



TAX

# Income Tax Rates for Canadian-Controlled Private Corporations (CCPCs)—2008-2009

KPMG LLP

## Federal Income Tax Rates for Income Earned by a CCPC<sup>1</sup>

### Effective January 1, 2008

	Small Business Income up to \$400,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
General corporate rate	38.0%	38.0%	38.0%
Federal abatement	(10.0)	(10.0)	(10.0)
	28.0	28.0	28.0
Surtax <sup>5</sup>	0.0	0.0	0.0
	28.0	28.0	28.0
Small business deduction <sup>6</sup>	(17.0)	0.0	0.0
Rate reduction <sup>7</sup>	0.0	(8.5)	0.0
Refundable tax <sup>8</sup>	0.0	0.0	6.7
	<b>11.0</b>	<b>19.5</b>	<b>34.7</b>

### Effective January 1, 2009

	Small Business Income up to \$400,000 <sup>2</sup>	Active Business Income between \$400,000 and \$500,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
General corporate rate	38.0%	38.0%	38.0%	38.0%
Federal abatement	(10.0)	(10.0)	(10.0)	(10.0)
	28.0	28.0	28.0	28.0
Small business deduction <sup>6</sup>	(17.0)	(17.0)	0.0	0.0
Rate reduction <sup>7</sup>	0.0	0.0	(9.0)	0.0
Refundable tax <sup>8</sup>	0.0	0.0	0.0	6.7
	<b>11.0</b>	<b>11.0</b>	<b>19.0</b>	<b>34.7</b>

- See end notes for the actual dates on which these rates and other rate changes are effective.
- All rates must be prorated for taxation years that straddle the effective date of the changes.
- To determine whether these rates are substantively enacted, see the "Substantively Enacted Income Tax Rates" tables (<http://www.kpmg.ca/en/services/tax/taxrates.html>)
- For details of other tax and tax rate changes, see the Federal and Provincial Budgets page (<http://www.kpmg.ca/en/services/tax/budget.html>).

## Provincial Income Tax Rates for Income Earned by a CCPC<sup>1</sup>

### Effective January 1, 2008

Jurisdiction	Small Business Income up to \$400,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
British Columbia <sup>9</sup>	4.5/3.5/2.5%	12.0/11.0%	12.0/11.0%
Alberta	3.0	10.0	10.0
Saskatchewan <sup>10</sup>	4.5	13.0/12.0	13.0/12.0
Manitoba <sup>11</sup>	2.0	14.0/13.0	14.0/13.0
Ontario <sup>12</sup>	5.5	14.0	14.0
Québec <sup>13</sup>	8.0	11.4	11.4
New Brunswick	5.0	13.0	13.0
Nova Scotia	5.0	16.0	16.0
Prince Edward Island <sup>14</sup>	4.3/3.2	16.0	16.0
Newfoundland	5.0	14.0	14.0

### Effective January 1, 2009

Jurisdiction	Small Business Income up to \$400,000 <sup>2</sup>	Active Business Income between \$400,000 and \$500,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
British Columbia <sup>9</sup>	2.5%	11.0%	11.0%	11.0%
Alberta	3.0	10.0/3.0	10.0	10.0
Saskatchewan <sup>10</sup>	4.5	4.5	12.0	12.0
Manitoba <sup>11</sup>	1.0	13.0/12.0	13.0/12.0	13.0/12.0
Ontario <sup>12</sup>	5.5	5.5	14.0	14.0
Québec <sup>13</sup>	8.0	11.9	11.9	11.9
New Brunswick	5.0	13.0	13.0	13.0
Nova Scotia	5.0	16.0	16.0	16.0
Prince Edward Island <sup>14</sup>	3.2/2.1	3.2/2.1	16.0	16.0
Newfoundland	5.0	5.0	14.0	14.0

## Combined Federal and Provincial Income Tax Rates for Income Earned by a CCPC<sup>1</sup>

### Effective January 1, 2008

Jurisdiction	Small Business Income up to \$400,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
British Columbia <sup>9</sup>	15.5/14.5/13.5%	31.5/30.5%	46.7/45.7%
Alberta	14.0	29.5	44.7
Saskatchewan <sup>10</sup>	15.5	32.5/31.5	47.7/46.7
Manitoba <sup>11</sup>	13.0	33.5/32.5	48.7/47.7
Ontario <sup>12</sup>	16.5	33.5	48.7
Québec <sup>13</sup>	19.0	30.9	46.1
New Brunswick	16.0	32.5	47.7
Nova Scotia	16.0	35.5	50.7
Prince Edward Island <sup>14</sup>	15.3/14.2	35.5	50.7
Newfoundland	16.0	33.5	48.7

### Effective January 1, 2009

Jurisdiction	Small Business Income up to \$400,000 <sup>2</sup>	Active Business Income between \$400,000 and \$500,000 <sup>2</sup>	General Active Business Income <sup>3</sup>	Investment Income <sup>4</sup>
British Columbia <sup>9</sup>	13.5%	22.0%	30.0%	45.7%
Alberta	14.0	21.0/14.0	29.0	44.7
Saskatchewan <sup>10</sup>	15.5	15.5	31.0	46.7
Manitoba <sup>11</sup>	12.0	24.0/23.0	32.0/31.0	47.7/46.7
Ontario <sup>12</sup>	16.5	16.5	33.0	48.7
Québec <sup>13</sup>	19.0	22.9	30.9	46.6
New Brunswick	16.0	24.0	32.0	47.7
Nova Scotia	16.0	27.0	35.0	50.7
Prince Edward Island <sup>14</sup>	14.2/13.1	14.2/13.1	35.0	50.7
Newfoundland	16.0	16.0	33.0	48.7

## Combined Federal and Provincial Income Tax Rates for Income Earned by a CCPC<sup>1</sup> (continued)

### Notes:

- 1 The federal and provincial tax rates shown in the tables apply to income earned by a Canadian-controlled private corporation (CCPC). In general, a corporation is a CCPC if the corporation is a private corporation and a Canadian corporation, provided it is not controlled by one or more non-resident persons, by a public corporation, by a corporation with a class of shares listed on a designated stock exchange, or by any combination of these, and provided it does not have a class of shares listed on a designated stock exchange.

For tax rates applicable to general corporations, see the table entitled "Income Tax Rates for General Corporations" and the related notes.

- 2 See the table entitled "Small Business Income Thresholds for Canadian-Controlled Private Corporations (CCPCs)" for changes in the federal and provincial small business income thresholds during this period.

The 2009 federal budget proposes to increase the small business income threshold from \$400,000 to \$500,000 on January 1, 2009. For 2009, certain provinces (British Columbia, Alberta, Manitoba, Québec, New Brunswick and Nova Scotia) will have provincial thresholds below the federal amount (this may change once the provinces deliver their respective 2009 budgets). For these provinces, a median tax rate will apply to active business income between the provincial and federal threshold. The median tax rate is based on the federal small business rate and the applicable provincial general active business rate. For example, in 2009, British Columbia's combined rate on active business income between \$400,000 and \$500,000 is 22% (i.e., 11% federally and 11% provincially).

- 3 The general corporate tax rate applies to active business income earned in excess of \$500,000. See the table entitled "Small Business Income Thresholds for Canadian-Controlled Private Corporations (CCPCs)" for changes in the federal and provincial small business income thresholds during this period.

CCPCs that earn income from manufacturing and processing (M&P) activities are subject to the same rates as those that apply to general corporations. See the table entitled "Income Tax Rates for General Corporations" and the related notes.

- 4 The federal and provincial tax rates shown in the table apply to investment income earned by a CCPC other than capital gains and dividends received from Canadian corporations. The rates that apply to capital gains are one-half of the rates shown in the table. Dividends received from Canadian corporations are deductible in computing regular Part I tax, but may be subject to Part IV tax, calculated at a rate of 33 $\frac{1}{3}$ %.
- 5 The 4% surtax was eliminated for all corporations effective January 1, 2008.
- 6 Corporations that are CCPCs throughout the year may claim the small business deduction (SBD). In general, the SBD is equal to 17% of the least of three amounts – active business income earned in Canada, taxable income and the small business threshold.

The small business tax rate decreased from 12% to 11% on January 1, 2008.

## Combined Federal and Provincial Income Tax Rates for Income Earned by a CCPC (continued)

- 7 A general tax rate reduction is available on qualifying income. Income that is eligible for other reductions or credits, such as small business income, M&P income and investment income subject to the refundable provisions, is not eligible for this rate reduction.

Starting in 2008, the corporate income tax rate will decrease to a target rate of 15% as of January 1, 2012. The corporate income tax rate decreased to 19.5% on January 1, 2008 and to 19% on January 1, 2009. It will continue to decrease to 18% on January 1, 2010, to 16.5% on January 1, 2011 and to 15% on January 1, 2012. The rate reduction therefore increased from 7.5% to 8.5% and 9% and will continue to increase to 10%, 11.5% and 13% respectively.

- 8 The refundable tax of  $6\frac{2}{3}\%$  of a CCPC's investment income and capital gains, as well as 20% of such income that is subject to regular Part I tax, is included in the corporation's Refundable Dividend Tax on Hand (RDTOH) account. When taxable dividends (eligible and non-eligible) are paid out to shareholders, a dividend refund equal to the lesser of  $33\frac{1}{3}\%$  of the dividends paid or the balance in the RDTOH account is refunded to the corporation.
- 9 British Columbia's general corporate income tax rate decreased from 12% to 11% on July 1, 2008. Further reductions are planned to reduce this rate to 10% by 2011.

The province's small business rate also decreased from 4.5% to 3.5% on July 1, 2008 and was further reduced to 2.5% on December 1, 2008.

- 10 Saskatchewan's general corporate income tax rate decreased from 13% to 12% on July 1, 2008.
- 11 Manitoba's small business tax rate decreased from 3% to 2% on January 1, 2008 and further decreased to 1% on January 1, 2009.

Manitoba's general corporate income tax rate decreased from 14% to 13% on July 1, 2008 and will further decrease to 12% on July 1, 2009. The province's 2008 budget also announced a further decrease to 11% in the future subject to balanced budget requirements.

- 12 Ontario levies a surtax at a rate of 4.25% on CCPCs claiming the Ontario small business deduction in order to gradually reduce the benefit of the deduction where taxable income exceeds the small business income threshold. Based on the small business limit of \$500,000, the phase-out range for the application of the surtax is between \$500,000 and \$1.5 million.
- 13 Québec's general corporate income tax rate increased from 9.9% to 11.4% on January 1, 2008 and further increased to 11.9% on January 1, 2009.

Québec's 2007 budget announced that the province's income tax rate applicable to investment income will decrease over three years, from 16.25% in 2007 to 11.9% in 2009 as follows: from 16.25% to 9.9% for investment income earned after February 20, 2007, to 11.4% for 2008 and to 11.9% for 2009.

- 14 Prince Edward Island's small business rate decreased from 4.3% to 3.2% on April 1, 2008, and will further decrease to 2.1% on April 1, 2009 and to 1% on April 1, 2010.

Current as of January 31, 2009