BDO

TAX BULLETIN

INCORPORATING YOUR BUSINESS

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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 the benefits of incorporation 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.

Advantages of incorporation

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.

Deferral

Generally, earning business income through a corporation, and paying it out as a dividend to an individual who is taxed at the top rate will not produce a substantial benefit or cost in most jurisdictions. However, 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.

There are two levels of tax deferral on business income earned in a Canadian controlled private corporation, (CCPCs): income taxed at the general corporate tax rate and income taxed at the small business tax rate. As the small business tax rate is lower, it creates a larger deferral. The rules regarding when the small business rate is applicable are discussed below under Small Business Deduction.

Under the current tax rules, there are two types of dividends — eligible dividends and ineligible dividends. 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. The dividend tax credit reflects the tax paid by the corporation on the income. Where a corporation earns income eligible for the small business rate, the after-tax income is usually paid out as an ineligible dividend. Ineligible dividends are subject to a lower gross-up and tax credit to reflect the fact that qualifying small business income is subject to a lower corporate tax rate. This means that ineligible dividends are taxed at a higher personal tax rate when compared with eligible dividends.

The chart on page 10 shows the 2019 tax rates associated with earning active business income in a corporation taxed at the general business rate or taxed at the small business rate. The chart shows the deferral for both general rate and small business rate income in each province or territory. It also shows the top personal tax rate that would apply to salaries or bonuses earned in each province or territory, and the total tax cost associated with earning business income in a corporation and paying it out to individuals resident in that province or territory as an eligible or ineligible dividend.

The difference in the tax cost of earning business income directly vs. earning this income through a corporation and paying it out as a dividend is relatively small in many provinces/territories when compared with the potential tax deferral.

Where the integration cost is high in a jurisdiction — that is the combined personal and corporate tax cost is high compared to the highest personal tax rate — consideration should be given to whether the integration cost will offset the deferral advantage. In such situations, it is common for owner-managers to pay bonuses to reduce the amount of income taxed in the corporation, and correspondingly increase the amount of income taxed in their hands personally.

The small business deduction

The small business deduction reduces the corporate tax rate for qualifying businesses and therefore, as mentioned, creates a greater deferral of tax than business income taxed at the general corporate tax rate. The small business deduction reduces both federal and provincial taxes. It is available to 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 and territories except for Saskatchewan (where the limit it $600,000). The combined corporate tax rate on income up to the small business limit is 15% or less in all jurisdictions — much lower than the general corporate tax 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. Note that an election can be made for a corporation to not be a CCPC which is relevant for the eligible dividend rules. If this election is made, business income earned in the corporation will not be eligible for the small business deduction. However, the election will only apply to change the CCPC status of the corporation for certain tax rules — not all rules.

The small business deduction — restrictions

Certain restrictions apply to limit access to the small business deduction and recent changes to the tax rules have significantly expanded these restrictions.

Association rule - Associated corporations must share the small business limit — that is, corporations that are under common control and ownership. Therefore, if you hold businesses in separate corporations, your corporate group will need to share the small business deduction within the associated group of companies.

Denial rules - Other restrictive rules for accessing the small business deduction were implemented effective for tax years beginning after March 21, 2016. These rules apply to deny the small business deduction in certain circumstances where a CCPC earns income from the provision of property or services to a private corporation (that is generally not associated) or to a partnership where certain non-arm’s length relationships exist (in either case). Where specific conditions are met,

the small business deduction will only be allowed if a business limit assignment can be made to the corporation that would otherwise be subject to the denial. Note as well that the assignor's business limit will be reduced accordingly. The rules are extremely complex.

Taxable capital reduction - For large CCPCs, the small business deduction may be reduced. The reduction is based on the corporation's taxable capital in Canada. If a corporation's taxable capital in Canada exceeds $10 million, the corporation is subject to at least a partial reduction of their small business limit in the following year. Once taxable capital in Canada exceeds $15 million, access to the SBD is eliminated. In addition, the $10 million and $15 million thresholds must be shared among a group of associated corporations.

NEW Passive income rules - Starting in 2019, there is another restriction to using the small business deduction for certain corporations. CCPCs earning investment income over a $50,000 threshold in the previous year will be subject to a reduction of the amount of small business deduction that can be claimed in the current year. Under these new rules, the small business limit is reduced by $5 for every $1 of investment income above the $50,000 threshold. Under this formula, the small business deduction is eliminated when investment income reaches $150,000 in a given taxation year. Note that the investment income of all associated corporations in a group must be considered in determining whether these thresholds are met.

For purposes of applying these new passive income rules, there is a new definition of investment income — referred to as adjusted aggregate investment income (AAII). This definition generally includes the following types of investment income: interest, taxable capital gains in excess of allowable capital losses of the current taxation year from the disposition of passive investments, rents, royalties, portfolio dividends, and dividends from foreign corporations that are not foreign affiliates. Also included in the definition of AAII is income from savings in a life insurance policy that is not an exempt policy. Specifically excluded from AAII are gains or losses from the disposition of "active assets" such as from the disposition of shares of a company that is carrying on an active business. Dividends received from connected corporations are excluded from this new definition, as is income from AgriInvest and rents or interest received from an associated business if such income is re-classified for income tax purposes to be active business income. In addition, where the activity of earning income from property is sufficient, it is excluded from AAII on the basis that it is income from an active business and not investment income. For example, if more than five full-time employees were engaged in earning rental income, that rental income would be active business income, and would therefore not be AAII.

To date, all of the provinces except Ontario and New Brunswick have adopted this passive income restriction to claiming the small business deduction in computing provincial income taxes.

The passive income rules operate alongside the reduction that applies in respect of taxable capital in excess of $10 million. The reduction in the small business limit is the greater of the reduction under these new rules and the reduction based on taxable capital.

Tax benefits from corporate bonuses

Even if there is no need to bonus out income, having the corporation pay a bonus or a regular salary to you will provide you with earned income to allow you to make 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 short 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 5 or later), the bonus could be paid to you in the following calendar 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 up to 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:

- **An automobile lease**

Whether it is more advantageous from a tax perspective to have your corporation lease a vehicle compared to doing so personally will depend on the specific facts and circumstances of your situation. However, there may be situations where it is beneficial for a company to lease an automobile that is also used for personal travel. 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. Corporate-owned automobiles, 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 will not be a taxable benefit to you, if certain conditions are met. This effectively means that these premiums can be paid out of pre-tax corporate profits, rather than with personal funds. 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 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. For Québec tax purposes, employer contributions to a private health plan are deductible to the corporation (if contributions are by virtue of employment rather than shareholdings). However, they are generally considered a taxable benefit to the employee.

- **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 capital to fund a defined pension benefit. For eligible individuals, the use of an IPP can allow for greater contributions (which generally grows with age) when compared to an RRSP. Over time, the use of an IPP can produce substantial tax advantages over an RRSP. Additional benefits of an IPP include the ability to make up for poor investment performance and the possibility of higher retirement benefits.

Estate freeze

On death, you're deemed to dispose of all of 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 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. (For purposes of this bulletin, “spouse” also refers to a common-law partner).

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 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 business is frozen at its value at the time of the freeze. Your maximum tax liability on death can be determined and provided for. Any increase in value that arises 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 business 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. Note that a family trust can be used to hold the common shares of the company until it is decided who will receive the common shares at some time in the future.

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.

There are a number of pitfalls in carrying out an estate freeze 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, a trust can be used and the trust agreement can state that the child is not entitled to income or capital until they reach age 18. This particular problem can also be avoided if the corporation is an SBC (see below).

Income splitting

Income splitting is the process of redirecting income within a family group to take advantage of the lower tax brackets, deductions and credits available to each family member.

In running 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.

For a number of years, our tax rules have severely restricted income splitting with minor children by applying a special high rate of personal tax to certain types of income — such as dividends received from a private corporation. These rules are the “tax on split income” or “TOSI” rules (which were often referred to as the “kiddie tax rules”). Beginning on January 1, 2018, the TOSI rules were expanded by the federal government. They now apply to certain adult family members (as well as minor children) and additional types of income. The changes specifically target private corporations and have significantly reduced opportunities to income split by way of dividends with family members who are not active participants in the business of the corporation. The expansion of the rules has a very broad impact and has made the rules quite complex. This bulletin will not explore the TOSI rules in detail. Consult with your BDO tax advisor on how these expanded rules will affect any planned changes to your business structure as a result of incorporation (or their impact on your current business structure that involves a corporation, trust and/or partnership).

The estate planning structure discussed above would have allowed for income splitting previously if your spouse or adult children had subscribed for

shares in your corporation (in a tax-efficient manner) and were paid dividends. However, under these new TOSI rules, using corporate shares to pay dividends to family members (including your spouse) who do not participate in the business in a significant way will be costly. Unless an exclusion from the new TOSI rules applies, such dividends will be taxed at the top personal tax rate, negating any benefit of income splitting with dividends.

However, if the shares of the corporation could qualify for the capital gains exemption at some point in the future, there could still be a tax benefit to be achieved from allowing your spouse or children to own shares in your corporation (either directly or through a trust). Please see further discussion below under “Advantages of an SBC”.

As an owner-manager of your corporation, using dividends to income split with your spouse who does not hold a sufficient interest in the business or who is not sufficiently involved in the business will be caught by the new TOSI rules. However, once you reach the age of 65, such income splitting may be available. An exclusion will generally apply so that income that would be considered split income in your spouse’s hands (for example, dividends from your corporation) will not be subject to TOSI if that same income would not be subject to TOSI in your hands.

- **Scientific Research & Experimental Development (SR&ED) Incentives**

Although it would be relatively uncommon to find proprietors carrying out (SR&ED), some non-corporate partnerships may have business undertakings that carry out SR&ED activity. In such situations, incorporation may benefit the business as a corporation can access greater tax benefits from carrying on SR&ED than an unincorporated business. A qualifying CCPC may benefit from a federal ITC of 35% (plus any applicable provincial ITC) on SR&ED expenditures up to $3 million in the year when compared to 15% for a proprietorship or non-corporate partnership. The enhanced ITCs earned by a CCPC may also be refunded in cash at a higher rate. While the cash refund for proprietorships and non-corporate partnerships is generally limited to 40% of the unused investment tax credit generated in the year, a qualifying CCPC can claim a cash refund of 100% of the enhanced ITCs earned in the year. This means that refunds of up to $1.05 million, (i.e. 35% of the $3 million annual SR&ED expenditure limit) may be available to qualifying CCPCs each year.

Prior to changes announced in the 2019 federal budget, a CCPC’s eligibility for the enhanced 35% ITC rate and related cash refund depended on whether its taxable income for the previous year, aggregated with the taxable incomes of any associated corporations, was below $500,000. If the taxable income of your associated group for the previous year was more than $500,000, the annual amount of SR&ED expenditures eligible for the enhanced 35% ITC was effectively reduced and was eliminated at an income level of $800,000. However, for taxation years that end on or after March 19, 2019, this restriction has been eliminated. However, the SR&ED expenditure limit is still reduced if the associated corporations’ taxable capital employed in Canada in its previous year exceeded $10 million. The SR&ED expenditure limit is eliminated when the taxable capital of the associated group reaches $50 million.

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 of 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

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

The capital gains exemption is indexed for inflation for taxation years after 2014. The exemption for 2019 is $866,912. Note that the exemption was increased to $1 million on dispositions of qualified farm or fishing property on or after April 21, 2015.

These exemptions are only available to individuals and not corporations. A note of caution — careful planning is required in order to take advantage of the capital gains exemption. The tax rules that must be complied with are complex.

To use the capital gains exemption on the sale of shares of an SBC, 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 only need to 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 capital gains 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 an increased 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 increase 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.

Another point to consider is that the capital gains exemption limit is indexed to inflation annually, so you will be entitled to an additional amount of limit each year that the limit increases with inflation.

The capital gains 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 consider incorporating your business as an eventual sale or a deemed disposition upon death may be eligible for the capital gains exemption. At the time the assets are transferred, the SBC can be organized to allow an estate freeze, which can also allow for the possibility of other family members to claim the capital gains exemption at some time in the future on eligible shares that they own at that time.

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 on the loan and by dividends received by you from the corporation in the year. The reduction for dividends is based on the actual dividend received and then “grossed-up”. The grossed-up amount is 138% for eligible dividends and 115% for ineligible dividends received in 2019.

Depending on the method you choose for an estate freeze, a share transfer may be caught by the corporate attribution rules. However, 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 these corporate attribution rules. Keep in mind that the corporate attribution rules are independent of the new TOSI rules, which will have their own negative tax consequences for certain shareholders.

Income splitting with your spouse and children

As previously discussed, income splitting with your spouse and adult children has been greatly restricted under the expanded TOSI rules. However, there is still the possibility to split income where that income is taxable capital gains realized on the disposition of property that is qualified farm or fishing property or qualified small business corporation shares, as these gains are specifically excluded from the TOSI rules.

This exclusion will apply for minor children as well, with one exception. Taxable capital gains realized by minors on non-arm’s length transfers of certain shares (for example, private company shares) will be re-characterized into taxable dividends. As a result, the capital gains exemption will not be available in these circumstances, as these gains will instead be treated as ineligible dividends that will be subject to TOSI. This rule also applied prior to 2018 to restrict income splitting before the expansion of the TOSI rules.

The exclusion from TOSI for gains on eligible property will enable families to continue to plan to access the capital gains exemption of each family member on the disposition of the business (where those family members would otherwise be subject to the TOSI rules). As well, for this TOSI exclusion to apply, it is only necessary for the property to qualify for the capital gains exemption — the exemption doesn’t need to be claimed. This means that none of the taxable capital gains realized on eligible property will be subject to TOSI (with the exception of certain recharacterized gains of minors as noted above).

Where TOSI does not apply, a qualifying taxable capital gain would be taxed at the incremental tax rates that apply to your spouse or children at the time of sale, instead of being taxed at the highest marginal tax rate. Of course, there will be no tax on the portion of eligible capital gains that are covered by the capital gains exemption.

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 on 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.

Disadvantages of incorporation

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 are 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".

Personal services business income is subject to a special high federal corporate tax rate of 33%, a rate that is the same as the highest federal personal tax rate. This rate is 18% higher than the regular federal tax rate on corporate income of 15%. Provincial/territorial tax also applies at the applicable general rate in each jurisdiction. 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.

If the personal services business rules will apply, there is no tax advantage, and there will be a tax cost to incorporating your business. In some situations, organizations that hire consultants will only contract with a corporation and not an individual. If you find yourself in this situation and need to incorporate, you may be treated as an incorporated employee and the PSB rules will apply. In this situation, it is likely best to bonus out PSB income (to the incorporated employee) so that it will not be subject to the 33% federal corporate tax rate.

Summary

There are many tax advantages to incorporating your business, but also some pitfalls to be wary of. Much of the planning discussed in this bulletin will be specific to your individual and corporate circumstances. In addition, many of the tax rules involved in the planning are very complex. Contact your BDO advisor for details on how these tax planning ideas can benefit you.

Comparison of Tax Rates — Tax Deferral and Integration With the Use of a Corporation — 2019

	Corporate/Personal Tax Rates (1)			Potential Deferral		Integration: Effective Tax Rates on Income Taxed in a Corporation (2)	
						Active Income Earned in a Corporation and Net Income After-tax Paid out as a Dividend	
	Small Business Tax Rate (%)	General Corporate Tax Rate (%)	Top Personal Tax Rate (%)	At Small Business Rate (%)	At General Corporate Rate (%)	At Small Bus. Rate: Ineligible Dividend (%)	At General Corporate Rate: Eligible Dividend (%)
B.C.	11.00	27.00	49.80	38.80	22.80	50.73	49.95
Alta.	11.00	26.50	48.00	37.00	21.50	48.65	49.81
Sask.	11.00	27.00	47.50	36.50	20.50	46.93	48.64
Man.	9.00	27.00	50.40	41.40	23.40	51.47	54.58
Ont.	12.50	26.50	53.53	41.03	27.03	53.98	55.41
Qué.	15.00	26.60	53.31	38.31	26.71	54.31	55.96
N.B.	11.50	29.00	53.30	41.80	24.30	53.76	52.79
N.S.	12.00	31.00	54.00	42.00	23.00	54.48	59.69
P.E.I.	12.50	31.00	51.37	38.87	20.37	52.08	54.61
N.L.	12.00	30.00	51.30	39.30	21.30	51.24	59.83
Y.T.	11.00	27.00	48.00	37.00	21.00	48.53	48.11
N.W.T.	13.00	26.50	47.05	34.05	20.55	45.03	47.32
Nunavut	12.50	27.00	44.50	32.00	17.50	45.57	51.15

(1) Rates used are average rates for the year and are current to July 1, 2019.

(2) The tax rates for corporate income are the combined corporate and personal tax rates for tax paid by earning business income through a corporation eligible for the small business rate or a corporation taxed at the general corporate rate. Certain provinces, including Saskatchewan, Ontario, Quebec and Yukon provide lower corporate tax rates on income from Manufacturing and Processing (M&P), which are not reflected in the rates above. 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 2019. 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.

The information in this publication is current as of July 1, 2019.

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