

TAX BULLETIN

May 2011

CONTENTS

- Advantages of incorporation
- Advantages of an SBC
- Summary

Incorporating Your Business

If you carry on a business, there are many tax planning opportunities which become available to you by simply incorporating. By transferring your business to a corporation, you become the shareholder and employee of a separate taxable entity. If the corporation qualifies as a Small Business Corporation (SBC), other possibilities arise.

This bulletin discusses some of these benefits and the additional advantages that could apply if your company qualifies as an SBC. Whether you're thinking about incorporating or have already done so, you should consider making full use of these tax planning opportunities.

Here are some of the advantages of incorporating your business:

- **Limited liability**

Unlike a sole proprietor who is fully liable for the debts of the business, a shareholder is not responsible for debts or other liabilities incurred by the corporation. Of course, a shareholder who personally guarantees corporate debts is liable up to the amount guaranteed, and directors and officers can, in certain circumstances, be held liable for activities of the corporation. In general, however, your personal assets are protected from creditor claims and any lawsuits or other liabilities arising in the corporation.

- **Small Business Deduction**

Active business earnings of a Canadian-controlled private corporation are eligible for special reduced rates of tax at both the federal and provincial levels.

- **Deferral of Tax**

Once business earnings as a proprietor have reached the top personal tax rates, earnings in a company are initially taxed at a lower rate of tax than if they were earned personally. If the business earns funds that are surplus to the needs of you and your family, then the excess can be retained in the company and the advantage of a deferral of tax can be achieved.

- **Tax deferral on bonuses**

By choosing an appropriate year-end, a bonus declared by the corporation can be deducted in its current fiscal year, but not taxed to you until the following calendar year.

- **Employee benefits**

As an employee of your corporation, you can receive employment benefits that are deductible to the corporation and eligible for special tax treatment in your hands.

- **Estate planning**

By setting up an appropriate share structure, you can hold and control the corporation while any increase in value accrues to shares held by your children. This will minimize any tax liability arising on your death.

- **Income splitting**

Your spouse and adult children may be able to subscribe for shares of the corporation and receive dividends from the profits of the business. In the case of your spouse, however, you'll need to ensure you don't run afoul of the corporate attribution rules.

Due to the income-splitting tax (often referred to as the kiddie tax), the benefits of splitting dividends are eliminated for minor children. As well, in the 2011 federal budget, a proposal was announced to further extend the kiddie tax to apply to capital gains of shares in privately companies held by minors. For more information on these limitations, see the discussion on page 8.

The above benefits apply to all corporations that carry on business. If your corporation qualifies as an SBC, additional benefits are available:

- **Capital gains exemption**

If you sell the business in the future or pass it on to your children at death, you can make use of the \$750,000 capital gains exemption. You can even lock in this benefit now, by stepping up your shares' tax cost.

- **Income splitting**

If a corporation is an SBC, your spouse can be a shareholder and receive dividends, without concern for the corporate attribution rules.

- **Allowable business investment loss (ABIL) treatment**

If your SBC should fail, the loss of your investment in shares or debt may qualify as a business investment loss, one-half of which would be

allowable as a deduction against income from all sources, not just against capital gains.

Of course, there are some disadvantages associated with incorporating, such as increased recordkeeping, corporate tax returns and other government filings. However, they may not represent a significant additional cost if your business is already a sizable concern. Incorporation also means you are unable to use business losses to offset your personal income. Therefore, it's generally advisable to defer incorporation until the business is profitable, unless there are potentially large business liabilities which could deplete your personal assets.

Another set of rules to be aware of when deciding whether to incorporate your business is the Personal Services Business (PSB) rules. Generally, if you provide services through your corporation and if not for the corporation you could be considered an employee of the entity to which you provide the services, the corporation may be considered a personal services business — in other words you would be considered an "incorporated employee".

Where other conditions are met, the PSB rules will apply so income from the PSB will not be eligible for the Small Business Deduction. As well, deductions claimed by the PSB will be restricted. Generally, deductions are limited to salaries paid and employment benefits provided to the incorporated employee, plus certain other expenses that are deductible by an employee. Consequently, to fully benefit from incorporation, you must ensure that your business avoids the PSB rules. In most cases, this means that you have to be an independent contractor and not an incorporated employee. Note that the PSB rules do not apply between associated corporations, as these corporations must share the Small Business Deduction (discussed later).

Despite the negative tax rules just discussed, incorporating what would be a PSB can still make sense. With recent reductions in corporate tax rates and the eligible dividend rules (which are discussed later), a PSB can still provide a tax deferral without creating a significant tax cost in

most provinces – ask your BDO advisor if such a corporation can make sense for you.

The remainder of this bulletin provides more details on the advantages of incorporation and of maintaining your company as an SBC.

Advantages of incorporation

The Small Business Deduction

One of the major reasons a business incorporates is to obtain the benefit of the Small Business Deduction. This is a reduction in both federal and provincial tax that is available to Canadian-controlled private corporations (CCPCs) on their active business income up to a set threshold – the small business limit. The small business limit is currently \$500,000 federally and in all provinces except Manitoba and Nova Scotia, where it is \$400,000. The corporate tax rate on income up to the federal small business limit is 19% or less in all jurisdictions – much lower than the general corporate rates (see chart on page 10).

A CCPC is a Canadian corporation that is not controlled by public corporations, non-residents, corporations with a class of shares listed on a designated stock exchange, or any combination of these. If you are a Canadian resident and you incorporate your business federally or provincially, the company will be a CCPC.

The small business limit must be shared by associated corporations – that is, corporations which are under common control and ownership. Therefore, if you hold businesses in separate corporations, your corporate group will only be entitled to the low tax rate on total income up to the small business limit.

It should be noted that for large CCPCs, the Small Business Deduction will be reduced. The reduction is based on the corporation's taxable capital in Canada as determined for purposes of the Large Corporations Tax (LCT) for the prior taxation year. Note that the LCT was eliminated in 2006; however, the rules are still relevant for several tax calculations including this reduction to the Small Business Deduction. If a corporation's taxable capital in Canada exceeds \$10 million, the corporation is subject to at least a partial reduction in the small business limit in the

following year. Once taxable capital in Canada exceeds \$15 million, the corporation is subject to a full reduction. In addition, the \$10 million and \$15 million thresholds must be shared among a group of associated corporations. There are two benefits to claiming the Small Business Deduction:

1. Tax savings

As a rule, earning small business income through a corporation, and paying it out as a dividend to an individual who is taxed at the top rate will generally not produce a substantial benefit or cost in most provinces. However, tax savings can be achieved where after-tax small business income is paid to a low income family member as a dividend.

For income where tax is paid at the general corporate income tax rate, it should be noted that our tax rules were changed extensively for the 2006 and subsequent taxation years to eliminate (or significantly reduce) the tax cost associated with earning income subject to the general tax rate in a corporation and paying it out to individuals as a dividend. Under the current tax rules, there are two types of dividends – eligible dividends and ineligible dividends.

Eligible dividends are basically dividends that are paid out of after-tax business income that was taxed at the general corporate rate without the benefit of a Small Business Deduction. This income may have been business income earned directly by the corporation paying the dividend or may be business income that was received from another corporation as an eligible dividend. Where general rate corporate income is received by an individual as an eligible dividend, that dividend is grossed up to reflect the pre-tax income earned by the corporation and a dividend tax credit is allowed, which reflects the tax paid by the corporation on the income. All provinces and territories have followed the changes made by the federal government.

Where a corporation earns income eligible for the small business deduction, the after-tax income is generally paid out as an ineligible dividend. Ineligible dividends are subject to a lower gross-up and tax credit to reflect the fact that small business income is subject to a lower corporate tax rate. This means that ineligible dividends are

taxed at a higher tax rate when compared with eligible dividends.

Tracking income that can be paid as an eligible vs. an ineligible dividend can be complicated, and any decision on paying dividends should be made in conjunction with your BDO advisor.

2. Tax deferral

The above comments assume the after-tax corporate earnings are immediately paid out as a dividend. If, instead, the funds are left in the corporation, the additional personal tax is deferred. The lower corporate tax rate leaves greater after-tax dollars in the corporation to pay expenses and reinvest in assets.

Before the changes in the taxation of dividends, if the corporation's active business income exceeded the small business limit, many corporations paid the excess to the owner(s) as a bonus. The bonus would be deductible to the corporation and taxable in the owner's hands. In the past, the combined corporate and personal tax on income in excess of the annual limit could greatly exceed the personal tax payable on the bonus.

However, with the eligible dividend rules, it may no longer be necessary to bonus out this income. As shown on the chart on page 10, the difference in the tax cost of earning general rate business income directly vs. earning this income through a corporation and paying it out as an eligible dividend is relatively small in most provinces/territories when compared with the potential tax deferral.

In our current tax environment, owner-manager remuneration strategies are being further complicated by changing tax rates. Specifically, there will be further reductions in the federal corporate tax rate until 2012 while the personal tax rate on eligible dividends will be increased. The personal tax rate on dividends will increase between 2011 and 2012, at which point federal rates are projected to remain at the 2012 rate. This means that for 2011, integration will work best for business income taxed at the corporate rate and paid out as an eligible dividend where the dividend is paid in the same year, or the time-frame is long enough that the deferral advantage makes up for the higher overall tax cost.

So while in the past the general rule of thumb was to have the corporation pay an owner-manager a salary or bonus to reduce its income to the small business limit (as the total corporate and personal tax associated with retaining the excess income and paying it out as a dividend exceeded the tax cost of a bonus) this may no longer be the best option. In recent years, beneficial tax reductions have made this rule of thumb more difficult to apply. Given that there are a number of considerations to make when determining whether to retain income in your corporation or pay a bonus, you should discuss this decision with your BDO advisor.

If your corporation earns investment income, there is another consideration. With the corporate tax rate reductions being implemented and the eligible dividend rules, it may be wise to consider mixing investment earnings in a holding company with eligible dividends received from the operating company. This can enhance the deferral benefit as the investment income is subject to a refundable tax, which is refunded on the payment of a dividend. If the dividend refund can be triggered by flowing an eligible dividend from the operating company through the holding company to shareholders, this could result in a significant tax deferral on the investment income earned by the holding company. Ideally, the cash paid out as an eligible dividend will be just large enough to cover personal costs and to trigger a full refund of the refundable tax. Your BDO advisor can help you decide whether you should allow income to be taxed in your corporation or whether you should pay out the excess income as a bonus.

Tax benefits from corporate bonuses

Even if there is no need to bonus out general rate income with the eligible dividend taxation rules, having the corporation pay a bonus or a regular salary to you will provide you with earned income for an RRSP contribution in the following year, and for Canada/Québec Pension Plan contributions in the current year (if this is desirable).

When bonusing out corporate income, a deferral is available. A bonus is deductible to the corporation in the year it is accrued, if it is paid within 180 days of the corporation's year-end. If the corporation's year-end falls within the last half of

the calendar year (i.e. July 6th or later), the bonus could be paid to you in the following year. Salary withholdings for income tax, Canada Pension Plan (CPP) premiums and Employment Insurance (EI) premiums (where applicable) would need to be made shortly after the payment of the bonus, depending on the corporation's remittance schedule, but the income tax would have been deferred for six months. Note that EI is generally not payable on remuneration paid to family members (including you).

Employee benefits

As a corporate employer must pay tax on earnings distributed to you as a dividend, advantages can arise where the corporation can use these funds to provide you with benefits more efficiently from a tax perspective. In other words, if the provision of a benefit is deductible to the corporation and is not taxable to you personally in whole or in part, the tax treatment may be beneficial. Some common employment benefits that allow for a preferential tax treatment include:

- **A company car**

This is especially advantageous where a leased car is primarily for personal use. The corporation can deduct the lease payments up to certain limits, but only two-thirds of the amount is treated as a taxable benefit to you. Company cars, however, are not for everyone. For more information, see our bulletin *Automobile Expenses and Recordkeeping*.

- **Health care premiums**

Premiums paid by the corporation to a private health insurance plan for you will be deductible to the corporation and not a taxable benefit to you, provided that certain conditions are met. To qualify for this special treatment, you must have received this benefit by virtue of your employment and not by virtue of your shareholdings. When applying this test, the Canada Revenue Agency (CRA) may conclude that you received the benefit as a shareholder if similar coverage was not extended to other full-time employees who are not shareholders. It should be noted that these premiums are not deductible for Québec tax purposes.

- **Car allowance**

As an employee, you may receive a tax-free car allowance if you use your own car when performing your duties. The CRA normally considers the allowance reasonable if it does not exceed the rates it sets annually. For 2011, the rate is 52 cents/km for the first 5,000 km of business travel, and 46 cents/km for business travel over 5,000 km. The rates are each 4 cents higher for kilometers driven in the Yukon, Northwest Territories and Nunavut. The allowance is beneficial because you only have to track the distance travelled on business.

- **Individual pension plan**

Rather than contributing to an RRSP, another retirement savings option is available to owners of incorporated businesses, including professionals who have incorporated. Under the rules for defined benefit pension plans, it is possible to set up an individual pension plan (IPP) for business owners. Under an IPP, the benefits are set by reference to your salary, and contributions are made to build sufficient funds to fund this defined pension benefit. For many individuals (generally, in their 50s or older), the use of an IPP can allow for greater contributions when compared to an RRSP. Additional benefits of an IPP include the ability to make up for poor investment performance and the possibility of making lump-sum contributions for past service.

Changes announced in the 2011 federal budget have significantly changed the viability of IPP's and have left many wondering if they are still an advantageous retirement savings vehicle. For more information on these changes and a discussion of their impact on IPP's see the article "Individual Pension Plans - Do They Still Make Sense?" in the 2011-02 edition of the *Tax Factor*.

- **Retiring allowances**

When you retire from the corporation, either on a sale to third parties or a transfer to your children, the corporation could pay you a retiring allowance eligible for a rollover to an RRSP. The CRA has established guidelines as to what constitutes a reasonable amount. For newly incorporated businesses, a rollover to an RRSP will not be allowed for amounts paid to the former

proprietor, as the rollover is only applicable to years of service as an employee prior to 1996. Ask your BDO tax advisor for more details.

Estate freeze

On death, you're deemed to dispose of all your capital assets (for instance, your business assets) at their fair market value. If the assets have increased in value, this will cause capital gains and possibly a recapture of previously claimed depreciation. The resulting taxes could be so high that your executor may have to sell off the business to pay the liability. Although it's possible to transfer assets at tax cost to your spouse on death, your spouse will face the same issue on the eventual transfer to your children. Therefore, it's wise to take steps to minimize the tax arising on death. This type of planning is referred to as estate planning.

If your assets are held through a corporation, you can use a common estate planning technique called an "estate freeze." This is a method of capping or "freezing" the value of your assets, while allowing future growth to accrue to other family members.

In an estate freeze, you transfer your business assets to a new corporation in exchange for preferred shares. A special election form will be required to avoid realizing capital gains or income on the transfer. The shares received should have a value equal to the value of the assets transferred. This can be accomplished by making them redeemable by the corporation and retractable by the shareholder for this amount. The shares should also be voting, to allow you to control the corporation, and should bear a reasonable, non-cumulative dividend, to provide you with the possibility for future income. Finally, the shares should be non-participating. Therefore, all future increases in value of the corporation's assets will accrue to the common shares. These common shares can be issued to other family members for a nominal amount.

The result is that your estate is frozen at its value at the time of the freeze. Your maximum tax liability on death can be determined and provided for. Any increases in value that arise after the freeze will only be subject to tax when the

common shareholders, your children, for example, sell their shares or when they die.

You can carry out an estate freeze at the time you incorporate your business. However, you should be careful not to freeze your estate too early in life — you may require greater funds for retirement or your intentions as to who should benefit from the freeze or who will succeed you in the business may change. At a minimum, you should ensure the share structure you set up for the corporation will allow for a future estate freeze.

If you've already incorporated your business, you can still perform an estate freeze at any time. This can be done by either transferring your shares to a holding company for preferred shares as described above, or exchanging your common shares for preferred shares in your existing company. As above, special elections may be necessary to avoid tax on the transfer. Consult your BDO tax advisor for further details.

There are a number of pitfalls in carrying out this type of planning which you must be careful to avoid. For instance, when you transfer assets to a corporation of which your spouse or minor children are shareholders, there could be an imputed interest penalty to you under the corporate attribution rules. This problem can be avoided if your spouse is not a shareholder. For minor children, the trust agreement can state that the child is not entitled to income or capital until they reach age 18. The problem can also be avoided if the corporation is an SBC (see below).

Income splitting

If you run your own business, there are a number of possibilities for income splitting. Many of these apply whether or not the business is incorporated. For instance, you could pay your spouse or children reasonable salaries for work performed in the business. Or you could pay your spouse a guarantee fee if he or she has pledged assets or otherwise guaranteed the debts of the business. If your business is incorporated, other possibilities arise, such as paying your spouse a director's fee for services performed in that capacity.

The estate planning structure discussed above also allows for income splitting. For instance, your spouse and adult children could subscribe for

shares in your corporation and be paid dividends. The advantage here is the ability to have the dividends taxed in the hands of more than one person, which generally means that the overall tax on the dividends is lower. With the use of more than one class of shares, it would be possible to pay the dividends to selected individuals or a group of individuals.

You should ensure that family members pay fair market value for any shares issued to them. This should not be a problem if you have just done an estate freeze, since the common shares will generally have only a nominal value. Also, family members must acquire the shares with their own funds. If you provide the funds to them, any dividends they receive would be taxed in your hands.

If you've transferred property or made low-interest loans to the corporation, there could be problems with the corporate attribution rules.

Income splitting is made simpler if the corporation qualifies as an SBC (subject to the income splitting tax). This is discussed further below.

With the income splitting tax that applies to certain income received by minor children, most benefits from splitting income with a minor child have disappeared. See discussion on page 8.

Advantages of an SBC

Thus far, we've presented tax planning ideas which apply to all CCPCs. If a corporation is an SBC, there are further advantages.

What is an SBC?

A corporation qualifies as an SBC if:

- It's a CCPC; and
- All or substantially all of its assets are used in an active business carried on primarily in Canada. The CRA interprets this to mean that assets representing at least 90% of the fair market value of all assets are used for business purposes.

A CCPC holding only shares or debts of other companies may qualify, provided those other companies are also SBCs.

Some corporations reinvest all their profits back into the business, so meeting the asset use test does not pose a problem. Other corporations invest surplus funds in investments which are not required for business purposes. If the fair market value of these investments exceeds 10% of the fair market value of all assets, the corporation will not be an SBC. You can ensure that your corporation continues to qualify by reinvesting any excess funds in business assets or by removing them from the corporation, through payment of dividends, salary or repayment of shareholder loans.

Note the word "small" in the definition of a "small business corporation" is a misnomer. There are no size restrictions for being an SBC.

Capital gains exemption

From 1985 to 1994, Canadian residents were able to claim a special deduction to reduce or eliminate tax on up to \$100,000 of capital gains. If the gain arose on the sale of shares of an SBC, an additional \$400,000 was often available. Although the 1994 federal budget eliminated the general \$100,000 exemption for dispositions after February^{22, 1994}, the \$500,000 exemption remained and could be claimed to reduce capital gains from qualifying shares of an SBC, farm property, and beginning in 2006, fishing property.

As part of the 2007 federal budget, the capital gains exemption was increased to \$750,000 for dispositions after March 18, 2007. The increased exemption is available on qualified shares of an SBC, qualified farm property and qualified fishing property.

To use the \$750,000 exemption as a deduction against gains from the disposition of shares of a corporation, you must meet the following conditions:

- The corporation must be an SBC at the time of the sale.
- More than 50% of the corporation's assets (on the basis of fair market value) must have been used in an active business carried on primarily in Canada throughout the 24-month period immediately before the sale.
- The shares must not have been owned by anyone other than you or someone related to

you during the 24-month period immediately before the sale.

Note that the corporation only needs to be an SBC at the time of sale — that is, at least 90% of its assets must be business assets. Therefore, you may need to remove some non-business assets before the sale to qualify. There are a number of ways this can be done, depending on the circumstances. For the two years before the sale, you need only have more than 50% of the assets used for business purposes. You should monitor the corporation's status to ensure this test is met.

Many individuals prefer to trigger a disposition of their shares at a time when they're certain that the shares qualify for the enhanced exemption. This removes the need to monitor the company's status and locks in the exemption.

This can be done by transferring your shares back to your corporation or to a holding company and electing to realize a gain on the transfer. The shares taken back will have a stepped-up cost, thereby reducing any future capital gain when you sell the shares to a third party, or on death. You should keep in mind that while you can step up the tax cost of your shares, you cannot take back cash or other non-share consideration when triggering a gain, as this could produce unfavourable tax consequences. Your BDO tax advisor would be pleased to provide further details on how to realize your capital gains exemption now.

The enhanced exemption only applies to shares of an SBC and not to the sale of assets of an active, unincorporated business (unless you are a farmer or a fisher) — which is an important reason to incorporate your business as an eventual sale or a deemed disposition upon death may be eligible for the enhanced exemption. At the time the assets are transferred, the SBC can be organized to allow an estate freeze and family income splitting, as discussed below.

Estate planning through an SBC

Estate planning is made easier if the corporation is an SBC. As noted previously, if you transfer property or make a low-interest loan to a corporation of which your spouse or minor children (a son, daughter, niece or nephew under 18 years of age) are shareholders, an imputed interest

penalty will be included in your income for each year that the loan is outstanding. The penalty is interest at the CRA's prescribed rate on the outstanding amount of the loan or the value of the property transferred to the corporation. It is reduced by any interest received in the year, by 125% of any ineligible dividends and by 141% in 2011 (138% for years after 2011) of any eligible dividends you actually receive from the corporation in the year.

Depending on the method you choose for an estate freeze, a share transfer may be caught by the corporate attribution rules.

The corporate attribution penalty does not apply for any period throughout which the corporation qualifies as an SBC. Therefore, if you ensure that your company always meets the 90% test for business assets, you can carry out an estate freeze without concern for the corporate attribution rules.

Splitting income with your spouse and children

Splitting income with your spouse is also made easier if your corporation is an SBC. If you ensure that your corporation maintains its status as an SBC, the corporate attribution rules mentioned above will not apply.

As discussed, the Income Tax Act contains a special income splitting tax, known as “kiddie tax” on certain types of income received by minor children — including dividends received from a private corporation. The tax is applied at the top personal rate for individuals, without the benefit of personal tax credits (other than the dividend tax credit). This tax effectively eliminates most of the benefits provided by splitting income with your minor children. In addition to private company dividends, the tax also applies to rental income, interest income, and any other property income earned by a trust or partnership from a family business that is taxed in the hands of minor children.

It should be noted that in the 2011 federal budget, a proposal was announced to further extend the kiddie tax to apply to capital gains. Under this proposal the kiddie tax rules will be expanded to capital gains realized by, or included in the income of, a minor from the disposition of shares

of a corporation to a person who does not deal at arm's length with the minor, if taxable dividends on the shares (if paid) would have been subject to the tax on split income. Where capital gains are caught under this rule, they will be treated as dividends for tax purposes. This means that beneficial capital gains inclusion rates will not apply and the income will not be eligible to be offset by the capital gains exemption. As well, this deemed dividend cannot be designated as an eligible dividend and the corporation will not be able to treat the amount as a dividend paid. This change will deny proper tax integration and a dividend refund for the corporation if it has a refundable tax.

For more information on income splitting, see our *Income Splitting* bulletin.

Allowable Business Investment Loss (ABIL)

If your corporation qualifies as an SBC and the business should fail, you may be allowed to deduct an ABIL rather than a capital loss for the loss of your investment in shares or debt of the SBC. An ABIL is calculated in the same manner as an allowable capital loss in that only one-half of the loss is allowed as a deduction. The difference is an ABIL can be claimed as a deduction against other types of income as opposed to a capital loss which can only be applied against capital gains. If you have previously claimed a portion of your capital gains exemption, the ABIL may be converted into an ordinary capital loss to the extent you claimed the exemption.

Summary

As you can see, there are a number of tax planning opportunities available to you if you carry on business in corporate form and you maintain your corporation as an SBC. See your BDO tax advisor for further details on how you can use these planning ideas in your situation.

Comparison of Tax Rates – Tax Deferral and Integration With the Use of a Corporation - 2011

	Corporate/Personal Tax Rates ⁽¹⁾			Potential Deferral		Integration: Effective Tax Rates on Income Taxed in a Corporation ⁽²⁾	
	Small Business Tax Rate (%)	General Corporate Tax Rate (%)	Top Personal Tax Rate (%)	At Small Business Rate (%)	At General Corporate Rate (%)	Active Income Earned in a Corporation and Net Income After-tax Paid out as a Dividend	
						At Small Bus. Rate: Ineligible Dividend (%)	At General Corporate Rate: Eligible Dividend (%)
British Columbia	13.50	26.50	43.70	30.20	17.20	42.66	44.07
Alberta	14.00	26.50	39.00	25.00	12.50	37.83	39.52
Saskatchewan	13.00	28.50	44.00	31.00	15.50	40.91	45.20
Manitoba	11.00	28.50	46.40	35.40	17.90	45.84	47.62
Ontario	15.50	28.00	46.41	30.91	18.41	43.02	48.30
Québec	19.00	28.40	48.22	29.22	19.82	48.44	51.20
New Brunswick	16.00	26.50	43.30	27.30	16.80	41.90	41.90
Nova Scotia	15.50	32.50	50.00	34.50	17.50	46.10	56.02
PEI	12.00	32.50	47.37	35.37	14.87	48.23	50.95
Newfoundland	15.00	30.50	42.30	27.30	11.80	40.47	45.07
Yukon	15.00	31.50	42.40	27.40	10.90	40.84	43.64
NWT	15.00	28.00	43.05	28.05	15.05	40.20	43.34
Nunavut	15.00	28.50	40.50	25.50	12.00	39.62	46.90

(1) Rates used are nominal rates as at July 1, 2011 and are current to April 30, 2011.

(2) The tax rates for corporate income are the combined corporate and personal tax rates for tax paid by earning income through a corporation eligible for the small business rate or a corporation taxed at the top corporate rates. The rates assume that income taxed in the corporation is then paid out as a dividend and taxed in the shareholders' hands at top personal rates for 2011. In the case of small business income, it is assumed that the dividend received by the individual is ineligible. In the case of general rate income, it is assumed that the dividend is eligible. Please note that due to increasing federal tax rates on eligible dividends in 2012, a greater cost will arise where corporate income is taxed in 2011 then paid out as an eligible dividend in a subsequent year when compared to income earned personally. This cost should be significantly reduced in most jurisdictions for corporate income taxed in 2012 and then paid out as an eligible dividend, as the federal tax rate changes will be fully implemented.

The information in this publication is current as of May 15, 2011.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.