a wide range of digital tools that can be customized to suit businesses' needs. These tools, including robotic process automation, artificial intelligence, blockchain, cloud solutions, data lake development and business intelligence innovation, have applications well beyond meeting tax filing obligations and can use tax function data to deliver insights and improvements to the entire business.

2| Decide on how to deliver both best-in-class and best-in-cost when reshaping your tax operating model

Building a modern tax function requires a costly investment and attention to detail beyond simple technological improvements. Businesses must focus on putting the right people with the right skills in the right places.

To accomplish this, companies need to first evaluate their current tax function and then determine their ideal target operating model. As part of this analysis, businesses must decide which activities should be treated as best in class and which should be best in cost.

Moreover, companies need to have a comprehensive plan in place around data and technology.

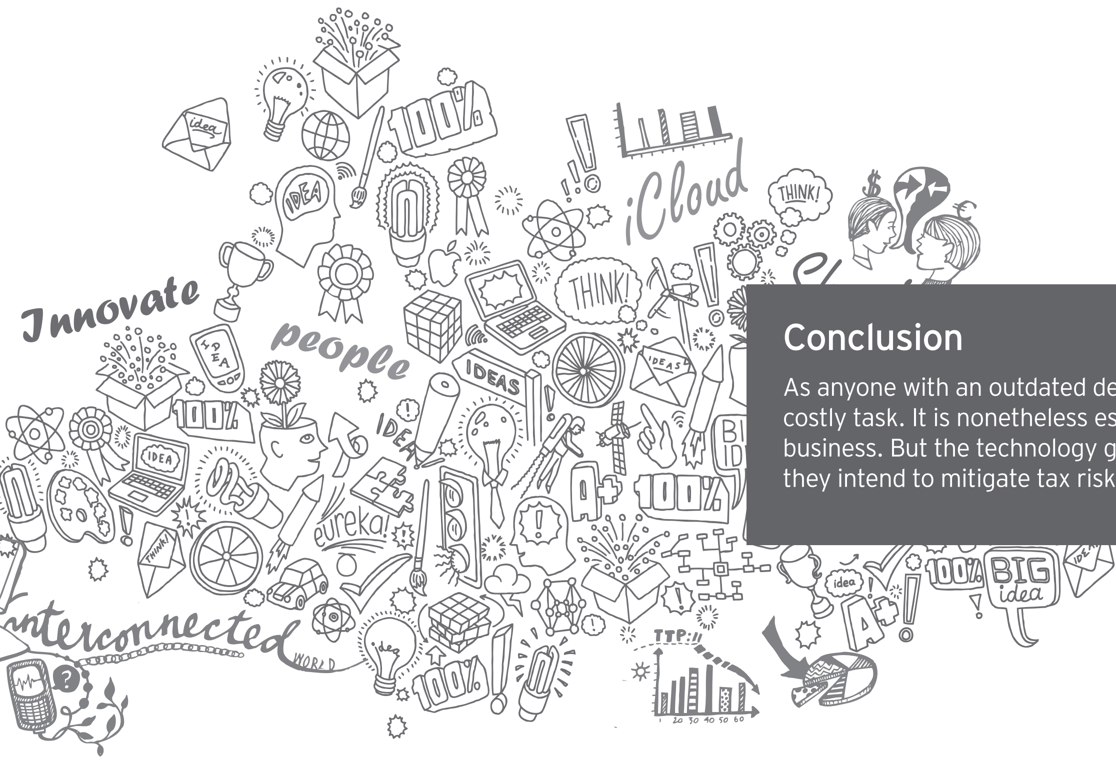
Companies should explore functional outsourcing as a way to become more effective and efficient in managing their tax function.

3| Build an operating model that helps prevent, manage and resolve tax disputes in an efficient and cost-effective manner

The BEPS reforms and intense scrutiny of corporate taxation have created a turbulent tax environment. Tax authorities are now relying on new sources of data to get a more complete picture of where companies' profits are taxed, and they are adopting robust audit and exam tactics. With many governments now demanding data in real time or near real time, disputes are flaring up earlier in the tax lifecycle.

In this fast-moving climate, it is critical that businesses adopt a proactive and globally coordinated approach to managing tax that enables them to timely identify potential areas of dispute, and resolve — or at least narrow the scope of — the issue as quickly as possible.

To minimize the impact of exams and audits, businesses should evaluate their current processes and controls to identify, and develop a plan for ameliorating, any weaknesses. Further, businesses should invest in the right technology and digital tools so they can improve the accuracy and consistency of data as much as possible.



Conclusion

As anyone with an outdated device knows, keeping up with technology is a never-ending and sometimes costly task. It is nonetheless essential, particularly when being up to date is critical to avoiding disruption in business. But the technology gap is now an acute concern. Businesses must make digitalization a priority if they intend to mitigate tax risk in the years to come.

The board's role in corporate culture

The following article is from EY's Board Matters Quarterly January 2018

Culture is a critical element for high-performing boards to oversee and, if necessary, take action to address.

Corporate culture is the set of values, principles and standards of a company that informs and influences behaviors, actions and decision-making. All organizations have a culture, even if it is unstated. Culture describes the human and business experiences within and delivered by a company. Culture also is informed by the perceptions and expectations of internal and external stakeholders.

Conversations about corporate culture often include the assertion that "culture eats strategy for breakfast." This quotation, attributed to management expert Peter Drucker, supports the theory that culture beats strategy. A good culture will defeat a bad strategy, and a bad culture will defeat a good strategy. As a result, culture emerges as an important driver of company performance and value.

A company's culture can directly affect the reliability of financial statements, and the effectiveness of internal controls, risk profile and risk management efforts.

Culture can also be an effective tool to drive change. To enhance performance, close gaps between actual and desired performance, or change direction, boards and executive management should look closely at culture and determine what cultural changes can drive desired new behaviors and ways of thinking.

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Culture's effect on strategy

- Culture translates into behaviors and ways of working, both of which affect strategy.
- People are loyal to the culture, as embodied by their leaders, not to the strategy itself.
- Culture is a source of energy in tough, disruptive times.
- Strategies can be copied, but no one can replicate your unique cultural DNA.
- Culture is your competitive differentiator — culture is your brand.

Board and management contributions to corporate culture

A company's culture is defined and embodied by its leaders. Executive management has the primary responsibility for communicating, maintaining and demonstrating day to day the right company culture. Boards share this responsibility through their own conduct and oversight of management, including by supporting management's communication and demonstration of the company's culture.

This combination of board oversight, executive management execution, and both board and executive management modeling of the company's culture is what sets a clear "tone from the top" from company leadership to each and every employee. Boards already have significant involvement in key areas that are linked to company culture, such as:

- Company strategy and risk management, including business plans and compliance policies
- CEO selection and management succession planning
- Executive compensation programs
- Alignment of organizational structure to strategy
- The company's code of business conduct and ethics

The board particularly has direct input in shaping the company's culture when it selects a new CEO. In identifying the right candidate, the board determines the chief executive's priorities as well as the leadership style that would be the best fit. The board also decides between promoting an internal candidate who may be more likely to continue the current culture and bringing in an outsider who could lead a more pronounced degree of change.

In performing these basic responsibilities and more, a board is already addressing highly important elements of the company's culture. It follows that boards should expand, as needed, the scope of its review of corporate culture to see the whole culture picture in a clear and objective way.

The board particularly has direct input in shaping the company's culture when it selects a new CEO.

Board evaluation and oversight of culture

As boards consider their oversight of the corporate culture, they should first fully understand the desired culture and how all cultural elements align within their organization. Some critical elements are:

- Company structure, practices and policies
- Management action, communication and compensation
- Employee retention, training, treatment and compensation
- Reputation among various stakeholders
- Stated company values, principles and standards
- Long-term company strategy and the corresponding risk management profile

Many boards also consider other cultural indicators for review and assessment, including:

- Employee engagement
- Employee turnover
- Training and development spending
- Diversity and inclusion initiatives
- Customer satisfaction
- Exit interviews
- Hotline calls (both internal and external)
- Lawsuits

Where culture and strategy are closely aligned, companies are better positioned to realize their desired results.

To more fully assess culture, some boards conduct annual reviews of company culture. This review can be conducted internally, with use of data points such as those above, or by an external party.

Board members can also more closely assess company culture through more direct interaction with non-executive employees. This can include having mid- and front-line managers periodically present at board meetings, visiting company workspaces and facilities beyond their boardrooms, setting up opportunities for board members to directly see the business in action or simply by patronizing a retail location.

Whatever the approach, getting out of the boardroom can help directors gain a better understanding of the company culture as it is lived every day.

Conclusion

Culture is critical to company performance and value, and boards should work closely with management to make certain that the corporate culture is appropriate for the company's goals. Where culture and strategy are closely aligned, companies are better positioned to realize their desired results and can achieve greater success while mitigating risk.

Boards can serve a compelling role in demonstrating and providing for effective leadership on culture, the right "tone from the top" and seeing that management communicates and exemplifies the right culture for the company.

Questions for the board to consider

- How does the board describe the company's culture?
- What company strategies might call for cultural shifts? And what changes would be appropriate?
- What active, measurable steps is the board taking to make certain that the company's culture is actually being lived and experienced by all employees and relevant constituents?
- How thoroughly has the board considered the range of potential consequences of compensation structures on culture, including desired behaviors and decision-making processes?
- What is the company's reputation among stakeholders, including employees, investors and business partners, and the communities where it does business? What is the company's reputation among peers, on social media and in the press?
- How is the business code of conduct and ethics communicated, monitored and enforced?
- How are violations of the code detected and managed, and under what procedures can a provision of the code be waived?
- What kinds of complaints, legal or informal through the company's reporting hotline, are communicated to the company about the way it does business? Are complaints commonplace or infrequent?

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Publications and articles

Tax Alerts – Canada

Tax Alert 2017 No. 52 – Revised income splitting measures

On 13 December 2017, the Department of Finance released draft legislation and explanatory notes to revise the income sprinkling proposals for private companies previously issued on 18 July 2017. On the same day, the Canada Revenue Agency released guidance on the application of the split income rules as well as frequently asked questions on income sprinkling.

Tax Alert 2017 No. 53 –Changes to income tax VDP revised

On 15 December 2017, the Canada Revenue Agency released revisions to the proposed changes to the Voluntary Disclosures Program (VDP) issued on 9 June 2017. The new rules (which take effect on 1 March 2018) will have implications for disclosures involving income tax and source deductions and will affect the availability of VDP relief for certain disclosures.

Tax Alert 2017 No. 54 –Changes to GST/HST VDP revised

On 15 December 2017, the Canada Revenue Agency released revisions to the proposed changes to the Voluntary Disclosures Program (VDP) issued on 9 June 2017. The new rules (which take effect on 1 March 2018) will have implications for disclosures involving GST/HST, excise tax, excise duties, softwood lumber product export charges and air traveller security charges and will affect the availability of VDP relief for certain disclosures.

Tax Alert 2018 No. 1 – Canada files WTO Trade complaint against US

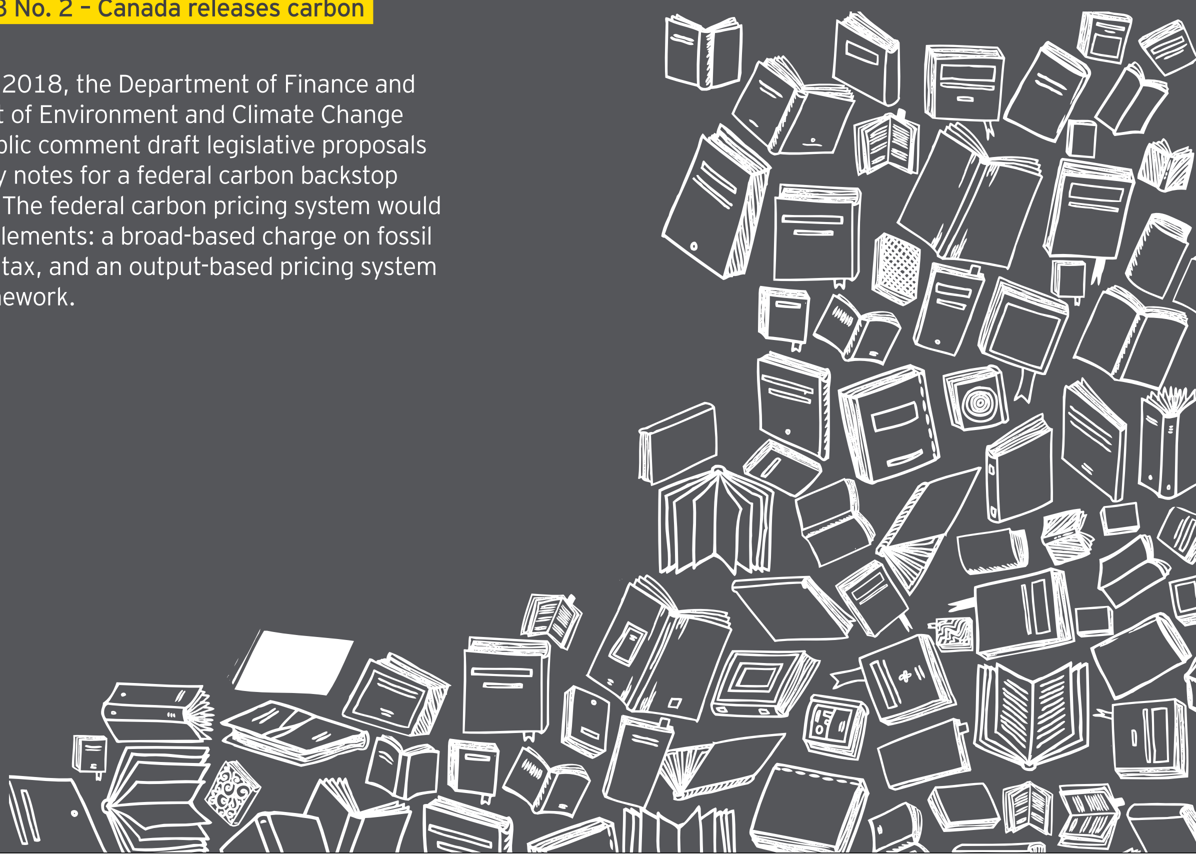
On 10 January 2018, an official Request for Consultations document (or complaint) filed by Canada in late December was circulated to other WTO members (the first step in the dispute settlement process). Canada claims that the US applies trade remedy law measures that are inconsistent with US obligations under WTO agreements.

Tax Alert 2018 No. 2 – Canada releases carbon tax proposals

On 15 January 2018, the Department of Finance and the Department of Environment and Climate Change released for public comment draft legislative proposals and explanatory notes for a federal carbon backstop pricing system. The federal carbon pricing system would consist of two elements: a broad-based charge on fossil fuels or carbon tax, and an output-based pricing system regulatory framework.

Tax Alert 2018 No. 3 – 2018 customs compliance verification list update

The Canada Border Services Agency (CBSA) has released its semi-annual list of trade compliance verification (audit) priorities. At the start of 2018, the CBSA remains focused on tariff classification as a priority audit area, with the introduction of six new tariff classification product categories to the list of existing priorities.



Publications and articles

Publications and articles

EY's Global Capital Confidence Barometer

The 17th edition of EY's *Global Capital Confidence Barometer* finds that Canadian respondents are still firmly aiming to pursue acquisitions in the next 12 months, and are buoyed by positive momentum in the local and global economies.

EY's Worldwide Personal Tax and Immigration Guide 2017-18

This guide summarizes personal tax systems and immigration rules in more than 160 jurisdictions, including Australia, Brazil, Canada, France, Germany, Mexico, the Netherlands, the Russian Federation, the UK and the US.

EY's Worldwide Capital and Fixed Assets Guide 2017

The *Worldwide Capital and Fixed Assets Guide* helps our clients navigate the rules relating to fixed assets and depreciation. It summarizes the complex rules relating to tax relief on capital expenditures in 27 jurisdictions and territories.

EY's Worldwide Estate and Inheritance Tax Guide 2017

EY's Worldwide Estate and Inheritance Tax Guide summarizes the estate tax planning systems and describes wealth transfer planning considerations in 37 jurisdictions around the world, including Australia, Canada, China, France, Germany, Italy, the Netherlands, the UK and the US.

Worldwide Corporate Tax Guide 2017

Governments worldwide continue to reform their tax codes at a historically rapid rate. Chapter by chapter, from Afghanistan to Zimbabwe, this EY guide summarizes corporate tax systems in 166 jurisdictions.

Worldwide VAT, GST and Sales Tax Guide 2017

This guide summarizes the value-added tax (VAT), goods and services tax (GST) and sales tax systems in 122 jurisdictions, including the European Union.

Worldwide R&D Incentives Reference Guide 2017

The pace at which countries are reforming their R&D incentives regimes is unprecedented. This EY guide summarizes key R&D incentives in 44 jurisdictions, and provides an overview of the European Union's Horizon 2020 program.

2016-17 Worldwide transfer pricing reference guide

The proliferation of transfer pricing rules and regulations around the world, and the huge increase in focus on the subject by the world's tax authorities, require practitioners to have knowledge of a complex web of country tax laws, regulations, rulings, methods and requirements. This guide summarizes the transfer pricing rules and regulations adopted by 118 countries and territories.

Board Matters Quarterly

The January 2018 issue of Board Matters Quarterly (BMQ) includes three articles from the EY Center for Board Matters. Topics include the board's role in corporate culture, next-generation ERM and an overview of the SEC Chairman's comments on cybersecurity disclosures.

EY Trade Watch

This quarterly publication outlines key legislative and administrative developments for customs and trade around the world. Highlights of this edition include:(1) Argentina's extended effective period for incentives to promote the use of renewable energy sources, (2) Canada's designation of its ninth "Foreign Trade Zone point" in Québec City, (3) Colombia's reduction in import duty rates to 0% for certain capital goods and raw materials, (4) an update on Mexico's Special Economic Zones, and (5) recent US developments.

Publications and articles

Websites

EY Law LLP

Our national team of highly qualified lawyers and professionals offers comprehensive tax law services, business immigration services and business law services. Serving you across borders, our sector-focused, multidisciplinary approach means we offer integrated and comprehensive advice you can trust. Visit **eylaw.ca**.

Focus on private business

Because we believe in the power of private mid-market companies, we invest in people, knowledge and services to help you address the unique challenges and opportunities you face in the private mid-market space. See our comprehensive private mid-market **webcast series**.

Online tax calculators and rates

Frequently referred to by financial planning columnists, our mobile-friendly calculators on ey.com/ca let you compare the combined federal and provincial 2017 and 2018 personal tax bills in each province and territory. The site also includes an RRSP savings calculator and personal tax rates and credits for all income levels. Our corporate tax-planning tools include federal and provincial tax rates for small-business rate income, manufacturing and processing rate income, general rate income and investment income.

Tax Insights for business leaders

Tax Insights provides deep insights on the most pressing tax and business issues. You can read it online and find additional content, multimedia features, tax publications and other EY tax news from around the world.

The Worldwide Indirect Tax Developments Map

Updated monthly, our interactive map highlights where and when changes in VAT, Global trade and excise duties are happening around the world. The map can be filtered by tax type, country and topic (e.g. VAT rate changes, compliance obligations and digital tax).

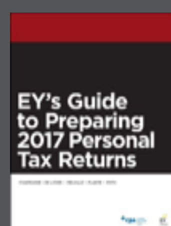
CPA Canada Store

EY's Complete Guide to GST/HST, 2017 (25th) Edition

Editors: Dalton Albrecht, Jean-Hugues Chabot, Sania Ilahi, David Douglas Robertson

Canada's leading guide on GST/HST, including GST/HST commentary and legislation, as well as a GST-QST comparison. Written in plain language by a team of EY indirect tax professionals, the guide is consolidated to 15 July 2017 and updated to reflect the latest changes to legislation and CRA policy.

Check out the **video showcasing EY's GST tax leadership**.



EY's Guide to Preparing 2017 Personal Tax Returns

Editors: Lucie Champagne, Maureen De Lisser, Gael Melville, Yves Plante, Alan Roth

This is the line-by-line guide busy tax professionals rely on throughout the tax season. The guide includes a summary of what's new for the 2017 taxation year as well as tips, suggestions and reminders to consider when preparing 2017 personal tax returns. Available as an easy-to-use and searchable internet collection (includes access to four years of previous internet editions).

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