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TaxNewsFlash

Canada

U.S. Previews Corporate and Personal Tax Plans

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Canadian multinationals that do business in the United States and U.S. individuals living in Canada should prepare to determine the effect of possible U.S. tax changes. The United States outlined potential upcoming tax measures intended to be proposed in the fiscal year 2022 U.S. budget in a report released on May 28, 2021 known as the “Green Book”. Specifically, this report provides new details on the Biden administration’s plans to increase the statutory corporate income tax rate to 28% and to tax long-term capital gains and qualified dividends at ordinary rates for certain individuals, among other possible changes.

Note that these potential measures may face legislative challenges due to the Democrat’s narrow control of U.S. Congress. It’s not yet clear how these challenges may affect any forthcoming legislative proposals or the enactment process. While these changes would generally be effective January 1, 2022 with some exceptions, Congress will ultimately determine the effective dates of any legislation, as well as any transition and grandfather rules. It’s also possible that there may be significant modifications made to the proposals if they are considered in Congress.

Background
The United States previously released certain details of planned personal and corporate tax proposals. For details, see *TaxNewsFlash-Canada* 2021-27, “U.S. Looking to Increase Taxes for High-Income Individuals” and *TaxNewsFlash-Canada* 2021-17, “Multinationals — Prepare for Possible U.S. Tax Changes”.

Some of the previously reported proposals and promises made during Biden's election campaign, including to reduce the estate tax exemption to $3.5 million (from $11.7 million), are not included in the new report.

Possible corporate tax changes

The report outlines potential upcoming corporate tax measures, including changes to:

- Increase the statutory corporate income tax rate to 28% (from 21%)
- Impose a 15% minimum tax on global book income of certain large corporations
- Introduce a new "SHIELD" regime to replace the "base erosion anti-abuse tax" (BEAT) that would deny U.S. tax deductions for payments to foreign related parties subject to a "low effective tax rate" (generally applicable to tax years beginning on or after January 1, 2023)
- Restrict the deduction of interest by certain financial reporting groups attributable to disproportionate U.S. borrowing
- Repeal the deduction for "foreign-derived intangible income" (FDII)
- Reduce to 25% the deduction for "global intangible low-tax income" (GILTI), eliminate the "qualified business asset investment" (QBAI) exemption, impose a jurisdiction-by-jurisdiction calculation and repeal the high-tax exemption for GILTI and Subpart F
- Limit the ability of domestic corporations to expatriate by tightening the anti-inversion rules, effective for transactions completed after the date of enactment
- Deny certain deductions related to offshoring jobs and provide tax credits for onshoring jobs
- Introduce or expand tax incentives for clean energy, housing and infrastructure (various effective dates).

Possible personal tax changes

The report outlines potential upcoming individual tax measures, including changes to:

- Increase the top individual income tax rate to 39.6% (from 37%)
- Tax long-term capital gains and qualified dividends at ordinary rates for taxpayers with adjusted gross income exceeding $1 million (applicable to gains required to be recognized after the date of announcement)

- Treat transfers of appreciated property upon death or by gift with unrealized capital gains appreciation in excess of $1 million as realization events, with certain exclusions and special rules providing for spousal portability and treatment of capital gains attributable to a primary residence.

For further details on these and other proposed measures, see a recent alert from KPMG's U.S. member firm: "Initial impressions of tax proposals in Biden Administration's budget for FY 2022".

We can help

Your KPMG adviser can help you assess the effect of the U.S. tax changes on your business and personal tax situations. For more details, contact your KPMG adviser.