

Budget 2014: Changes to the Taxation of Trusts and Estates

February 13, 2014

By

The Canadian Federal Budget was tabled on February 11, 2014 and contains several important changes to the taxation of trusts and estates.

We were somewhat prepared for this as a consultation paper had been issued by the government on June 3, 2013. Prior to this budget, the income earned in testamentary trusts and grandfathered *inter vivos* trusts (being those trusts that were settled during a settlor's lifetime before June 18, 1971) were taxed at the graduated tax rates for an indefinite period of time. This meant that beneficiaries of these trusts had access to graduated marginal tax rates and effectively allowed a form of income splitting between the beneficiary and the trust.

The 2014 budget provides that the highest marginal tax rate will apply to all grandfathered *inter vivos* trusts and to all testamentary trusts commencing in 2016 and all subsequent tax years.

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