



First Quarter Accounting & Tax Update

Calgary, AB

—

April 10, 2018



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Welcome



Trevor Hammond

Partner, Audit



Agenda

- **Q1 financial reporting reminders**
- **IFRS 9/15**
- **IFRS 16**
- **Federal budget**
- **Provincial budgets**
- **Tax year end hot topics**
- **CERAWeek – highlights from energy leaders conference**
- **Question & Answer**



Q1 financial reporting reminders



Chris Phone

Senior Manager, Audit

Q1 financial reporting reminders

Impairment considerations

- No significant changes to external economic environment
- Internal factors

Banking arrangements

- Covenant breaches
- Debt modifications

Liquidity and going concern

- Consider impact from banking arrangements
- Consider whether additional disclosures are necessary



IFRS 9, 15 & 16



Sharlene Wilson

Partner, Audit

IFRS 9 / 15

IFRS 9

Limited impact expected

Focus areas

- Financial assets
- Impairment
- Debt modification

Disclosures

- Accounting policies

IFRS 15

Performance obligations

Variable revenue

At a point in time vs over time

Focus areas

- Understanding agreements and practices

Disclosures

- Accounting policies
- Disaggregation of revenue – mandatory
- Description of performance obligations
- Consider materiality

IFRS 9 / 15

Other considerations

- Opening balance sheet
- Cross-referencing to Q1 2018 financial statements

IFRS 16

- Don't delay!
- Effective for years beginning on or after January 1, 2019 (IFRS), or after December 15, 2018 (US GAAP)
- Significant time and effort in
 - Identifying the complete population of leases (including embedded leases)
 - Extracting all relevant data from each lease to enable proper accounting (on transition, and subsequent periods)
 - Changing/adding systems and internal processes
- Examples of contracts found to contain a lease where previously the agreement had not been considered to be a lease
 - Pipeline transportation agreements
 - Dedicated manufacturing capacity
 - IT service contracts

IFRS 16

New Developments

1. FASB proposed amendment to not adjust the comparative period on transition (US GAAP ONLY)
 - This would permit all companies to use the effective date of the leases standard as their date of initial application on transition. No need to adjust the comparative period financial statements for effects of the new standard.
 - The cumulative effect transition adjustment would be recognized as of the effective date, rather than the beginning of the earliest comparative period.
2. Joint Arrangements
 - No new rules but better clarity on how the standard applies to JOAs
 - The joint arrangement is considered to be the customer in a contract where the contract is either entered into by the joint arrangement itself, OR signed by one or more of the parties to the joint arrangement (i.e. the operator) on behalf of the joint arrangement.
 - If the joint arrangement is the customer, the joint arrangement must determine whether or not the contract is a lease.
 - Rules will impact lease accounting for both operators and non-operators.



Federal budget



Brett Sawchuk
Senior Manager, Tax

Federal budget – Taxation of Passive Investment Income

Reduction to the \$500,000 Small Business Deduction Limit

- Small business deduction reduces by \$5 for every \$1 of investment income above \$50,000; the business limit will be totally eliminated for investment income over \$150,000
- Existing rules that reduce the business limit for taxable capital employed in Canada between \$10 million and \$15 million still apply
- Reduction in a corporation's business limit will be the greater of the reduction under these new measures and the reduction under existing taxable capital reduction provisions

Federal budget - Taxation of Passive Investment Income

Two Refundable Dividend Tax on Hand (“RDTOH”) pools - for taxation years beginning after 2018

Eligible RDTOH

- Part IV tax paid on eligible portfolio dividends and from a connected corporation from its eligible RDTOH account

Non-eligible RDTOH

- Part I refundable tax paid on investment income as well as under Part IV on non-eligible portfolio dividends (i.e., dividends that are paid by non-connected corporations as non-eligible dividends)

RDTOH Ordering

- Payment of non-eligible dividends - private corporation will obtain a refund from its non-eligible RDTOH account in its entirety before it obtains a refund from its eligible RDTOH account.
- Payment of eligible dividends - dividend refund to the extent the company has an eligible RDTOH account at the end of the year

2019 RDTOH Transitional rule

- CCPC - opening eligible RDTOH account will be the lesser of its existing RDTOH balance and 38.33% of the CCPCs general rate income pool (GRIP). Any remaining RDTOH balance for the CCPC will be added to the opening non-eligible RDTOH account balance.

Federal budget – Trust Reporting Requirements

- Currently many trusts do not have to file a tax return if they do not have taxable income or have not made distributions. New rules require that after 2020 trusts will have to file an annual T3 tax return.
- The information reported by trusts will increase significantly; information that will be required includes:
 - Identity of all trustees
 - Identity of all beneficiaries
 - Identity of settlors
 - Identity of anyone who has the ability (through the trust document or related agreement) to exert control over trustee decisions (e.g., a protector)
- These provisions will apply to express trusts resident in Canada and to non-resident trusts that are required to file a T3 tax return
- Certain Trusts are exempt e.g. Mutual Fund Trusts, RRSPS etc., Lawyer’s general trust accounts, others
- New penalties for failure to file a T3 Trust return
 - \$25 per day, with a minimum penalty of \$100 and maximum of \$2,500.
 - Could be applied to incomplete filings

Federal budget - At-Risk Rules for Tiered Partnerships

- Legislates CRA's long-standing interpretation that the allocation of losses from a lower-tiered limited partnership would be restricted to the upper-tiered limited partners' at risk-amount.
- Legislation negates a recent Federal Court of Appeal ruling (Green) which ruled contrary to CRA's above interpretation.
- The proposed new rules:
 - The lower-tiered partnership losses allocated to limited partners will be restricted by the upper-tiered limited partner's at risk amount in respect of the lower-tier partnership
 - These limited partnership losses will not be eligible for indefinite carry forward, rather such losses will be reflected in the adjusted cost base of the upper tier partnership's interest in the lower tier limited partnership
- New rules apply for taxation years ending on or after February 27, 2018.

Federal budget – T1134 Filing Deadline Shortened

- T1134 Deadline shortened from 15 months to 6 months – Required reporting with respect to transactions with Foreign Affiliates:
 - Potential issue – U.S. Tax returns which are relied on to prepare T1134s are typically not filed until after the Canadian corporate returns are due
 - May be difficult to gather information in a timely manner where foreign affiliates are non-controlled foreign affiliates
 - Taxpayers who had a difficult time meeting the 15 month deadline may need to re-evaluate their systems and processes
 - KPMG’s Tax Transformation & Technology team can assist with the electronic extraction, management, and transformation of the data needed to complete T1134 returns in time to meet the current and shortened deadline.
 - Contact Gino Piazza
 - Partner
 - Tax Transformation & Technology
 - 416 777 8866 gpiazza@kpmg.ca

Federal budget - Increase in Assessment Periods

- Disputes with CRA are on the rise. CRA wants more time to deal with them.
- Longer Assessment Periods – General:
 - Budget proposes to add an additional 3 years to the re-assessment period if:
 - Re-assessment involves transactions exist involving non-resident non-arm's length persons,
 - Re-assessment reduces a loss available for carryback, and
 - All or a portion of the loss was carried back
 - Effective where loss is carried back from a taxation year ending on or after February 27, 2018.
- Longer Assessment Periods – Contested Requests:
 - Budget proposes the introduction of “stop the clock” rule for information generally and for compliance orders
 - If a CRA issues a requirement for information and it is contested in court by a taxpayer the “stop the clock” rule will extend the period open for re-assessment by the amount of time during which the requirement is contested.

Federal budget – Cross-Border Surplus Stripping

- Current rules limit corporate surplus stripping where a non-resident disposes of shares of a Canadian corporation (Canco 1) to another Canadian corporation (Canco 2) with which the non-resident does not deal at arm’s length and immediately after the disposition Canco 1 and Canco 2 are connected.
- Taxpayers were circumventing this by first transferring the shares of Canco 1 to a partnership and then transferring the partnership interest to Canco 2 with which it does not deal at arm’s length.
- Budget proposes to the tax provisions to add comprehensive “look-through” rules that will allocate the assets, liabilities and transactions of a partnership or trust on the basis of their relative fair market values of their interests.
- The result is that a transfer by a non-resident person of an interest in a partnership which holds shares of a Canadian company will be treated, for these rules, as if the non-resident transferred the shares of the Canadian company directly.
- New rules apply to transactions on or after February 27, 2018.
- **For details on the previous topics and more please visit our Federal Budget website:**
 - <https://home.kpmg.com/ca/en/home/insights/2018/02/2018-federal-budget-highlights.html>



Provincial budgets



Les Der
Senior Manager, Tax

Alberta and British Columbia

	Alberta	British Columbia
Corporate tax changes	<ul style="list-style-type: none"> — No changes to corporate tax rates — Combined Federal and Alberta general corporate tax rate continues to be 27% — Interactive Digital Media Tax Credit — Alberta Investor Tax Credit — Capital Investment Tax Credit 	<ul style="list-style-type: none"> — No changes to corporate tax rates — Combined Federal and British Columbia general corporate tax rate continues to be 27% — Employer health tax and medical services plan premiums — Other corporate tax credit changes
Personal tax changes	<ul style="list-style-type: none"> — No changes to personal tax rates — Highest marginal rate on interest and regular income continues to be 48.00% 	<ul style="list-style-type: none"> — No changes to personal tax rates — Highest marginal rate on interest and regular income continues to be 49.80% — Provincial Property Transfer Taxes — Speculation tax — Other housing-related measures — Other personal tax credit changes
Indirect tax changes	<ul style="list-style-type: none"> — Cannabis tax — Education property tax 	<ul style="list-style-type: none"> — Carbon tax — Provincial Sales Tax Act — Tobacco tax — Fuel tax
Link	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-alberta-budget.html	https://home.kpmg.com/ca/en/home/insights/2018/02/highlights-of-the-2018-british-columbia-budget.html

Québec and Ontario

	Québec	Ontario
Corporate tax changes	<ul style="list-style-type: none"> — Reduction to the income tax rate for small and medium-sized businesses (SMBs) to 7.5% by 2021 and additional deduction applicable to primary and manufacturing sectors for SMBs will be eliminated by 2021 — Gradual reduction of the Health Service Fund contribution rate for SMBs — Additional capital cost allowance and tax credits — Harmonization with the federal measures on split income and other measures from the 2018 federal budget 	<ul style="list-style-type: none"> — No changes to corporate tax rates — Combined Federal and Ontario general corporate tax rate continues to be 26.5% — Ontario Research and Development Tax Credit — Ontario Innovation Tax Credit — Ontario Interactive Digital Media Tax Credit — Commercialization of intellectual property — Employer Health Tax exemption — Paralleling federal corporate tax measures
Personal tax changes	<ul style="list-style-type: none"> — No changes to personal tax rates except with regards to the rates of the dividend tax credit (both eligible and non-eligible) — First-time home buyers' tax credit — Extension of the eligibility period for the RénoVert tax credit — Enhance of the tax shield — Enhancement of the tax credit for experienced workers — Enhancement of the refundable tax credit for childcare expenses — Extension of the tax credit for a first major cultural gift — Changes to the refundable tax credit for informal caregivers of persons of full age 	<ul style="list-style-type: none"> — Eliminate Ontario's surtax and adjust the personal income tax brackets, effective for 2018 — Proposed changes would not change the top marginal income tax rates — Highest marginal rate on interest and regular income continues to be 53.53% — Charitable donation tax credit
Indirect tax changes	<ul style="list-style-type: none"> — Measures relating to Québec sales tax and e-commerce — Mandatory registration — Jurisdiction of consumption 	<ul style="list-style-type: none"> — Cannabis tax — Land transfer tax — Railway right-of-way property taxation — Tobacco tax
Link	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-2019-quebec-budget.html	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-ontario-budget.html

Other provincial budgets

	Link
New Brunswick	https://home.kpmg.com/ca/en/home/insights/2018/01/highlights-of-the-2018-new-brunswick-budget.html
Manitoba	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-manitoba-budget.html
Nova Scotia	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-nova-scotia-budget.html
Newfoundland and Labrador	https://home.kpmg.com/ca/en/home/insights/2018/03/highlights-of-the-2018-newfoundland-and-labrador-budget.html
Future Provincial Budgets	https://home.kpmg.com/ca/en/home/insights/2010/04/tax-news-flash-canada.html



CERAWEEK

Highlights from energy leaders conference



Rob Doran

Partner, Deal Advisory

CERAWeek

Key Themes in 2018

- Supply and demand
- Environment
- Innovation and technology
- Finance and Investing
- US perspectives
- Canadian perspectives

CERAWeek

Supply and Demand

- US shale and the Permian, short cycle v long-cycle, looming global oil shortage, energy mix, OPEC, reliance on fossil fuels, growth in LNG, transition to renewables, tension between producers and service providers, geopolitics, emerging markets and developing countries

Environment

- Reducing carbon emissions, carbon tax, methane, NGOs, Shell

Innovation and Technology

- Agora, block chain, big data, cyber security, cloud storage, smart grids, machine learning, electric and autonomous vehicles, battery technology, carbon capture

CERAWEEK

Finance and Investing

- Under investment outside US shale, profit over growth, focus on diversification, emphasis on cash flows, portfolio mix, reduced borrowing, emergence of private equity, pipeline valuations, role of venture capital in energy innovation

US Perspectives

- President Trump, Permian growth, LNG exports, deregulation, tax reform, infrastructure, tariffs

Canadian Perspectives

- Oil sands, Montney, the need for pipelines, access to markets, price differentials, product diversification



Questions?



Trevor Hammond
Partner, Audit

Today's presentation will be posted to
kpmg.ca/quarterlyupdate



Next webcast

June 20, 2018



Thank you



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