

Issue
2009-03

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The Impact of Integration on Owner-Manager Remuneration Strategies

Over the next several years, significant federal corporate tax rate reductions are scheduled to be phased-in. At the same time, the effective tax rate on eligible dividends is scheduled to increase. If you carry on business using a corporation and have income subject to the top corporate tax rate, these rate reductions will have a considerable impact on your owner-manager remuneration strategy. In this article, we will review the concept of “integration”, the upcoming tax rate changes and address the impact of these changes on your remuneration strategy.

Integration Basics

As an owner-manager, there are two main methods by which you can receive remuneration from your corporation. You could pay yourself a salary, which is generally a deductible expense for your corporation and is fully taxable to you. Or you could have the income taxed in your corporation, and then pay the after-tax income out to you as a shareholder as a taxable dividend. You could also pay yourself a mix of salaries and dividends. Since dividends and salaries are subject to different tax consequences, there can be differences in the tax cost under each alternative. Any dividends received from your corporation are taxed at reduced personal tax rates, which take into account the fact that the income has already been taxed in your company. When you report dividends on your personal tax return, you first “gross-up” the dividend (to approximate the pre-tax corporate income out of which the dividend was paid) and you can claim a dividend tax credit to reduce your personal tax (which is intended to approximate the corporate tax that was paid by your company).

The Canadian tax rules are based on the concept of integration. A tax system is said to be integrated if the same amount of overall tax is paid when the income is earned indirectly through a corporation or directly by an individual. Integration, however, only works when corporate and personal tax rates are set at appropriate levels.

In the past, the concept of integration only worked for business income earned in a Canadian-controlled private corporation (CCPC) that was eligible for the small business deduction (allowed on the first \$500,000 of active business income earned by a CCPC). Income earned by CCPCs that was over the small business limit, or business income earned by another type of corporation (such as a public company), were subject to higher corporate tax rates. All dividends, however, were subject to the same personal tax rates and these personal rates were set at a level to ensure that integration worked for CCPCs. Therefore, dividends paid out of business income subject to the top corporate



tax rates were under-integrated, resulting in some double taxation when these dividends were paid out.

This all changed in 2006 when the concept of “eligible dividends” was introduced. In very basic terms, an eligible dividend is a dividend paid after 2005 by a corporation from business income that was taxed at the top corporate rate. These dividends are subject to a different gross-up and tax credit that reduces the effective personal rate of tax on the dividend and addresses the under-integration problem associated with business income subject to top corporate tax rates. The result is that there are now two distinct integration systems — one for “eligible” dividends paid out of business income subject to the top corporate tax rates and one for “ineligible” dividends paid out of corporate income taxed at small business rates. That said, our integration systems do not work perfectly — there can be a savings or a cost of having business income taxed in your corporation and then paid out as a dividend under both systems. And while the majority of the provinces and territories have made changes to how they tax both eligible and ineligible dividends, there are some jurisdictions where integration costs remain and must be taken into account in coming up with an appropriate owner-manager remuneration strategy. As an [appendix](#) to this publication, we have reproduced a chart from our *Incorporating Your Business* bulletin which shows the relative costs of distributing corporate income in 2009 as a dividend.

Note, however, that if income is taxed at the corporate level and the payment of dividends is deferred into subsequent taxation years, a deferral of the personal tax on the dividends will be achieved. The advantage of this tax deferral is often more than enough to compensate for any integration cost that exists by having the business income taxed at the corporate level and must also be taken into account in coming up with an appropriate remuneration strategy.

Eligible Dividend Rate Changes and the Impact on Remuneration Planning

We are currently in a period of changing tax rates that is complicating owner-manager remuneration strategies. There will be significant reductions in the federal corporate tax rate on general business income over the next few years that will reduce the rate from 19% this year to 15% by 2012 (note

that many provinces are reducing their general corporate tax rate as well). At the same time, the personal tax rate on eligible dividends is being increased, to take into account the corporate tax rate reductions and to ensure that integration will still work on business income that is taxed at the top corporate tax rates. The top federal marginal tax rate on eligible dividends will increase from 14.55% this year to 19.29% by 2012. Details of these rate changes are provided in the table below.

	2009	2010	2011	2012
General federal corporate tax rate	19%	18%	16.5%	15%
Top federal marginal tax rate on eligible dividends	14.55%	15.88%	17.72%	19.29%

As a result of the changes in the federal personal tax rate on eligible dividends and the reductions in the top federal corporate tax rate, over the next 4 years integration will generally work for business income taxed at the top corporate tax rate and paid out as an eligible dividend, but only if the dividend is paid in the same year. When the payment of an eligible dividend is being deferred to a subsequent year, integration will not work and there will be an integration cost, as the tax rate on eligible dividends is increasing.

As a result, it is very important over the next few years to take into account when eligible dividends are expected to be paid. In the next few years, if you are planning to pay an eligible dividend from your corporation, it may make sense to accelerate payment of that dividend a year or two in order to pay tax on the dividend at a lower tax rate. Note that there are other considerations that need to be taken into account as well before making this decision — for example, you will need to assess the impact that accelerating the payment of a dividend will have on your personal tax instalments. If you have no plans to pay a dividend in the near future and you retain the income in the corporation for an adequate period of time, the deferral of personal tax on the dividend will more than likely outweigh the integration cost that may be caused by the increasing tax rate on eligible dividends.

With the scheduled changes to corporate tax rates and the taxation of eligible dividends, it is important to understand the impact these changes will have on your remuneration strategies. Consult your BDO advisor to ensure that your remuneration planning makes sense for your situation.

The Tax Advantages of Incorporating for Professionals

As a professional, there are tax planning opportunities that become available when you incorporate. Before you decide to incorporate to take advantage of these opportunities, however, there are a number of important considerations to make. Unlike business people in general, you must consider the specific rules that govern your profession when determining whether incorporation makes sense for you. In particular, you need to determine the ownership rules that apply, as certain provinces restrict who can own shares of a professional corporation (PC). You also need to determine what activities your profession will allow your PC to engage in. Both can impact on the tax planning available.

In this article, we will outline the main tax planning opportunities available along with the key considerations to make when deciding whether or not to incorporate.

Income Splitting

The ability to split income with a spouse or an adult child is one of the main benefits of incorporation for businesses. However, it is necessary for professionals to consider the ownership rules of their profession as this will determine whether income splitting benefits are available. In particular, you will need to consider who is allowed to hold shares of the PC. Certain provinces will allow shareholders of the PC to include the professional along with their family members, while other professions will allow only members of the profession to hold shares of the PC. Where family ownership is allowed, some provinces also restrict the use of trusts.

Where the rules allow, you can benefit from income splitting where your spouse and adult children are allowed to subscribe for shares of the corporation and receive dividends from the profits of the PC. 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. Note that due to the income-splitting tax (often referred to as the kiddie tax), the benefit of splitting dividend income with minor children is not available.

In the case of your spouse, you'll also need to ensure you don't run afoul of the corporate attribution rules. These rules may apply if you transfer property or make a low-interest loan to

your PC where your spouse is or will become a shareholder. Where these rules apply, an imputed interest penalty will be included in your income and income splitting will not be achieved. Note, however, that the corporate attribution rules will not apply for any period that the corporation qualifies as a small business corporation (SBC). A corporation qualifies as an SBC if:

- It's a Canadian-controlled private corporation (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.

The corporate attribution rules will be an issue for professionals who want to introduce a spouse as a shareholder to their PC and passive investments have already been built up in the PC. Also, keep in mind that even where a PC is currently an SBC, if passive assets accumulate in the PC, the corporate attribution rules can still become a problem.

The Small Business Deduction

The second main benefit of incorporation is the ability to access the small business deduction. A PC owned by a professional resident in Canada will be a CCPC, so that corporation may be able to obtain the benefit of the small business deduction. With this deduction, a CCPC's federal and provincial tax on active business income is reduced, up to certain limits. Currently, a maximum of \$500,000 of active business income qualifies for the federal small business deduction. The limit varies by province.

Due to our integrated tax system, a substantial tax savings or cost generally does not arise in most provinces where small business income is earned through a corporation and paid out as a dividend to an individual who is taxed at the top rate. However, tax savings can be achieved where after-tax small business income is paid to a low income family member as a dividend.

Another benefit can be achieved where business income is instead retained in the corporation, and the additional personal tax that will be payable when dividends are paid is deferred. The lower corporate tax rate leaves greater after-tax dollars



in the corporation to pay expenses and reinvest in assets. A smaller tax deferral will also be available for general rate business income (i.e. income not eligible for the small business deduction). In provinces that do not allow non-professionals to hold shares of a PC, the tax deferral will be the largest tax benefit. For more details on integration and the tax deferral, refer to our article "[The Impact of Integration on Owner-Manager Remuneration Strategies](#)".

When determining whether your PC can benefit from the small business deduction, you need to consider the following rules:

Partnerships – If you carry on business as a member of a partnership, the small business deduction rules will apply differently. The rules that will apply are known as the specified partnership income rules. Under these rules only one small business deduction will be available to reduce corporate tax on income from the partnership. In the case of a partnership of PCs, all of the PCs must share one small business deduction. For example, if your PC earns 1/4 of the income from a professional partnership, only \$125,000 of the income (1/4 of \$500,000) will be eligible for the federal small business deduction. Note that these rules effectively mean that partners of large partnerships do not get any significant small business deduction on their partnership income. Certain structures can be used to effectively allow PCs of partners in professional partnerships access to a full small business deduction limit, but they require careful planning to implement and generally require that non-competition clauses in partnership agreements be eliminated.

Personal Services Business – 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 (PSB) where certain exceptions do not apply. In other words, you would be considered an "incorporated employee". Where the PSB rules apply, income from the PSB will not be eligible for the small business deduction. As well, deductions claimed by the PSB will be restricted. Consequently, to fully benefit from incorporation, you must ensure that you avoid the PSB rules. In most cases, this means that you have to be an independent contractor and not an incorporated employee. The PSB rules are not a concern for partners of a professional partnership who are generally not considered to be employees of the partnership.

Capital Gains Exemption for Qualifying Small Business Shares

The third significant tax advantage of incorporation that may be available is the capital gains exemption for qualifying small business corporation shares. Due to the nature of a PC as well as the restrictive ownership rules, selling shares and realizing a gain eligible for the exemption may be difficult. Purchasers may prefer to buy goodwill or client lists, rather than shares, and they may also have concerns about inheriting the professional liability of the vendor. An incorporated partner of a professional partnership will likely not be able to sell shares of his PC. However, if you or family members are able to sell shares of the PC, up to \$750,000 of gross gains can be exempted (for each individual).

To qualify for the exemption, the following general conditions must be met:

- At the time of the disposition, at least 90% of the corporation's assets (on the basis of fair market value) must be business assets;
- 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; and
- The shares must not have been owned by anyone other than the vendor or someone related to the vendor during the 24-month period immediately before the sale.

In addition to claiming the capital gains exemption on an actual sale of your shares, it may be possible to trigger a capital gain, claim the exemption and step-up the tax cost of your shares in anticipation of a future sale. This planning will be especially useful if you believe your corporation will lose its status as an SBC in the future.

Other Considerations

There are other benefits, as well as potential disadvantages, that you should consider if you want to incorporate.

Individual Pension Plan – Instead of contributing to an RRSP, another retirement savings option is available to you as a professional if you incorporate. Under the rules for defined benefit pension plans, an individual pension plan (IPP) can be set up for business owners who are employed and earning employment income. The benefits under an IPP are set by reference to your

salary from your PC, 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.

Employment Benefits – If you incorporate, you may also be able to take advantage of employee benefits that have preferential tax treatment such as private health service plan benefits and benefits from the use of a leased company car. As a shareholder of your PC, it will be important to ensure that the benefit is received as an employment benefit and not as a shareholder benefit — otherwise preferential tax treatment will be lost.

Additional Compliance – One disadvantage of incorporation is that it does mean that you have additional paperwork. This will include preparing a corporate tax return and completing the appropriate tax filings for salaries or dividends paid by the corporation.

Payroll Taxes – Another potential disadvantage is that certain jurisdictions levy a payroll tax on remuneration paid to employees. Therefore, a payroll tax may apply to remuneration paid to employees of a PC.

There are many factors to consider when deciding whether or not incorporation makes sense for you as a professional. The provincial rules for your profession need to be balanced with the tax rules to ensure you benefit from the tax planning opportunities available from incorporation, given the additional costs you may incur. All factors considered, the decision can seem overwhelming, but your BDO advisor can help you make the decision that is right for you.

Wealth Succession Planning: Leaving a Legacy

Many recent media articles have highlighted that there will be an unprecedented transfer of wealth to the boomer generation, which is already underway. Some reports estimate that the amount in Canada could approach \$1 trillion by the time this transfer is finished. With such an unprecedented wealth transfer, concerns are being raised on whether the next generation is ready to deal with the wealth they stand to inherit.

One issue that is often overlooked is a succession plan for wealth. For those who own a business, the wealth transfer issues will be similar to the succession planning issues they already face. As they reach retirement, the immediate focus for business owners is transitioning the operations of their businesses to new leaders. This could take the form of a sale to third parties or employees or could involve bringing in family members to run the business.

The question is the same for any individual who has accumulated wealth over the course of their life — have I set a succession plan for my wealth? Or, put another way, what sort of legacy do I want to leave?

Why is there a concern?

A big concern among many tax and financial advisors is the lack of communication within a family when it comes to issues surrounding death

and potential inheritances. Any discussion on the issue forces the parent to face their own mortality, in the context of a discussion with their children. This is a daunting exercise but open and honest discussions will generally not be as difficult as one would expect. If difficult discussions do arise, the underlying problems are often related to pre-existing issues that would need to be dealt with anyway. In fact, it is generally better to resolve difficult issues sooner rather than later, as these issues can take a life of their own when left unresolved.

From the child's perspective, there are usually two concerns. First, many are just as motivated as their parents to avoid conversations that are perceived to be difficult. Secondly, as a potential beneficiary, it is difficult for children to initiate discussions on wealth succession. Unfortunately, even where a child is acting in the best interests of everyone, their motivation can be questioned.

Another major concern is that a child may be making significant investment and financial decisions for the first time when they inherit wealth. It will be important to invest wisely as financial or investment mistakes due to inexperience may have a high cost.

Finally, other areas should not be overlooked, such as the importance of overall financial and tax planning advice, which may be needed for the first time.



Basic Estate Planning vs. Legacy Planning

Before talking about the process in detail, it is important to draw a distinction between basic estate planning and what some have referred to as “legacy planning”. The goals of estate planning are specific, such as:

- Maximizing and preserving the value of your assets,
- Minimizing and deferring tax and other costs that will arise on your death,
- Allowing for an orderly transition of assets to your beneficiaries, and
- Providing for your dependants.

Legacy planning takes estate planning one step further by dealing with other issues, such as:

- Educating the next generation on issues surrounding wealth management,
- Improving communications within your family, ensuring that you share your intentions, hopes and concerns along with specific instructions,
- Setting some family values and perhaps even a mission statement, and
- Establishing philanthropic goals (where desired).

Although some might see this sort of process as setting the stage for “ruling from the grave”, this process may help avoid this issue. For example, where an individual has accumulated wealth and is concerned that the next generation may not properly plan for financial issues (including tax) or make unwise investment decisions, one approach is to try to control this issue by using a trust. Under such an approach, investment decisions are deferred to trustees and restrictions may be placed on the ability of the beneficiaries to access income and capital from the trust. One negative by-product of such planning can be the reinforcement of a child’s perception that a parent doesn’t trust them, as they continue to receive “an allowance” well into their adult life.

The idea behind legacy planning is that adverse events can also be managed by way of shared values and increasing the knowledge level of your family. This allows them to make decisions for themselves while understanding how your wealth was established and taking your values and desires into account.

That said, it is important to remember that we are not questioning the value of trusts. They

are an important tool to safeguard the interests of beneficiaries. For example, a trust is critical where a family member is simply not capable of managing their inheritance due to an infirmity. Trusts can also produce substantial tax savings, especially when combined with an incorporated owner-managed business.

Legacy planning helps create a balance between safeguarding specific risks and reducing taxes while allowing your family to deal with your wealth as adults.

Where do you begin?

Before you develop a plan, you’ll need to gather some information, and give thought to a number of key questions (see box below). The goal is to come to some conclusions on important issues and draw a clear picture of your financial and non-financial goals.

Key Questions and Decisions

- What am I most proud of accomplishing over the course of my life?
- What are the top 3 impressions that I want my family and/or my community to associate with me?
- Is my family prepared to assume full responsibility for the business and financial matters currently under my management? If not, could they with specific learning and development?
- Does my family have the skills and the confidence to ask the questions and make good decisions? If not, could they with more information or development?
- Does my family know all of my key trusted advisors? Are they comfortable with them?
- If I own a business, do family members have the interest and ability to take over the business?
- Which family members will share in my estate (spouse, children and possibly grandchildren)? Is there an extended family?
- Have I provided financial assistance to some family members more than others in the past? Should I consider this when determining how my wealth will be shared?
- Where a vacation property is owned, do we want to keep this in the family or should it be sold?
- Do I have philanthropic interests?

The second part of the process is to take this information, and develop a plan that will meet your goals while dealing with your financial situation. For example, if you have complex financial holdings, likely beyond the abilities of family members to manage, your plan should deal with this. Possible alternatives could be simplification or ensuring your family has access to trusted advisors.

As the plan is developed, key components may include:

- Setting a process for open communication (including how your wealth will be divided and why),
- Building financial and investment knowledge and skills,
- A will, which is reviewed and updated regularly,
- Assessing whether your family will be capable of managing your financial affairs when the time comes that you can't, and determining the best course of action if they will need help,
- A determination of the tax issues that will arise on death, and setting a plan in advance,

- Reviewing the tax planning alternatives available to you, including family trusts, testamentary trusts arising after death and other ideas,
- Reviewing and addressing your insurance and retirement needs,
- Where a business is owned, ensuring that you have a specific succession plan for the business,
- Where a vacation property will be retained in the family, a plan for the use of this property, and
- If you have philanthropic interests, setting a plan to identify the charities you want to benefit while ensuring the plan takes advantage of the significant tax incentives that are available.

We have discussed many issues and the decisions you need to make may seem overwhelming. Remember that planning for your legacy is a process and these issues are best dealt with over time with the help of your BDO advisor.

CRA to Continue to Pay Rebates and Refunds to Tax-Exempt Entities

This summer, the Canada Revenue Agency (CRA) announced that it will continue to pay rebates and refunds to tax-exempt entities, even if all required returns under various Tax Acts have not been filed. This administrative concession will apply to all taxation years up to and including 2010. This announcement is welcome news for a variety of tax-exempt corporate entities, including municipalities, universities, schools, non-profit organizations, federal crown corporations and Indian band councils that are exempt from paying income tax, and who may not have been filing a corporate income tax return (Form T2).

This became an issue when legislation was enacted, effective April 1, 2007, that requires the

CRA to withhold the payment of rebates and refunds until all required returns under the Income Tax Act, the Excise Tax Act and the Air Travellers Security Charge Act have been filed. Concerns raised with this requirement resulted in the CRA delaying the implementation of this change as it applied to corporate tax returns for taxation years ending on March 31, 2008 and before. Now the CRA has announced that it is conducting an internal review on this matter, and will not withhold the payment of rebates and refunds in the interim.

If you have any questions about filing requirements for tax-exempt corporate entities, contact your BDO advisor.



Recent BDO Tax Publications on Harmonized Sales Tax

As highlighted in the previous edition of the Tax Factor (2009-02), Ontario will be harmonizing its provincial sales tax (PST) with the federal goods and services tax (GST) on July 1, 2010 for a combined harmonized sales tax (HST) rate of 13% (5% federal and 8% Ontario). On July 23, 2009, the British Columbia (B.C.) government announced its intention to also eliminate its existing PST and introduce an HST regime with the federal GST on July 1, 2010, the same day as Ontario. B.C.'s HST will be 12% (5% federal and 7% B.C.).

We have published two separate BDO *Tax Bulletins* to discuss the impact that the Ontario and B.C. HST will have on businesses:

- [Getting Ready for Ontario Sales Tax Harmonization](#)
- [B.C. Set to Harmonize its Sales Tax with the GST](#)

To obtain a copy of either of the above publications, contact your BDO advisor or visit the BDO Library area of www.bdo.ca.



US Estate Tax Appears to be Here to Stay

Earlier this year, President Obama's first budget for 2010 contained a proposal which would permanently extend the US estate tax. If this budget is passed into law, planning for US estate tax will continue to be very important.

US estate tax applies to the fair market value of the world-wide property of a US citizen, a Green Card holder and an individual resident in the US at the time of their death. In addition, US estate tax applies to property situated in the US that is owned by non-residents of the US. In calculating an individual's taxable estate, deductions for debts and certain expenses are permitted. However, for Canadian residents the permitted deductions are prorated based on the value of their US gross assets over their world-wide assets, meaning that US estate tax can apply on any US-situs assets, such as US real property or US securities, even if the value appears to be below the exemption levels for the application of the tax.

US estate tax is calculated using a graduated set of rates. Under existing US law that was passed in June 2001, US estate tax was to have been repealed in 2010 (which meant that no US estate tax would

be levied on any estates where the individual died in 2010) and then would revert to the old exemptions and rates for 2011 if there were no further legislative changes (the old top US estate tax rate is 55% and the effective exemption amount is \$1 million US). There has been a great deal of uncertainty in recent years as to whether this tax would be repealed permanently or whether the tax would continue in some form.

Obama's budget proposal for 2010 appears to answer this question. Under this proposal, the US estate tax, as it is in effect for 2009, will be permanently extended and indexed to inflation. For 2009, the top US estate tax rate is 45% and the exemption is \$3.5 million US.

If this new proposal is enacted, it will confirm that US estate tax is here to stay. Planning to mitigate the impact of this tax will continue to be a key component of tax planning for an individual's estate.

If you have any questions on US estate tax issues, contact your BDO advisor.



This is a publication of BDO Dunwoody LLP on developments in the area of taxation. This material is general in nature and should not be relied upon to replace the requirement for specific professional advice. The information in this document is current as of August 31st, 2009.

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Appendix

Comparison of Tax Rates — Tax Deferral and Integration With the Use of a Corporation							
	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	30.00	43.70	30.20	13.70	41.79	43.94
Alberta	14.00	29.00	39.00	25.00	10.00	37.83	39.33
Saskatchewan	15.50	31.00	44.00	28.50	13.00	41.55	45.04
Manitoba	12.00	31.00	46.40	34.40	15.40	45.62	47.44
Ontario	16.50	33.00	46.41	29.91	13.41	42.67	48.45 ⁽³⁾
Québec	19.00	30.90	48.22	29.22	17.32	48.44	51.42
New Brunswick	16.00	31.00	46.00	30.00	15.00	44.74	46.04
Nova Scotia	16.00	35.00	48.25	32.25	13.25	43.77	53.43
PEI	13.10	35.00	47.37	34.27	12.37	46.25	50.89
Newfoundland	16.00	33.00	44.50	28.50	11.50	43.48	48.34
Yukon	15.00	34.00	42.40	27.40	8.40	40.92	45.37
NWT	15.00	30.50	43.05	28.05	12.55	40.20	43.18
Nunavut	15.00	31.00	40.50	25.50	9.50	39.62	46.35

(1) Rates used are nominal rates as at July 1, 2009 and are current to August 31, 2009.

(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 2009. 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 the next few years, a more significant cost will arise where corporate income is taxed in 2009 (or 2010) then paid out as an eligible dividend in a subsequent year when compared to income earned personally. This cost should be eliminated or 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.

(3) Ontario rate does not include the corporate small business rate clawback. Rate would be 51.72% if active business income is subject to the clawback.