Passive Income rules and related tax planning

Overview – Changes to section 129

- Pre- section 129 change refundable tax is refunded to a corporation at the rate of $38.33 for every $100 dollars in taxable dividends paid out by the corporation to the shareholders;

- The above was true regardless of if eligible or ineligible dividends were paid out of the company;

- When a person receives an ineligible dividend they are entitled to a dividend tax credit of 9% after 2018;

- When receiving an eligible dividend the person is entitled to a federal dividend tax credit of 15%;

Overview – Changes to section 129

- Except for portfolio dividends and the capital dividend account most dividends paid out of private corporations are ineligible dividends;

- The Department of Finance determined that when there is a GRIP pool in a company and a dividend is paid out of that pool the shareholder can get a tax deferral advantage on the passive income as a result of:

  - Getting the dividend refund on the passive income investment and;

  - Obtaining the enhanced (15%) dividend tax credit on the dividend income received by the shareholder.

Overview – Changes to section 129

- Applicable for taxation years that begin after 2018 (January 1, 2019 and onwards) a refund from the RDTOH account will only be available in cases where a private corporation were to pay out an ineligible dividend;

- There will be an exception for dividends received from portfolio dividends;

- The current RDTOH existing account will be split into two separate accounts;

Ordering Rules to Reduce Part IV Taxes by Non-capital Losses

- New sub-section 129(4.1) in conjunction with sub-section 129(4.2) requires the losses utilized by a corporation to offset Part IV tax be streamed to the correct RDTOH account. This is in effect for tax years beginning after 2018.

- For sub-section 129(4.1) to be met, there are 3 conditions that have to be fulfilled:

  - There is a Part IV tax liability;

  - There is an allocation of a loss against that Part IV tax liability;

  - There is a balance in both the ERDTOH account and the NERDTOH account;

Ordering Rules to Reduce Part IV by Non-Capital Losses

- Should the conditions in the previous slide apply;

- Sub-section 129(4.2) will allocate the recipient corporation's non-capital loss against the company's NERDTOH account first; and then

- Any leftover against the company's ERDTOH account.

Overview – Passive Income Grind

- The 2018 budget proposes to reduce the business limit for CCPC's (and their associated corporations) that have significant income from passive investments;

- The measure proposes that the business limit will be reduced on a straight line basis for CCPC's having between $50,000 and $150,000 in passive income;

- New grind will reduce $500,000 SBD limit by $5 for every $1 of AAII over and above $50,000

Overview – Passive Income Grind

- The proposed measure is similar to the “taxable capital grind” of the small business deduction already existing under section 125(5.1);

- Section 125(5.1) will change as a result of the new passive income proposals;

- The new revised legislation will have a 3 formula test that will need to be calculated;

- It also includes a new concept called “Adjusted Aggregate Investment Income”

Observations – Passive Income Grind

- $50,000 limit was based on $1,000,000 of capital invested at 5%
- Thresholds not indexed so:
  - The implicit allowed capital decreases as rates rise!
    - @7% it will take just over $700,000 of capital to earn $50,000
    - Will take $2,150,000 (instead of $3,000,000) to earn $150,000
- Should the capital gains inclusion rate increase, it will result in greater Aggregate Adjusted Investment Income within the corporate group, therefore, you can reach the $50,000 limit quicker, will there be an adjustment to this limit should the capital gains inclusion rate increase?

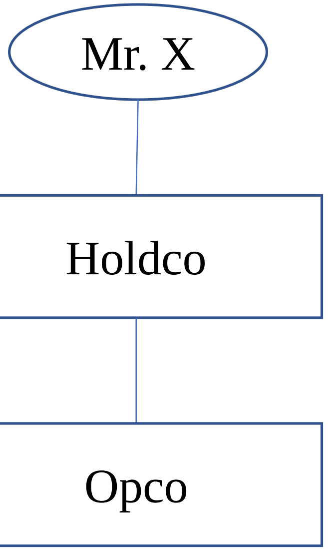
Observations – Passive Income Grind

- Non capital losses that have been incurred by a corporation do not impact the calculation of AAII;

- In the past whenever there is passive income and a non-capital loss that would eliminate the corporation's taxes owing; schedule 7 is missed being filled out in the tax return;

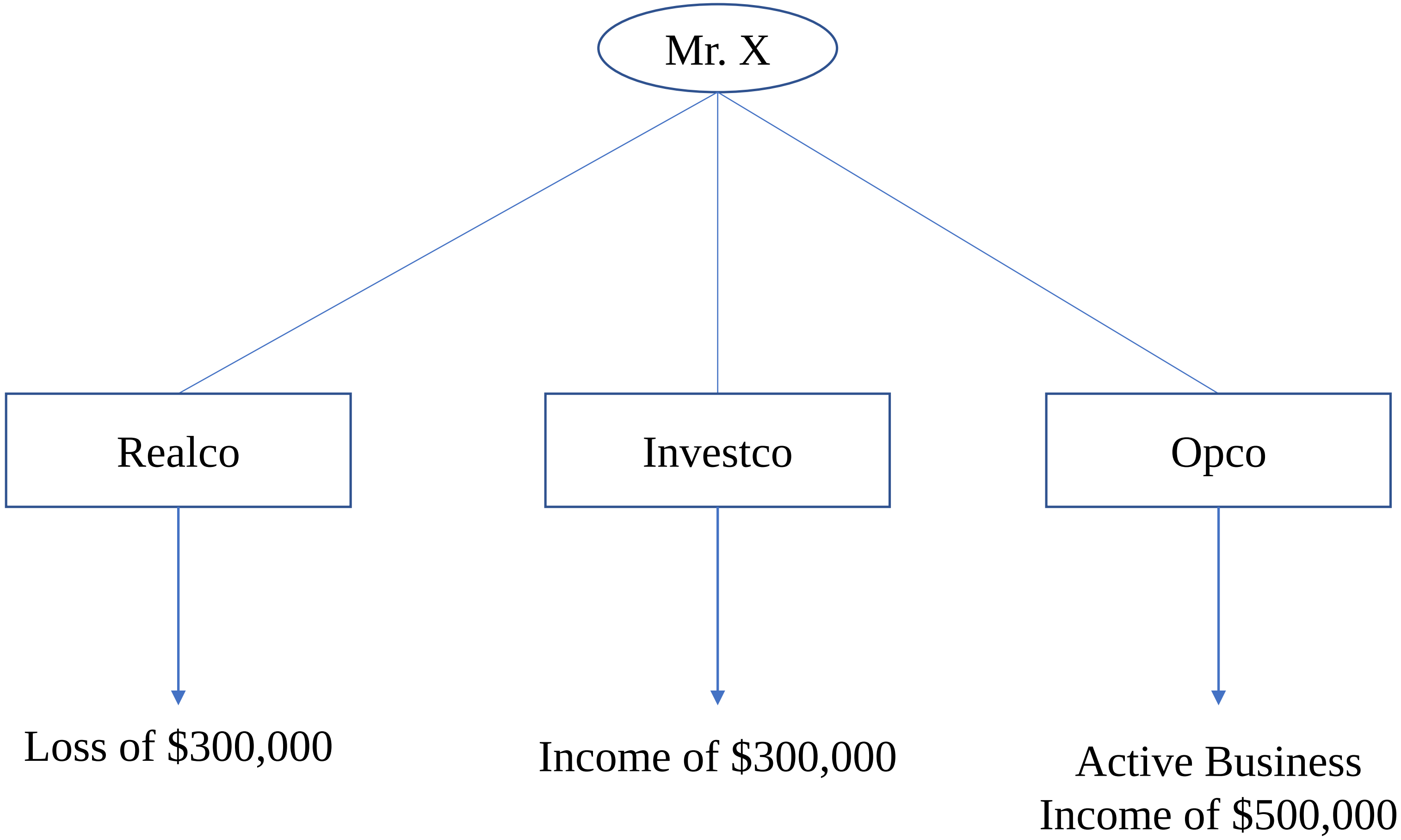
- As a result of the AAII calculation this can be fatal because AAII does not account for non-capital losses or capital loss carryforwards therefore, further care must be taken to ensure that schedule 7 is indeed filled out to determine if there is a grind under sub-section 125(5.1) of the Act;

Observations – Passive Income Grind



- Holdco generates $150,000 of Investment income;
- Opco’s SBD is fully eliminated as a result of the AAII generated in Holdco;
- Refundable tax on investment income is $46,000;
- Holdco pays a dividend to Mr. X of $121,053 to recover the refundable tax;
- Holdco gets a dividend refund of $46,000;
- However, Opco’s SBD is still clawed back;
- Was this an intended policy decision?
- Whenever possible an investment should be held personally but consider the loss of the deferral

Observations – Passive Income Grind



Observations – Passive Income Grind

- Component "E" of the formula in 125(5.1) only accounts for AAII of the corporation or any corporation associated with it in the particular taxation year;

- However, AAII does not contemplate losses on passive assets in an associated corporation to be used to offset the AAII from another associated corporation;

Observations – Passive Income Grind

- The definition of aggregate investment income in section 129(4) accounts for the following for **<u>each</u>** of the associated corporations:

  - Capital gains in excess of capital losses – paragraph (a) of the definition;

  - Income from property – paragraph (b) of the definition;

  <u>in excess</u> of the losses from property incurred by the corporation.

125(7) definition of Adjusted Aggregate Investment Income modifies the above for specific adjustments that are described in that provision.

The question is does AAII consolidate the losses in one associated company to the income in the other? Likely not.

Non-coterminous year ends

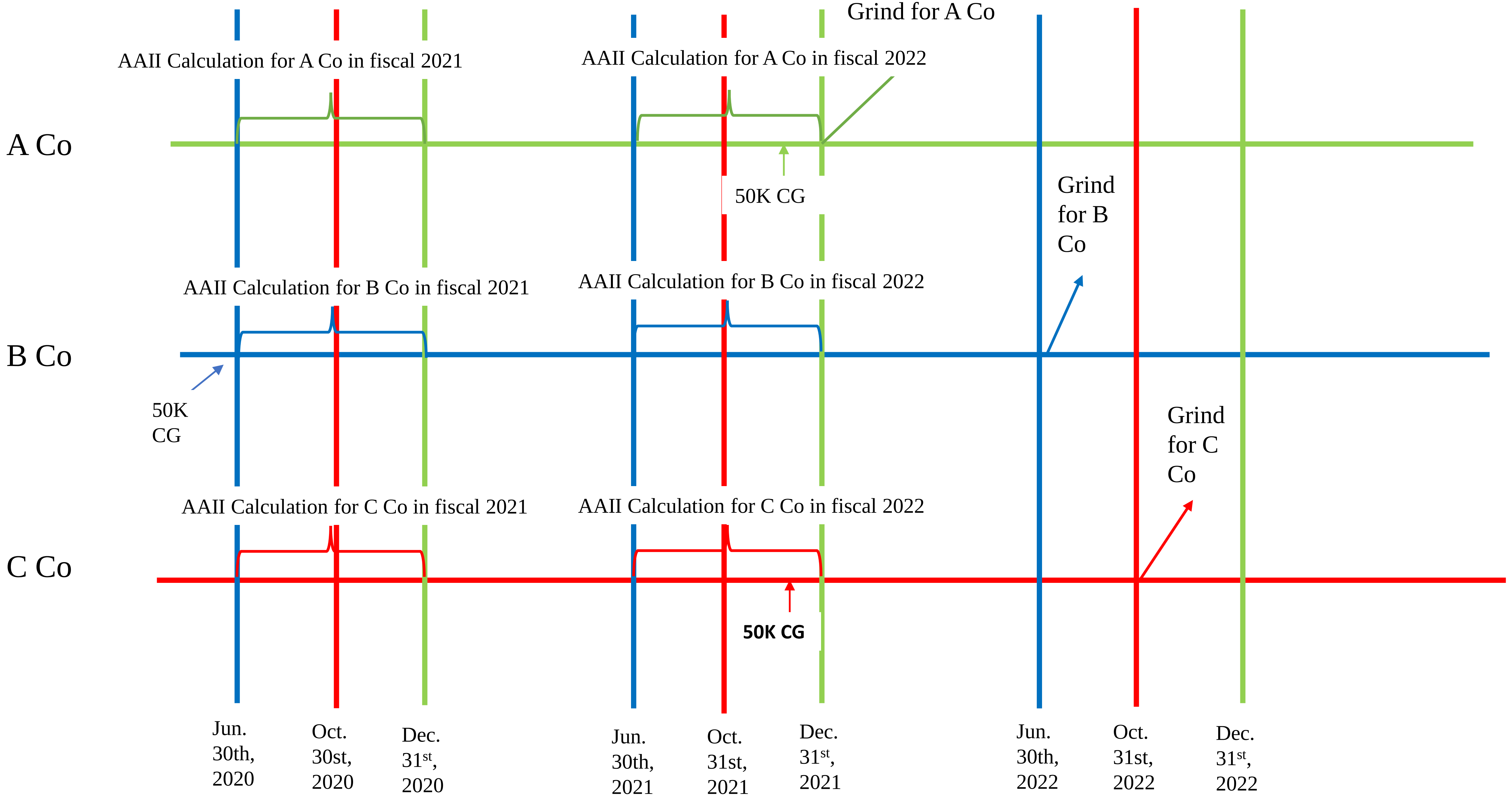
- Facts:
- **A Co**
  - December 31st year end;
  - Passive assets with a $50,000 accrued taxable capital gain;

- **B Co**
  - June 30th year end;
  - Passive assets with a $50,000 accrued taxable capital gain;

- **C Co**
  - October 31st year end;
  - Passive assets with a $50,000 accrued taxable capital gain;

Assuming A Co, B Co and C Co are associated in all the years in the next slide and there is no passive

income is 2019;



Grind for A Co
AAII Calculation for A Co in fiscal 2021
AAII Calculation for A Co in fiscal 2022
A Co
50K CG
Grind for B Co
AAII Calculation for B Co in fiscal 2021
AAII Calculation for B Co in fiscal 2022
B Co
50K CG
Grind for C Co
AAII Calculation for C Co in fiscal 2021
AAII Calculation for C Co in fiscal 2022
C Co
50K CG
Jun. 30th, 2020
Oct. 30st, 2020
Dec. 31st, 2020
Jun. 30th, 2021
Oct. 31st, 2021
Dec. 31st, 2021
Jun. 30th, 2022
Oct. 31st, 2022
Dec. 31st, 2022

Non-coterminous year ends

- A co:

2020 Tax year

- Capital gain of B co will not impact its 2020 tax filing;
- 2020 AAII calculation will reflect 2019 AAII for associated group;
- No passive income grind in 2020 for A Co;

2021 Tax year

- Capital gain of B co will impact its 2021 tax filing;
- 2021 AAII calculation will include 2020 B Co capital gain;
- No passive income grind in 2021 for A Co as AAII is exactly $50,000;

2022 Tax year

- Capital gain of A co will impact its 2022 tax filing;
- 2022 AAII calculation will include 2021 A Co capital gain;
- 2022 AAII calculation will **not** include C Co's capital gain as it was triggered in October 31st, 2022 fiscal year end of C Co. passive income grind in 2022 for A Co as AAII is exactly $50,000;

Non-coterminous year ends

- B co:

<u>2020 Tax year</u>

- Capital gain of B co will not impact its 2020 tax filing;
- 2020 AAII calculation will reflect 2019 AAII for associated group;
- No passive income grind in 2020 for B Co;

<u>2021 Tax year</u>

- Capital gain of B co will impact its 2021 tax filing;
- 2021 AAII calculation will include 2020 B Co capital gain;
- No passive income grind in 2021 for B Co as AAII is exactly $50,000;

<u>2022 Tax year</u>

- Capital gain of A co will impact its 2022 tax filing;
- 2022 AAII calculation will include 2021 A Co capital gain;
- 2022 AAII calculation will **<u>not</u>** include C Co's capital gain as it was triggered in October 31st, 2022 fiscal year end of C Co.
- No passive income grind in 2022 for B Co as AAII is exactly $50,000;

Non-coterminous year ends

- C co:

<u>2020 Tax year</u>

  - Capital gain of B co will not impact its 2020 tax filing;
  - 2020 AAII calculation will reflect 2019 AAII for associated group;
  - No passive income grind in 2020 for C Co;

<u>2021 Tax year</u>

  - Capital gain of B co will impact its 2021 tax filing;
  - 2021 AAII calculation will include 2020 B Co capital gain;
  - No passive income grind in 2021 for C Co as AAII is exactly $50,000;

<u>2022 Tax year</u>

  - Capital gain of A co will impact its 2022 tax filing;
  - 2022 AAII calculation will include 2021 A Co capital gain;
  - 2022 AAII calculation will **<u>not</u>** include C Co's capital gain as it was triggered in October 31st, 2022 fiscal year end of C Co.
  - No passive income grind in 2022 for C Co as AAII is exactly $50,000;

Summary

- Capital gains claimed in 2020 calendar year $50,000;
- Capital gains claimed in 2021 calendar year $100,000;

Conclusion

- If the same gains are realized in one corporation with a calendar year end there would be a SBD grind for 2022;
- However, if the same gains are realized in 3 different companies with non-coterminous year ends and timed properly the SBD grind could be avoided.
- If you have multiple corporations with passive assets such as portfolio investments there is a planning opportunity around the SBD grind by having non-coterminous year ends and strategically trigging your gains;

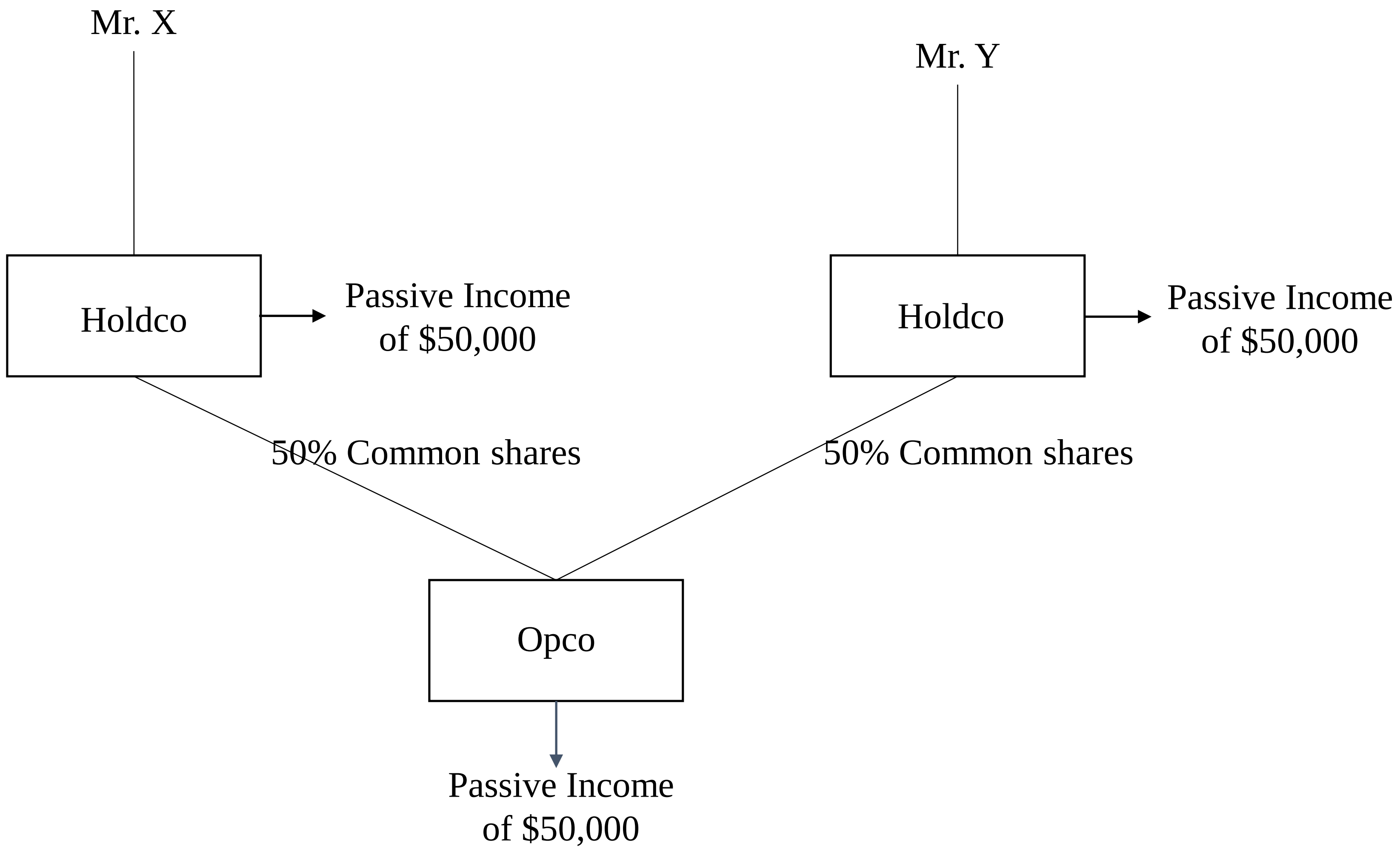
Anti-Avoidance Provision 125(5.2)

- There is a new anti avoidance provision legislated under the act for the passive income proposals;
- The provision applies if:
  - The corporation with the passive assets **lends or transfers** at any time directly or indirectly, by means of a trust or otherwise, to another corporation that was related to it but not associated to it; and
  - It may reasonably be considered that one of the reasons for the transfer was made to reduce the adjusted aggregate investment income for the transferor corporation for the year.

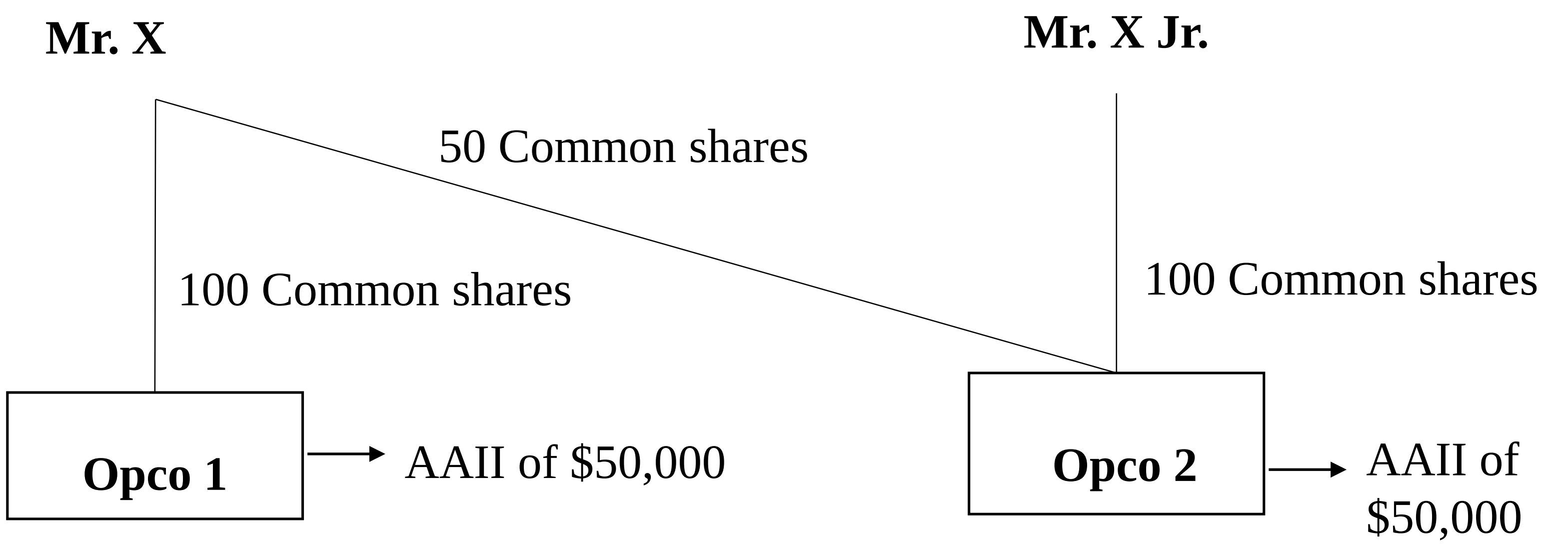
If the avoidance provision does apply, then the transferor corporation and the transferee corporation will be deemed to be associated to each other for the purposes of the AAII calculation and the grind to the small business deduction;

Passive Income Rules – Possible Solution?

(If no lifetime capital gains exemption available)

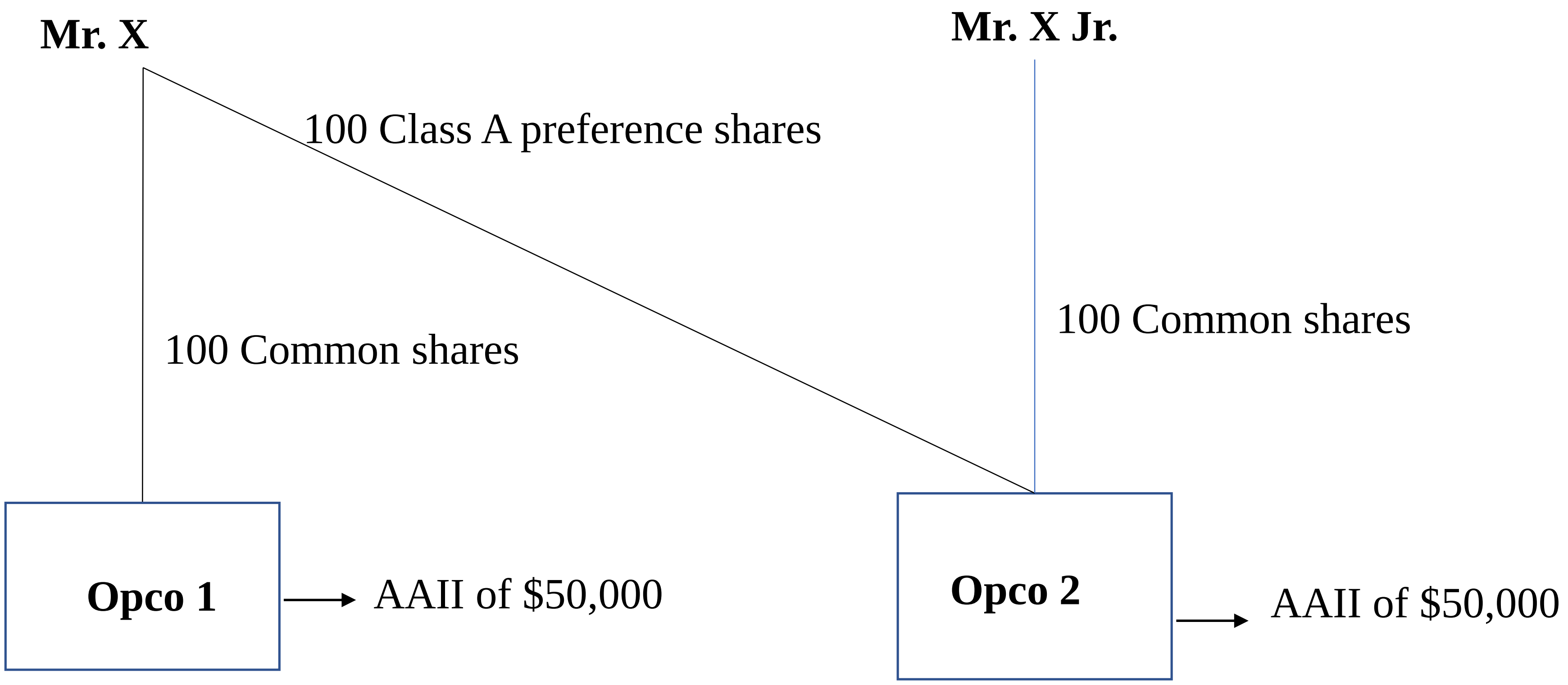


Would 125(5.1)(b) Apply?



- Opco 1 and Opco 2 are associated;
- Opco 1 and Opco 2 share the SBD;
- SBD would be ground down under 125(5.1)(b) as the AAII for the associated group is $100,000;

Would 125(5.1)(b) Apply?



Does OpCo #2 Get a Small Business Deduction?

- Mr. X does a share for share exchange for shares that meet the definition of a specified class of shares under 256(1.1) of the Act to facilitate his estate plan;
- Opco 1 and Opco 2 are no longer associated for tax purposes;
- Assuming 256(5.1) or 256(5.11) do not apply, Opco 1 and 2 can now each have its own small business deduction without the passive income grind under 125(5.1)(b);
- Has there been a transfer of property, from one corporation to another? No;
- Dad has transferred property to Opco 2 but in his personal capacity;
- Under 125(5.2) the transfer has to occur between corporations which is not the case here.

Would 125(5.1)(b) Apply?

LJP Sales Agency Inc. v R, (2004) 2 C.T.C. 2278 (TCC)

Mr. X

Mrs. X

Common shares

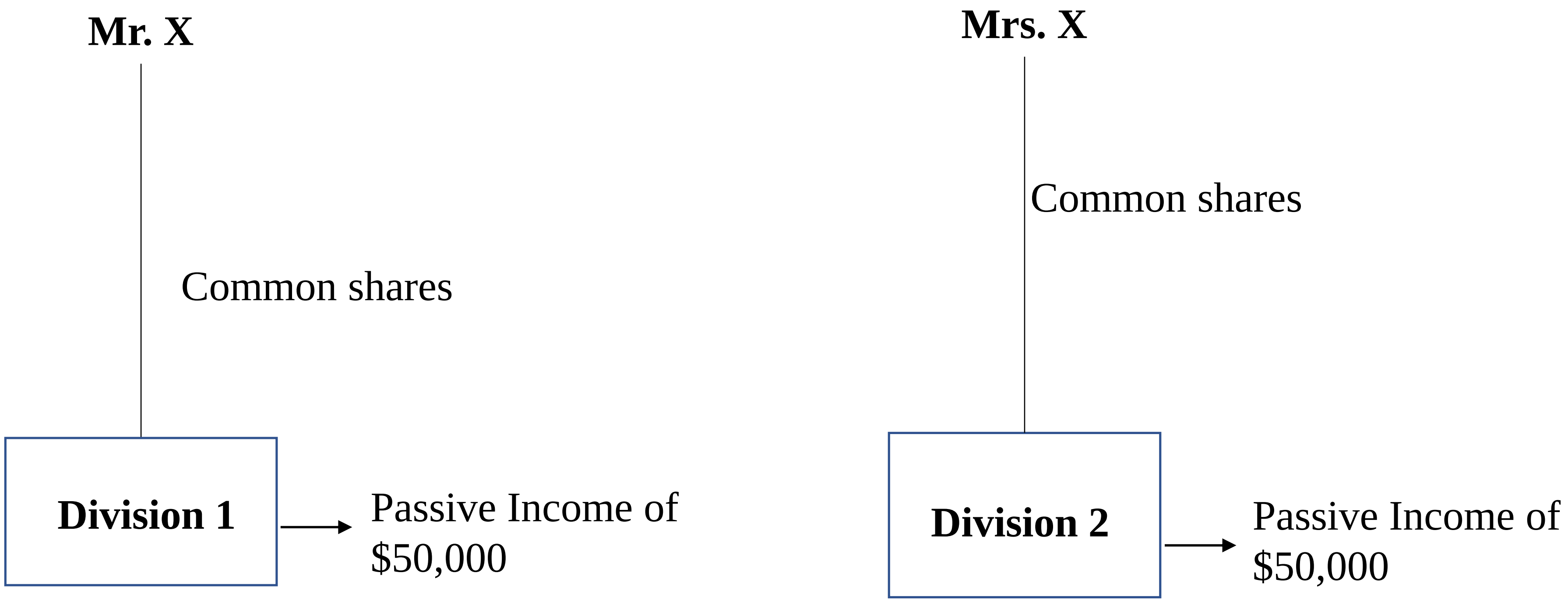
Division 1

Division 2

Passive Income of $100,000

Would 125(5.1)(b) Apply?

LJP Sales Agency Inc. v R, (2004) 2 C.T.C. 2278 (TCC)



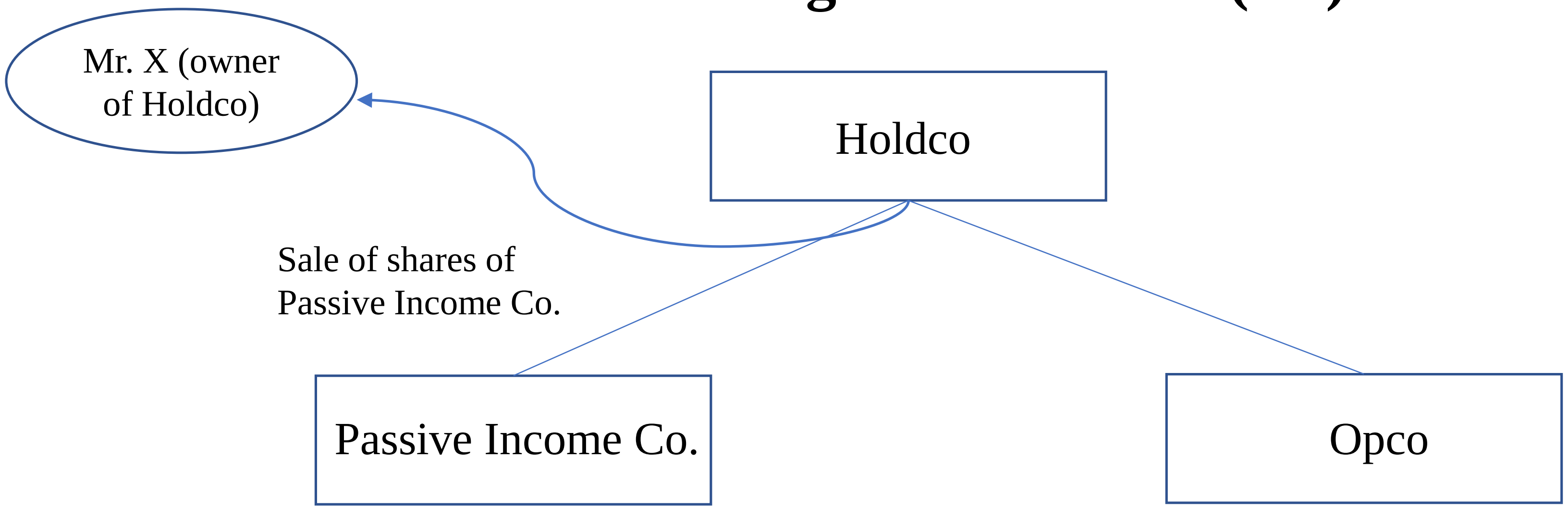
Minimize the SBD Grind

- Step 1: Related party butterfly of 1 of the divisions to a separate corporation held by Mr. X;
- Step 2: Spousal rollover under 73(1);
- Does 125(5.2) apply?
- 125(5.2)(a) says "…lends or transfers property **<u>at any time</u>**…"
- 125(5.2)(b) says "…the other corporation is **<u>at the particular time</u>** related to the particular corporation but not associated with it;…"

Minimize the SBD Grind

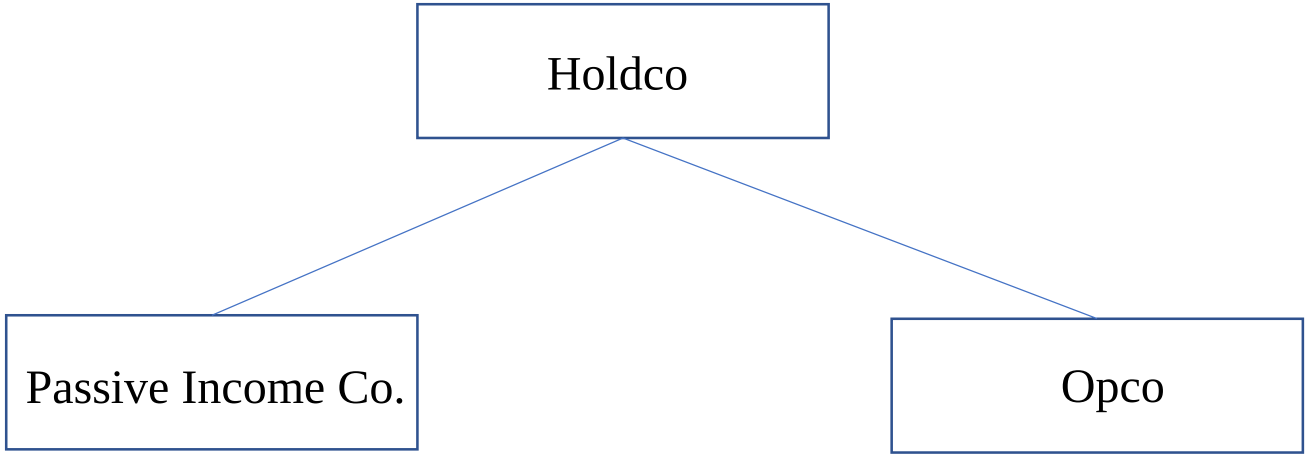
- Plan is to separate estate plans for Mrs. X and Mr. X similar to LJP Sales Agency Inc. v R, (2004) 2 C.T.C. 2278 (TCC);
- Mrs. X wants to leave her wealth to the kids
- Mr. X wants to leave his wealth to grandkids and charities.
- Would 125(5.2)(c) apply? “one of the reasons…”
- Therefore, the test is that **none** of the reasons was to avoid the passive income grind rules;
- Can a similar analysis as in LJP Sales Agency Inc. v R, (2004) 2 C.T.C. 2278 (TCC) apply here? – 256(2.1) is a more lenient test than 125(5.2)(c);
- In conclusion this would be as a result of estate planning but not one of the reasons;
- In the future setting up new corporations can be critical – separate divisions with related individuals to avoid the passive income grind;

Planning around ss. 125(5.1)



- Holdco has little or no AAII in the current or preceding taxation year;
- Passive Income Co owns real estate that has little or no AAII in the preceding calendar year but has a large capital gain in the current taxation year;
- Opco is using the full small business deduction;
- Passive Income Co, distributes all proceeds via an intercorporate dividend to Holdco;
- Passive Income Co, is sold to Mr. X for $1.00
- Passive Income Co, **in the current taxation year** winds up;
- Paragraph 88(1)(e.2) does not apply because of the pre-amble of 88(1) which states in order for it to apply immediately before the winding up not less than 90% of the shares of Passive Income Co. are owned by another taxable Canadian Corporation as this is a taxable wind-up under 88(2);
- Therefore, in the following taxation year of Opco, since Passive Income Co does not exist and hence not associated, the passive income grind should not apply;

Planning around ss. 125(5.1)



- Holdco has little or no AAII in the current or preceding taxation year;
- Passive Income Co is a **non-CCPC** (a company incorporated in Canada and continued in BVI);
- Passive Income Co owns real estate that has little or no AAII in the preceding calendar year but has a large capital gain in the current taxation year;
- Opco is using the full small business deduction;
- Passive Income Co, **in the current taxation year** winds up into Holdco or Holdco and Passive Income Co amalgamate after the sale of its passive asset;
- Paragraphs 87(2)(j.92) or 88(1)(e.2) do not apply as Passive Income Co is not a taxable Canadian corporation
- Therefore, in the following taxation year of Opco, since Passive Income Co does not exist and hence not associated, the passive income grind should not apply;

Rationale

- The anti avoidance rule in 125(5.2)(b) only applies when corporations are related but not associated at a particular time;

- Having a Real estate corporation separate and apart from an operating business should not trigger 256(2.1) since they are associated;

- AAII of the corporation (Opco) and associated corporations (Holdco and Passive Income Co) is calculated for each taxation year of the corporation (Opco) and the associated corporation(s) (Holdco and Passive Income Co) that ended in the preceding calendar year;

    - In the taxation year that ended in the preceding calendar all three companies had little or no AAII – Fact as passive income co had a rental property;

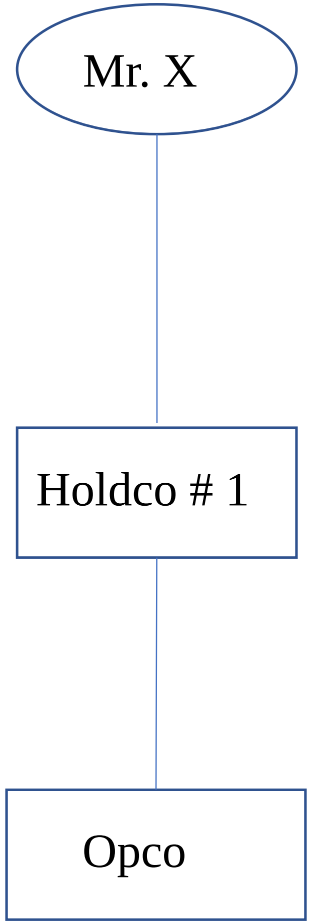
    - In the current taxation year the AAII would be over $150,000 hence a grind is possible for Opco in the following taxation year;

    - However, since Passive Income Co no longer exists and paragraphs 87(2)(j.92) or 88(1)(e.2) do not deem Holdco to be the same company as Passive Income Co, it is not associated with Opco in the "particular taxation year" as required by variable "E" in 125(5.1)(b), because of the preamble of 88(1) and 87(1) of the Act;

Non-CCPC and "Eligible Portion" of Capital Gains

- Per definition of AAII in subsection 129(4) and AII in subsection 125(7), AAII includes "the eligible portion of the corporation's taxable capital gains for the year"
- "Eligible portion" is defined in subsection 125(7):
  - The portion of the capital gain from the disposition of property that "cannot be regarded as having accrued while the property , or a property for which it was substituted, was property of a corporation **other than a Canadian-controlled private corporation**…"
- Therefore, if a capital gain was accrued while the company was not a CCPC, it should not be included in the calculation of AAII the avoid the SBD grind;

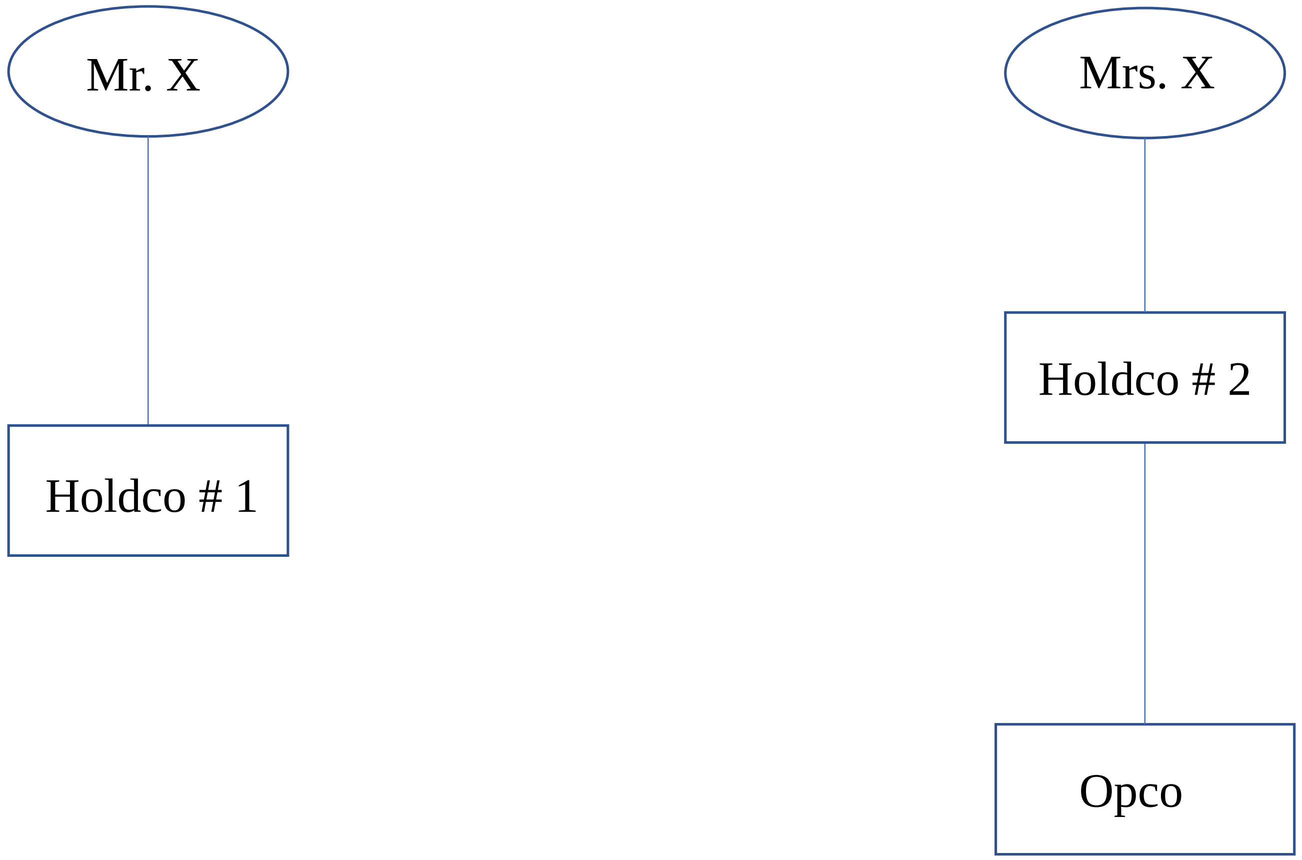
Planning using 256(2)



Planning using 256(2)

- Facts:
  - Opco is a CCPC and a “small business corporation”;
  - Opco is a wholly owned sub of Holdco 1;
  - Holdco 1 has AAII of $150,000
  - Opco claims the full small business deduction;
  - Opco does not create any AAII;
  - Mr. X is the sole shareholder of the Holdco 1;
  - Both Ms. and Mr. X work in the business;

Planning using 256(2)



Planning using 256(2)

- Mr and Mrs. Perform a series of transactions to disassociate Opco from Holdco 1 via a related party 55(3)(a) butterfly;

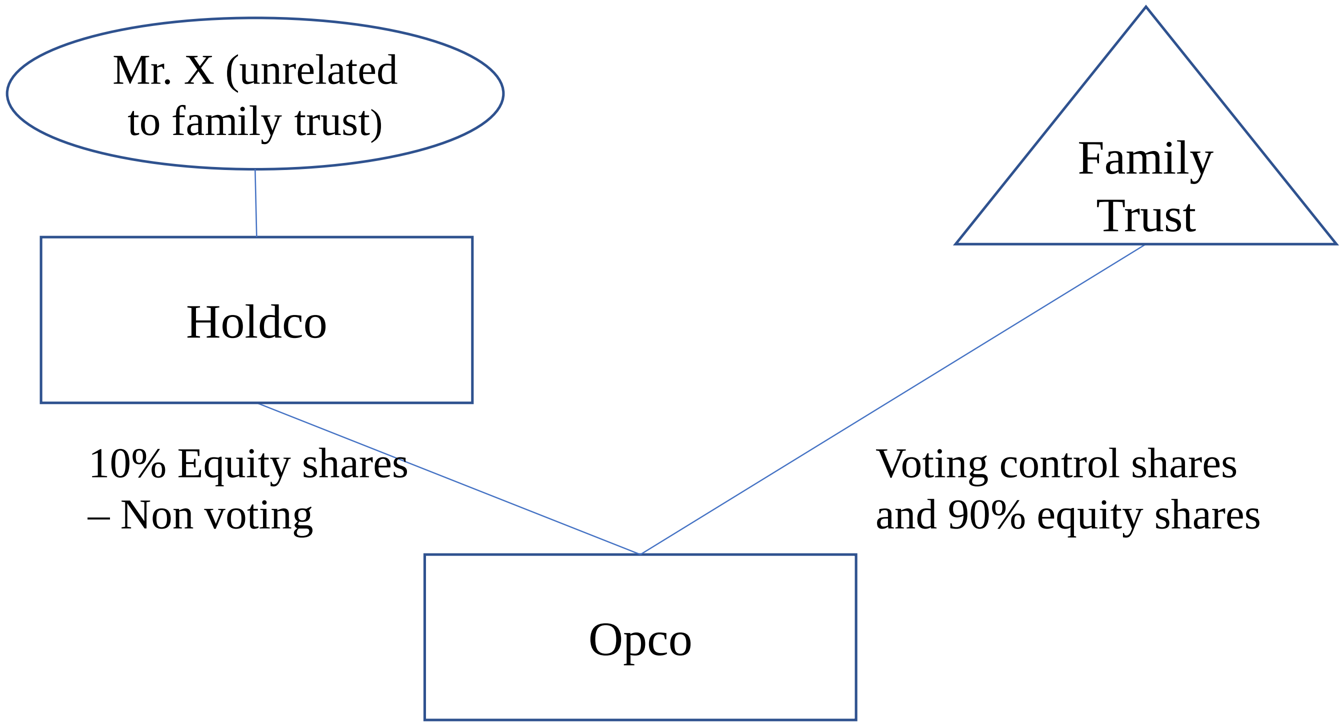
- The anti – avoidance rule in 125(5.2) will apply in this case because:
  - Holdco 1 has transferred property (Opco shares) to Holdco 2;
  - Holdco 1 is related to, but not associated to Holdco 2; and
  - Opco (a corporation) associated with Holdco 1 has reduced its variable "E" in 125(5.1) per paragraph 125(5.2)(c);

- 125(5.2) will deem Holdco 1 and Holdco 2 to be associated for tax purposes;

Planning using 256(2)

- Since Holdco 2 controls Opco it will be associated to Holdco 2;
- However, because of section 256(2) it will also be associated to Holdco 1 hence, the passive income grind will apply;
- Therefore, Holdco 1 and 2 are associated via 125(5.2) and Opco and Holdco 1 are associated as a result of 256(2);
- Consider filing an election under subparagraph 256(2)(b)(ii) to disassociate Opco and Holdco 1;
- Consideration must also be given to any intercorporate dividends issued by Opco to Holdco 1 prior to the reorganization as this could also associate the two companies under 125(5.2) but this is a factual analysis to see if "one of the reasons" was to reduce the passive income grind;
- Consideration should be given to the De-facto control rules under 256(5.1) and 256(5.11);
- Consideration should be given to the anti avoidance rule under 256(2.1) – one of the main reasons;

Connectedness under section 186



- Provide Holdco 11% voting shares by issuing a special class of non-participating voting only shares;
- This will help in reducing the AAII for Holdco;

Rental Income: NCL and CCA – No Planning

Maximum annual CCA $100,000
Non-capital losses of $200,000

Rental Income	$70,000	Rental Income	$70,000	Rental Income	$70,000
CCA	$Nil	CCA	$Nil	CCA	$Nil
NCL	($70,000)	NCL	($70,000)	NCL	($70,000)
Taxable Income	$Nil	Taxable Income	$Nil	Taxable Income	$Nil
AAII	$70,000	AAII	$70,000	AAII	$70,000

2019 2020 2021 2022

Rental Income: NCL and CCA

- The rental income will be included in the calculation of AAII in 2020, 2021 and 2022;
- Non-capital losses do not reduce the AAII for the purposes of the calculation of 125(5.1);
- There will be AAII of $70,000 in 2020, 2021 and 2022;
- Thus, there would be SBD grind of $100,000 (or $20,000 * 5 pursuant to 125(5.1));
- Instead of applying NCL the company may consider claiming some CCA in 2020, 2021, 2022 so that AII is reduced to $50,000;

Rental Income: NCL and CCA – Planning

Maximum annual CCA $100,000
Non-capital losses of $200,000

2019

Rental Income	$70,000
CCA	($20,000)
NCL	($50,000)
Taxable Income	$Nil
AAII	$50,000

2020

Rental Income	$70,000
CCA	($20,000)
NCL	($50,000)
Taxable Income	$Nil
AAII	$50,000

2021

Rental Income	$70,000
CCA	($20,000)
NCL	($50,000)
Taxable Income	$Nil
AAII	$50,000

2022

Application of FAPL to passive income grind

FAPL of $100,000
And non-capital
losses of $200,000

2019

FAPI of $70,000	
FAPL	($20,000)
NCL	($50,000)
TI	$Nil
AAII	$50,000

2020

FAPI of $70,000	
FAPL	($20,000)
NCL	($50,000)
TI	$Nil
AAII	$50,000

2021

FAPI of $70,000	
FAPL	($20,000)
NCL	($50,000)
TI	$Nil
AAII	$50,000

2022

Application of FAPL to passive income grind

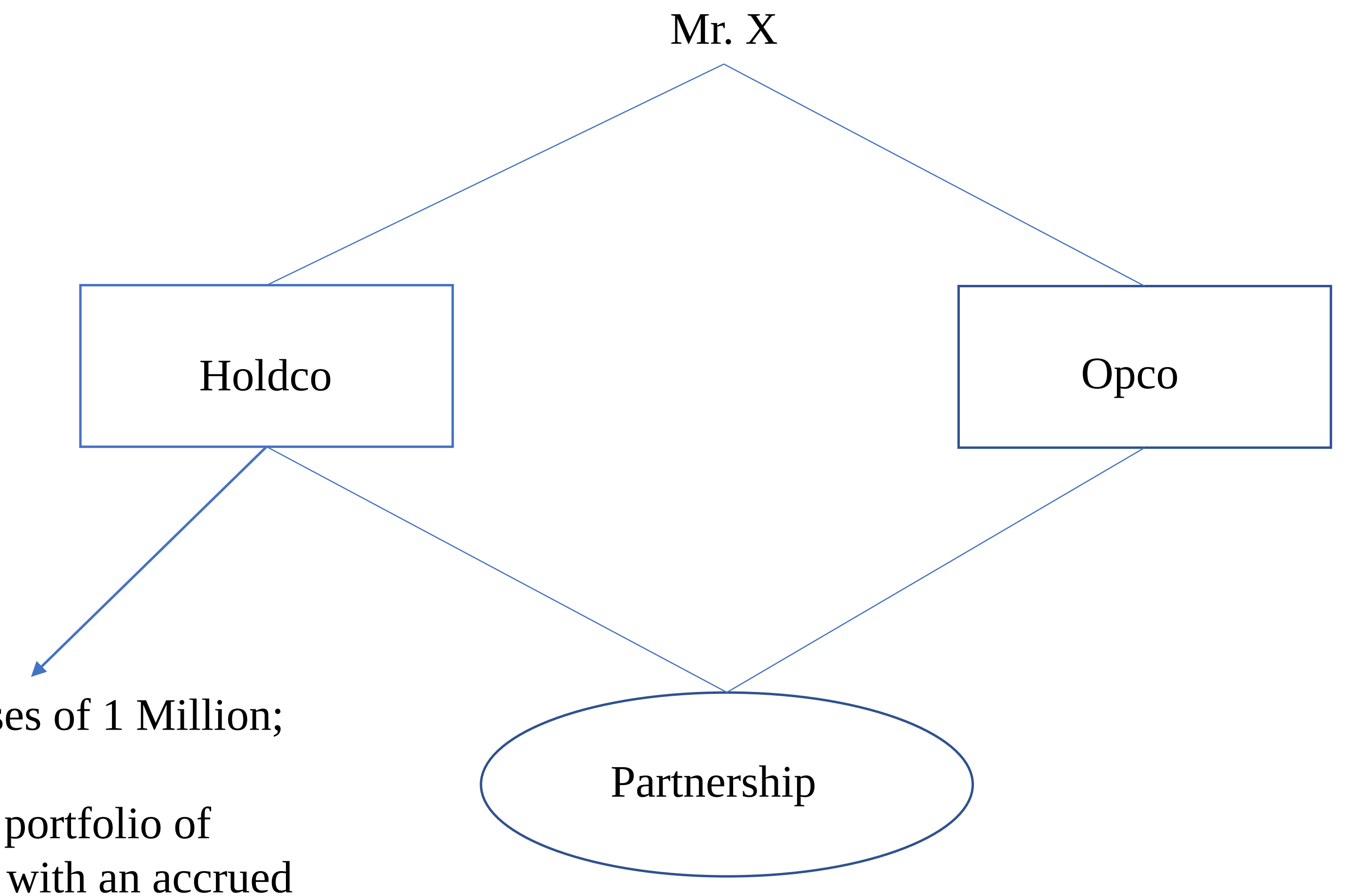
- The FAPI will be included in the calculation of AAII in 2020, 2021 and 2022;
- Similar to the utilization of CCA to reduce AII to $50,000 in the international tax context a company may also consider utilization of FAPL as similar to CCA claiming of FAPL is discretionary
- Non-capital losses do not reduce the AAII for the purposes of the calculation of 125(5.1);
- Therefore, it is beneficial to claim FAPL to reduce AII to $50,000

Utilization of capital loss carryforwards

- Per the definition of adjusted aggregate investment income in 125(7) capital loss carryforwards cannot be utilized to reduce AAII;

- Is there any planning available for which we can use these capital loss carryforwards?

Partnership planning – 40(3.12) loss



- Capital losses of 1 Million;
- Investment portfolio of $1,000,000 with an accrued gain of $300,000

Partnership planning – 40(3.12) loss

- Step 1: Partnership created between holdco and opco whereby holdco is a limited partner and opco is a general partner;

- Step 2: Opco injects 1.1 Million of cash;

- Step 3: Partnership pays Holdco 1 Million as a distribution, resulting in a capital gain under sub-section 40(3.1) and uses its capital loss carryforwards to offset the gain – AAII will be incurred in the current year. The partnership will retain $100,000 in cash in order that the partnership has a purpose;

Partnership planning – 40(3.12) loss

- Step 4: Whenever Holdco realizes a capital gain on the sale of the investments holdco would make an injection equal to the value of the capital gain to the partnership resulting in an increase in the ACB of the partnership interest and the investment portfolio in the partnership;

- Step 5: Holdco elects under 40(3.12) to recognize a capital loss in the year of the injection and offsets the capital gain in step 4;

Partnership planning – 40(3.12) loss

- The calculation of AAII accommodates current year capital losses but not prior year capital losses, hence there should be no AAII so long as Holdco injects into the partnership an amount equal to the capital gain incurred in Holdco;

- The avoidance provision under 125(5.2) should not apply because, Holdco and Opco are associated for tax purposes and not related (125(5.2)(b));

- This structure achieves the utilization of capital loss carryforward balances against AAII;

Other planning

- Rebalance portfolio investments to trigger more capital gains;
- Take a “big bath” approach and trigger all capital gains/losses in a particular taxation year;
- Time capital losses to manage AAII;
- Life insurance;
- IPP

Other planning

- Invest in more active assets;
- Take advantage of the fact that Ontario does not follow the federal passive income rules;
- Distribute passive assets to individuals and trusts so that they do not impact the calculation of AAII;
  - Consider the loss of the deferral;
  - Better on an integrated basis to own passive assets personally;
  - Is the trust carrying on a business? If so TOSI rules may apply;
  - Does 120.4(1.1)(d)(B) apply here?

Other planning

- Isolate incidental active business income vis a vie true passive income as incidental income is not subject to the calculation of AAII;
- Isolate expenses related to AAII and allocate them accordingly to reduce AAII;

Other planning

- Consider borrowing specifically for investment assets while using corporate surplus to invest in active assets, this way you can write off the interest expense against passive income;

- Strategic deductions under 20(1)(e) to reduce the passive income can help in increasing the small business deduction claim;

Other planning

- Consider using the capital gains reserve under sub-paragraph 40(1)(iii);
- Previously it did not matter if the company has non-capital losses to absorb the taxable capital gain;
- However, since AAII does not account for non-capital losses a reserve should be considered to reduce the capital gain on the sale of a passive asset for which proceeds have not been received;

Unexpected places where the passive income grind would apply

- The un-intended application of 55(2) - deemed capital gain;

- Disposition of the shares of a foreign affiliate, as the foreign affiliate shares can never be considered to be an active asset;

- Watch for a possible adjustment for 91(4) for FAPI generated by a foreign affiliate in a high tax jurisdiction;

Unexpected places where the passive income grind would apply

- Negative ACB of a partnership interest, more detailed calculations for partnership interests will be required;

- Denial of expenses allocated to investment income as a result of paragraph 18(1)(a) and section 67;

- 94.1 offshore investments and imputed income;

- 17(1) income inclusion for loans to non-residents;

Unexpected places where the passive income grind would apply

- The definition of AAII in subsection 125(7) indicates that losses from a disposition of an active capital asset does not reduce the AAII of a corporation;

- For example:

  - ABC co had disposed of a passive capital asset being marketable securities for a gain;

  - ABC co has also disposed off for a loss a share of a private corporation that meets the QSBC test as an active asset as defined under subsection 125(7);

  - Proper planning to reduce the AAII would be to see additional “loss position” marketable security or ensure that at the time of disposition the shares of the private corporate were not considered to be an active asset as defined under subsection 125(7);

SBD in Ontario – Integrated with full SBD

Corporate details	
Tax province	ON
Tax year ending	Dec 31, 2020
Tax year starting	Jan 1, 2020
Type of corporation	CCPC

Earned by individual			% of income
Income earned	100,000		100.00%
(Tax payable by individual)	(53,530)	∞	(53.53%)
Net amount to the individual	46,470		46.47%
Notes	Average tax rate: 53.53%		

Income earned	
Active business income	100,000
Other Canadian investment income	
Net capital gains	
Eligible dividends	
Other than eligible dividends	
Income subject to Federal SBD	100,000
Business limit allocated	500,000
Taxable capital	
Adjusted Aggregate Investment Income	
Personal service business income	-

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(9,000)		(9.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(ON corporate tax)	(3,500)		(3.50%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	87,500		87.50%
(Tax payable by individual)	(41,471)	∞	(41.47%)
Net amount to the individual	46,029		46.03%
Notes	Average tax rate: 53.97%		

M&P details	
Cost of capital	-
Cost of M&P capital	-
Cost of labour	-
Cost of M&P labour	-

Summary of results		% of income
Tax savings (cost) using corporation	(441)	(0.44%)
Tax deferral advantage (cost)	41,030	41.03%
Capital dividends paid	-	
NE/RDTOH ending balance	-	
ERDTOH ending balance	-	

SBD in Ontario – Integrated with no SBD

Corporate details	
Tax province	ON
Tax year ending	Dec 31, 2020
Tax year starting	Jan 1, 2020
Type of corporation	CCPC

Income earned	
Active business income	100,000
Other Canadian investment income	
Net capital gains	
Eligible dividends	
Other than eligible dividends	
Income subject to Federal SBD	-
Business limit allocated	-
Taxable capital	
Adjusted Aggregate Investment Income	
Personal service business income	-

M&P details	
Cost of capital	-
Cost of M&P capital	-
Cost of labour	-
Cost of M&P labour	-

Earned by individual			% of income
Income earned	100,000		100.00%
(Tax payable by individual)	(53,530)	∞	(53.53%)
Net amount to the individual	46,470		46.47%
Notes	Average tax rate: 53.53%		

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(15,000)		(15.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(ON corporate tax)	(11,500)		(11.50%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	73,500		73.50%
(Tax payable by individual)	(29,038)	∞	(29.04%)
Net amount to the individual	44,462		44.46%
Notes	Average tax rate: 55.54%		

Summary of results		% of income
Tax savings (cost) using corporation	(2,009)	(2.01%)
Tax deferral advantage (cost)	27,030	27.03%
Capital dividends paid	-	
NE/RDTOH ending balance	-	
ERDTOH ending balance	-	

SBD in Ontario – Integrated with no SBD and AAII

Tax province	ON	
Tax year ending	Dec 31, 2020	
Tax year starting	Jan 1, 2020	
Type of corporation	CCPC	

Income earned	100,000		100.00%
(Tax payable by individual)	(53,530)	∞	(53.53%)
Net amount to the individual	46,470		46.47%
Notes	Average tax rate: 53.53%		

Income earned	
Active business income	100,000
Other Canadian investment income	
Net capital gains	
Eligible dividends	
Other than eligible dividends	
Income subject to Federal SBD	-
Business limit allocated	500,000
Taxable capital	
Adjusted Aggregate Investment Income	150,000
Personal service business income	-

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(15,000)		(15.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(ON corporate tax)	(3,500)		(3.50%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	81,500		81.50%
(Tax payable by individual)	(32,830)	∞	(32.83%)
Net amount to the individual	48,670		48.67%
Notes	Average tax rate: 51.33%		

M&P details	
Cost of capital	-
Cost of M&P capital	-
Cost of labour	-
Cost of M&P labour	-

Summary of results		% of income
Tax savings (cost) using corporation	2,200	2.20%
Tax deferral advantage (cost)	35,030	35.03%
Capital dividends paid	-	
NE/RDTOH ending balance	-	
ERDTOH ending balance	-	

SBD in New Brunswick – Integrated with full SBD

Corporate details		
Tax province	NB	
Tax year ending	Dec 31, 2020	
Tax year starting	Jan 1, 2020	
Type of corporation	CCPC	

Earned by individual			% of income
Income earned	100,000		100.00%
(Tax payable by individual)	(53,300)	∞	(53.30%)
Net amount to the individual	46,700		46.70%
Notes	Average tax rate: 53.30%		

Income earned		
Active business income	100,000	
Other Canadian investment income		
Net capital gains		
Eligible dividends		
Other than eligible dividends		
Income subject to Federal SBD	100,000	
Business limit allocated	500,000	
Taxable capital		
Adjusted Aggregate Investment Income		
Personal service business income	-	

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(9,000)		(9.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(NB corporate tax)	(2,500)		(2.50%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	88,500		88.50%
(Tax payable by individual)	(42,257)	∞	(42.26%)
Net amount to the individual	46,243		46.24%
Notes	Average tax rate: 53.76%		

M&P details		
Cost of capital	-	
Cost of M&P capital	-	
Cost of labour	-	
Cost of M&P labour	-	

Summary of results			% of income
Tax savings (cost) using corporation	(457)		(0.46%)
Tax deferral advantage (cost)	41,800		41.80%
Capital dividends paid	-		
NE/RDTOH ending balance	-		
ERDTOH ending balance	-		

SBD in New Brunswick – Integrated with no SBD

Corporate details		
Tax province	NB	
Tax year ending	Dec 31, 2020	
Tax year starting	Jan 1, 2020	
Type of corporation	CCPC	

Earned by individual			% of income
Income earned	100,000		100.00%
(Tax payable by individual)	(53,300)	∞	(53.30%)
Net amount to the individual	46,700		46.70%
Notes	Average tax rate: 53.30%		

Income earned		
Active business income	100,000	
Other Canadian investment income		
Net capital gains		
Eligible dividends		
Other than eligible dividends		
Income subject to Federal SBD	-	
Business limit allocated	-	
Taxable capital		
Adjusted Aggregate Investment Income		
Personal service business income	-	

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(15,000)		(15.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(NB corporate tax)	(14,000)		(14.00%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	71,000		71.00%
(Tax payable by individual)	(23,790)	∞	(23.79%)
Net amount to the individual	47,210		47.21%
Notes	Average tax rate: 52.79%		

M&P details		
Cost of capital	-	
Cost of M&P capital	-	
Cost of labour	-	
Cost of M&P labour	-	

Summary of results		% of income
Tax savings (cost) using corporation	510	0.51%
Tax deferral advantage (cost)	24,300	24.30%
Capital dividends paid	-	
NE/RDTOH ending balance	-	
ERDTOH ending balance	-	

SBD in New Brunswick – Integrated with no SBD and AAII

Corporate details	
Tax province	NB
Tax year ending	Dec 31, 2020
Tax year starting	Jan 1, 2020
Type of corporation	CCPC

Earned by individual			% of income
Income earned	100,000		100.00%
(Tax payable by individual)	(53,300)	∞	(53.30%)
Net amount to the individual	46,700		46.70%
Notes	Average tax rate: 53.30%		

Income earned	
Active business income	100,000
Other Canadian investment income	
Net capital gains	
Eligible dividends	
Other than eligible dividends	
Income subject to Federal SBD	-
Business limit allocated	500,000
Taxable capital	
Adjusted Aggregate Investment Income	150,000
Personal service business income	-

Earned by corporation			% of income
Income earned	100,000		100.00%
(Part I tax - non-refundable)	(15,000)		(15.00%)
(Part I tax - refundable)	-		-
(Part IV tax)	-		-
(NB corporate tax)	(2,500)		(2.50%)
Dividend refund - ERDTOH	-		-
Dividend refund - NE/RDTOH	-		-
Available for distribution	82,500		82.50%
(Tax payable by individual)	(29,138)	∞	(29.14%)
Net amount to the individual	53,362		53.36%
Notes	Average tax rate: 46.64%		

M&P details	
Cost of capital	-
Cost of M&P capital	-
Cost of labour	-
Cost of M&P labour	-

Summary of results		% of income
Tax savings (cost) using corporation	6,662	6.66%
Tax deferral advantage (cost)	35,800	35.80%
Capital dividends paid	-	
NE/RDTOH ending balance	-	
ERDTOH ending balance	-	

Ontario Integration Numbers

- 53.97% - Subject to SBD rates both Federally and in Ontario
- 51.33% - Subject to top rate Federal, SBD rate in Ontario
- 2.64% - Tax cost of maintaining Federal SBD on an integrated basis
- Integrated tax rate in Ontario drops because even though SBD rates are used in Ontario the dividend paid to the shareholder is an eligible dividend;
- The difference is larger in New Brunswick
- Planning - move corporations to Ontario or New Brunswick?

New Brunswick Integration Numbers

- 53.76% - Subject to SBD rates both Federally and in New Brunswick
- 46.64% - Subject to top rate Federal, SBD rate in New Brunswick
- 7.12% - Tax cost of maintaining Federal SBD on an integrated basis
- Integrated tax rate in New Brunswick drops because even though SBD rates are used in New Brunswick the dividend paid to the shareholder is an eligible dividend;

- Planning - move corporations to Ontario or New Brunswick?

Questions?

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