

2023 income in a corporation

Earning investment income in a corporation

Earning investment income through a corporation involves two layers of income tax. First, the corporation is taxed on the income at corporate tax rates. A second layer of personal income tax is triggered when the after-tax profits are paid out to the shareholder by way of a dividend to recover refundable tax.

The following tables demonstrate whether:

1. There is a tax deferral (prepayment) to earning investment income through a corporation, as measured by the difference between the corporate and personal tax rates on the investment income, and;
2. Upon distribution of corporate after-tax profits, whether there is a net savings (cost) associated with earning investment income through a corporation compared to earning investment income personally.

Integration 2023

(current as of January 2023)

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	PEI	Newfoundland	Yukon	NWT	Nunavut
Interest and foreign income													
Top personal tax rate	53.5%	48.0%	47.5%	50.4%	53.5%	53.3%	52.5%	54.0%	51.4%	54.8%	48.0%	47.0%	44.5%
Corporate tax rate	50.7%	46.7%	50.7%	50.7%	50.2%	50.2%	52.7%	52.7%	54.7%	53.7%	50.7%	50.2%	50.7%
Corporate / personal tax combined	59.1%	51.5%	53.5%	57.3%	57.9%	58.7%	58.5%	59.7%	59.8%	60.7%	55.2%	49.1%	50.2%
Deferral / (prepayment)	2.8%	1.3%	(3.2%)	(0.3%)	3.4%	3.1%	(0.2%)	1.3%	(3.3%)	1.1%	(2.7%)	(3.1%)	(6.2%)
Tax savings / (cost)	(5.6%)	(3.5%)	(6.0%)	(6.9%)	(4.4%)	(5.4%)	(6.0%)	(5.7%)	(8.4%)	(5.9%)	(7.2%)	(2.1%)	(5.7%)
Capital gains													
Top personal tax rate	26.8%	24.0%	23.8%	25.2%	26.8%	26.7%	26.3%	27.0%	25.7%	27.4%	24.0%	23.5%	22.3%
Corporate tax rate	25.3%	23.3%	25.3%	25.3%	25.1%	25.1%	26.3%	26.3%	27.3%	26.8%	25.3%	25.1%	25.3%
Corporate / personal tax combined	29.6%	25.8%	26.7%	28.7%	29.0%	29.4%	29.3%	29.8%	29.9%	30.3%	27.6%	24.6%	25.1%
Deferral / (prepayment)	1.4%	0.7%	(1.6%)	(0.1%)	1.7%	1.6%	(0.1%)	0.7%	(1.7%)	0.6%	(1.3%)	(1.6%)	(3.1%)
Tax savings / (cost)	(2.8%)	(1.8%)	(3.0%)	(3.5%)	(2.2%)	(2.7%)	(3.0%)	(2.8%)	(4.2%)	(2.9%)	(3.6%)	(1.1%)	(2.9%)
Canadian eligible dividends													
Top personal tax rate	36.5%	34.3%	29.6%	37.8%	39.3%	40.1%	32.4%	41.6%	34.2%	46.2%	28.9%	28.3%	33.1%
Corporate tax rate	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%	38.3%
Corporate / personal tax combined	36.5%	34.3%	29.6%	37.8%	39.3%	40.1%	32.4%	41.6%	34.2%	46.2%	28.9%	28.3%	33.1%
Deferral / (prepayment)	(1.8%)	(4.0%)	(8.7%)	(0.5%)	1.0%	1.8%	(5.9%)	3.3%	(4.1%)	7.9%	(9.4%)	(10.0%)	(5.3%)
Tax savings / (cost)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Conclusion: For every province/territory outlined above

- There is no tax deferral available by earning investment income through a corporation*
- There is a tax cost associated with earning investment income (except Canadian eligible dividends) through a corporation

NOTES:

- Tax rates in effect as of January 1, 2023 and do not reflect changes resulting from federal or provincial announcements after this date.
- Corporate tax rates apply to Canadian-controlled private corporations (CCPCs). The net corporate tax liability is lowered once the after-tax profits are distributed to the shareholder and the corporation is refunded some or all of its corporate tax, through a refundable tax mechanism designed to provide integration and discourage the use of corporation as a tax deferred vehicle.
- Part I tax is applicable to interest, foreign income and taxable capital gains and is subject to a 30.67% refundable tax. The combined corporate and personal taxes take into account the refundable taxes applicable to the investment income.
- Canadian dividends are subject to Part IV tax. Part IV tax is fully refundable once the after-tax profits are distributed to the shareholder, subject to a new ordering rule in 2019 requiring refundable taxes from the "Non-eligible RDTOH" being paid first. As a result of this perfect integration, there is no difference between earning Canadian eligible dividends personally, or earning Canadian eligible dividends through a corporation and distributing out the after-tax profits to the individual shareholder.
- Personal tax rates are assumed to be top marginal tax rates. The tax deferral/(prepayment) and tax savings/(cost) conclusions will differ if the individual is not in the top marginal tax bracket.
- The 2018 Federal Budget introduced rules that will reduce a corporation's ability to claim the small business deduction if the corporation, and any associated corporation's combined "adjusted" aggregate investment income exceeds \$50,000, for tax years beginning in 2019.

* An exception applies to Ontario, Quebec, Nova Scotia and Newfoundland for eligible dividends, and BC, Alberta, Ontario, Quebec, Nova Scotia & Newfoundland for interest/foreign income and capital gains.

Earning active business income (ABI) in a corporation

Earning business or professional income through a corporation involves two layers of taxation, although the after tax profits can be retained for the long term tax deferred. First, the income is taxed inside the corporation. Eventually, the after-tax profits are taxed again at the personal level when they are distributed to the individual shareholder.

The following tables demonstrate for active business income (ABI) and across the provinces/territories whether:

1. There is a tax deferral to earning business or professional income through a corporation, as measured by the difference between the corporate and personal tax rates on ABI and;
2. Upon distribution of corporate after-tax profits, whether there is a net savings (cost) associated with earning business income through a corporation compared to earning business or professional income personally.

Integration 2023 (current as of January 2023)

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	PEI	Newfoundland	Yukon	NWT	Nunavut
Income earned by individual													
Business income (\$)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Top marginal tax rate (%)	53.5%	48.0%	47.5%	50.4%	53.5%	53.3%	52.5%	54.0%	51.4%	54.8%	48.0%	47.0%	44.5%
Personal income taxes (\$)	535	480	475	504	535	533	525	540	514	548	480	470	445
Net income to shareholder (\$)	465	520	525	496	465	467	475	460	486	452	520	530	555
Income earned by corporation													
Active business income (\$)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Small business corporate tax rate (%)	11.0%	11.0%	9.5%	9.0%	12.2%	12.2%	11.5%	11.5%	10.0%	12.0%	9.0%	11.0%	12.0%
Corporate tax (\$)	110	110	95	90	122	122	115	115	100	120	90	110	120
After-tax profit available to shareholder (\$)	890	890	905	910	878	878	885	885	900	880	910	890	880
Top non-eligible dividend marginal tax rate (%)	48.9%	42.3%	41.8%	46.7%	47.7%	48.7%	46.8%	48.3%	47.1%	49.0%	44.0%	36.8%	37.8%
Personal tax on non-eligible dividend (\$)	435	377	379	425	419	428	415	427	423	431	401	328	333
Net income to shareholder (\$)	455	513	526	485	459	450	470	458	477	449	509	562	547
Summary													
Tax deferral / (prepayment)	42.5%	37.0%	38.0%	41.4%	41.3%	41.1%	41.0%	42.5%	41.4%	42.8%	39.0%	36.0%	32.5%
Tax savings / (cost) (%)	(1.0%)	(0.7%)	0.1%	(1.1%)	(0.6%)	(1.7%)	(0.5%)	(0.2%)	(1.0%)	(0.3%)	(1.1%)	3.3%	(0.8%)

Conclusion: For every province/territory outlined above,

- There is a significant tax deferral by earning ABI through a corporation
- There is no material tax savings by earning ABI through a corporation

NOTES:

- Tax rates in effect as of January 1, 2023 and do not reflect changes resulting from federal or provincial/territory announcements after this date.
- Corporate tax rate reflects the small business deduction of \$500,000. Saskatchewan provides a provincial small business deduction of \$600,000, therefore different tax rates will apply between \$500,000 to \$600,000 of small business income and the tax deferral (prepayment) and tax savings (cost) will differ from above.
- After-tax profits are distributed by way of a non-eligible dividend and the shareholder is assumed to be in the top marginal tax bracket for their respective province.
- The 2018 Federal Budget introduced rules that will reduce a corporation's ability to claim the small business deduction if the corporation, and any associated corporation's combined "adjusted" aggregate investment income exceeds \$50,000 for tax years beginning in 2019.
- The individual shareholder of an active business that qualifies as a qualified small business corporation can access the lifetime capital gains exemption which exempts \$971,190 of capital gains from taxation when the shares are sold.

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