eNews STEP CANADA

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STEP Canada Tax Technical Committee

RE: Application for Leave to Appeal to the Supreme Court of Canada in *The King v. Vefghi Holding Corp.* and *The King v. S.O.N.S. Environmental Ltd.*

The STEP Canada Tax Technical Committee has submitted a formal Letter of Support for the application for leave to appeal to the Supreme Court of Canada in *The King v. Vefghi Holding Corp.* and *The King v. S.O.N.S. Environmental Ltd.*

The Federal Court of Appeal's decision in these cases (2025 FCA 143) held that, for purposes of Part IV tax, the "connectedness" between a corporation paying dividends to a trust and the trust corporate beneficiary receiving the distribution is determined at the trust's taxation year-end, rather than at the time dividends are paid. This approach means that dividends paid in the year of a sale of the family business, or on a matrimonial division, could inadvertently trigger punitive Part IV tax consequences. The result is increased complexity and uncertainty for Canadian businesses and families, as well as for the implementation of commercial transactions.

Our letter highlights the significant uncertainty and punitive tax consequences created by the FCA Decision, including:

- Arbitrary disincentive for using trusts in business ownership structure and succession planning
- Increased risk of costly mistakes for businesses without specialized tax counsel
- Technical traps in pre-sale purification, divorce asset divisions, and capital dividend timing
- Potential for double taxation on intercorporate dividends

Members can review the full Letter of Support prepared by the Tax Technical Committee here and in the "Resources" Section in your MY STEP profile on step.ca.

Tax Technical Committee
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