Compensation Strategies

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COMPENSATION STRATEGIES – WHERE ARE WE NOW AND WHERE ARE WE GOING?

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Over the past few years, the government has renewed their focus on owner-managed businesses and their compensation strategies. As such, business owners and their advisors may be more motivated than ever to get creative in compensating not only shareholder-employees (who are subject to more limitations, due to, for example, the extended Tax on Split Income regime), but also arm's length employees. With increased attention from the government, creative strategies also face a greater risk of CRA scrutiny, making it more important than ever to dot the i's and cross the t's.

In this paper, we will discuss owner-manager compensation covering broad trends and issues to consider in determining optimal compensation. We will then focus on specific issues arising as the workforce transitions largely to working from home, identifying concerns regarding deductibility of expenses for employees, possible compensation structures, and other matters arising as a result. Finally, we will provide an update on employment and shareholder benefits coming from the Courts and CRA interpretation of the law.

More specifically, we will cover the following:

PART 1 – The Current State of Integration
PART 2 – Salary-Dividend Planning Considerations
PART 3 – Tax Issues when Working from Home
PART 4 – Employment and Shareholder Benefits Update

Some of the below commentary is derived from previously published articles from the Video Tax News (VTN) Monthly Tax Update, all of which were authored and edited by the authors of this paper. These are used herein with the permission of VTN.

This paper will provide references to the Income Tax Act, Court cases, CRA, and other sources, within the actual text, rather than as footnotes.

PART 1 – THE CURRENT STATE OF INTEGRATION

"The Canadian income tax system is designed so that the combined corporate and personal tax paid on income earned through a corporation and distributed to individual shareholders is equal to the income tax that would have been paid if the income had been earned directly by the individuals." This statement, taken from Laura Gheorghiu and Malya Amghar's analysis of "The Decision To Incorporate," in *Taxation of Private Corporations and Shareholders*, 5th ed. (Toronto: Canadian Tax Foundation, 2020), summarizes the theory of integration, a longstanding principal of Canadian tax policy.

The key mechanism which aims to equalize the total tax between direct earnings and the combination of corporate earnings and dividend distributions, is the dividend tax credit (DTC, Section 121) and associated gross-ups (Paragraph 82(1)(b)). If the system were perfect, the gross-up would result in the individual reporting the pre-tax corporate income, and reducing the personal tax cost by dividend tax credits (federal and provincial) exactly equal to the corporate taxes paid.

Integration is not perfect. There are a number of reasons why this mechanism does not achieve perfect integration, such as:

- **Multiple corporate tax rates** – There are two dividend mechanisms (eligible and non-eligible), but three key rates of federal corporate taxation (the general rate, the small business rate and the rate applied to investment income of CCPCs);

- **Timing** – Personal and corporate rates change over time. Integration is based on the concept that both the corporate income and the resulting personal dividend are received in the same period, and under rates that correspond to each other;

- **Multiple personal tax brackets** – There are multiple personal tax brackets, yet DTC relief is measured and targeted to provide integration at a single personal bracket, the highest;

- **Provincial/Territorial complications** – Federal assumptions of corporate rates are required to determine the gross-up. As the federal and each of the provincial governments make their own tax policy and rate decisions, it is impossible to set a gross-up rate which aligns precisely with pre-corporate tax earnings. Also, at times, governments (especially provincial ones) do not uphold the principle of integration (whether intentionally or otherwise) in respect of adjustments to the DTC when corporate tax rate changes are made;

- **Policy decisions** – In some cases, the government chooses to limit the principals of integration. One example is the taxation of personal services business income, which abandons the principal of integration to achieve anti-avoidance policy objectives. With every variable that pulls a taxpayer further from perfect integration, comes the opportunity for savings, or alternatively, the risk of higher tax.

In conjunction with the integration charts included as an Appendix, this portion of our paper is intended to provide a high-level view of the state of integration, along with some key considerations for the 2020 year. In addition, we will consider the impacts of integration where the individual shareholder's income does not place them in the highest tax bracket for their jurisdiction.

There are two key elements to integration to consider – the deferral, and the flow-through tax cost/savings.

The deferral is the additional personal tax which would have to be paid (at the applicable marginal rate) in excess of the corporate tax on the same earnings. We will refer to this, simply, as "the deferral". The government accepts, and occasionally even promotes, this deferral on active business income as allowing corporations to retain more income after taxes to reinvest in their business operations, contributing to growth in the economy, and in employment opportunities for Canadians. They are less accommodating of growth in the business owner's investment portfolio, restricting the deferral by denying the general rate reduction (Section 123.4) and imposing a 10 2/3% surtax (Section 123.3) on investment income earned by a CCPC. Part IV Tax (Section 186) similarly removes the deferral advantage on portfolio dividends from Canadian corporations.

Similarly, income from a personal services business (PSB , defined in Subsection 125(7)) is denied access to the small business deduction (SBD, Section 125) and the general rate reduction (Section 123.4), and further subjected to an additional 5% corporate tax (Section 123.5), raising the federal corporate tax rate to match the top federal personal tax rate.

The flow-through tax cost is the additional total tax (personal and corporate) that would be paid on flowing the income through a corporation (i.e. paying corporate tax), and then paying the remainder out as a dividend (i.e. paying personal tax) in excess of the personal tax that would be paid had the same earnings been solely received personally. This is also commonly referred to as "under-integration". The flow-through tax savings is the opposite – combined corporate and personal tax is lower than would be paid on income earned directly. This is commonly referred to as "over-integration". In this paper, the results of this calculation will be referred to as the "FT cost/savings".

To maintain integration, a portion of the tax on investment income is recoverable as a dividend refund through the Refundable Dividend Tax On Hand mechanism (Section 129), recently amended to divide RDTOH into two pools and restrict its recovery through payment of eligible dividends, an issue canvassed in other CTF presentations and articles. However, the additional corporate tax paid on PSB income is not recoverable, providing a powerful disincentive to incorporation of employment income or, where it is incorporated, a strong incentive to immediately distribute all income as salaries to the "incorporated employee".

All comments on integration below assume a top marginal tax rate for the individual unless otherwise stated. This is consistent with traditional integration charts and analysis.

Overall status/trends – small business income

Income eligible for the federal small business deduction (SBD) rates do not generally have an FT cost/savings greater than 1% across the country. The FT cost/savings calculated at the top marginal bracket does not vary significantly when compared to calculations at lower marginal brackets. This means that factors outside of pure integration calculations will be required to make owner/manager remuneration decisions.

From a deferral perspective, opportunities are large, and have been increasing. This is partially due to a general trend across the country over the past decade to increase top personal tax rates, but decrease corporate rates, especially the SBD rate. The federal SBD rate reached 9% in 2019 (remaining the same in 2020), which is the lowest that it has been for over 30 years. The federal general rate is also near an all-time low at 15%. At the same time, personal tax rates have been significantly increasing over the past 10 years.

Overall status/trends – general rate income

Income subject to the general rate typically has an FT cost, and that cost can reach 8.53% (Newfoundland and Labrador). The only province with a savings is New Brunswick, and it is only 0.51%. This means that the deferral and the particular factors of the case must overcome the absolute cost for the relevant province in order for the dividend route to be selected. In other words, there is generally a slight motivation from an absolute integration cost perspective, to bonus down to the SBD limit, especially if the income will be distributed as dividends in the short term.

Overall status/trends – investment income earned by CCPCs

This income category, referred to in this paper as "investment income", includes non-business income from property and specified investment business income, but excludes Canadian dividends. Due to the refundable dividend tax on hand (RDTOH) regime, there is, on average, a slightly negative deferral for those exposed to the top marginal rate. The negative deferral increases significantly when considering a shareholder who is not in the top tax bracket. As such, there is generally no direct deferral advantage on such earnings.

From an FT cost/savings perspective, the situation is even less enticing. The average FT cost across the provinces and territories in Canada is 5.26%. In other words, a taxpayer is paying 5.26% more in tax if the investment is held in a corporation as compared to holding it personally. In addition, the introduction of the adjusted aggregate investment income rules (applicable to taxation years commencing after 2018) has created a further disincentive to invest passively through a corporation. Adjusted aggregate investment income in excess of $50,000 will reduce the next fiscal year's SBD room at a 5:1 rate.

The above would mean that there is significant disincentive, from both a cash flow and tax cost perspective, to inject capital into a corporate structure for passive investment purposes. However, this does not mean that taxpayers are better off immediately pulling capital out of the corporation. Taxpayers would first have to incorporate the tax cost of such withdrawals when extrapolating future earnings on the reduced investment base. In the long run, keeping a larger pool of capital in the corporation may be more beneficial, even if the annual tax rates on the earnings are higher.

The reason for deterioration in integration is simple. When governments reduce the corporate tax on SBD income, which has occurred frequently in recent years, they generally also increase the personal tax on non-eligible dividends to compensate. However, the corporate tax rate on investment income has not been similarly reduced.

Overall trends – personal services business

While there is a range of deferrals (with one jurisdiction reflecting corporate tax in excess of the top personal tax rate), the ultimate FT cost of PSB income is significant in all provinces, even if the income is distributed as eligible dividends. As most PSB filings are undertaken in the belief that the corporation is earning ordinary active business income, dividends are not normally designated as eligible, and it is questionable whether CRA would exercise their discretion to permit a late designation (Subsection 89(14.1)).

Worse, consider the possibility that the corporation has paid dividends equal to the corporate equity after SBD taxation, all as non-eligible dividends. The individual shareholder doubtless is non-arm's length to the corporation, and can be assessed personal liability for the additional corporate tax costs (Section 160) with no potential for such an assessment ever becoming statute-barred.

Overall trends – active business income eligible for provincial the SBD, but not the federal SBD

For 2020, there are three provinces in which corporations may be eligible for the provincial SBD, but not the federal SBD: Saskatchewan, Ontario, and New Brunswick.

As of 2019, Saskatchewan has introduced a $600,000 SBD limit. This means that that a corporation can potentially earn $100,000 which is eligible for the provincial SBD, but not the reduced federal rate. Ontario and New Brunswick have decided not to mirror the federal changes which would erode the SBD limit where adjusted aggregate investment income exceeds $50,000. This means that up to $500,000 of income could be eligible for the provincial SBD, but taxed at the general rate for federal tax purposes.

While the tax deferral will be less than the deferral available on income eligible for both federal and provincial small business deductions, there is a significant FT tax savings.

In this case, the increased federal corporate tax cost (non-SBD) up front will result in a higher General Rate Income Pool (GRIP) permitting future payment of eligible dividends, which will reduce the personal tax cost. Eligible dividends will also produce a higher provincial dividend tax credit. Therefore, at the provincial level, low rate corporate tax will be paid, but shareholders will also benefit from the low tax rate on the future distribution of eligible dividends. The flow through tax savings for Saskatchewan, Ontario, and New Brunswick for individuals in the top bracket are 4.72%, 2.33% and 6.66% respectively. Therefore, in Saskatchewan, there is a significant disincentive to bonus down below $600,000 of income. In Ontario and New Brunswick, there is an incentive to earn/trigger passive income in excess of $50,000 in order to generate more active business income eligible for the provincial SBD, but not the federal SBD. Two possible approaches for doing this are to trigger capital gains on passive assets, or to inject more investment capital. Note that this benefit only exists to the extent that additional investment earnings reduce the federal small business deduction limit below active business income otherwise eligible for the federal SBD.

While there is a 4.80% tax cost on investment income earned in Ontario, each $1 of investment income allows $5 of active business income to achieve a 2.33% tax savings (5 x 2.33% = 11.65%). In New Brunswick, the 5.94% cost on each $1 of investment income allows $5 of active business income to achieve a 6.66% tax savings (5 x 6.66% = 33.30%), for an even more beneficial result. A corporation in a position to access this strategy will have sufficient equity to recover all RDTOH on its investment income.

In other words, losing a 6% deferral (the difference between the federal general and SBD rates) can result in a significant FT tax savings in these provinces.

Lower tax brackets

From an active business income perspective, the DTC and dividend gross-up regime is intended to make shareholders already in the top marginal bracket, impartial as to whether a dividend or salary should be taken (in general). However, the absolute cost to pursue the dividend route generally decreases (or savings increase) the lower the bracket rates. The exceptions are income in Quebec subject to the SBD rates, and income taxable at general rates in New Brunswick, Nova Scotia, Newfoundland and Labrador, and PEI. However, it is important to note that almost all variances in FT costs/savings by bracket for a particular jurisdiction do not range by more than 1%. As neither the dividend tax credit nor the corporate tax rates vary with personal income levels, it is only the failure of the gross-up to precisely match the corporate tax which causes these variations.

What does vary greatly is the amount of deferral available. For those in the top marginal bracket, the deferral can be as high as 42.5% (BC). On the other end of the spectrum, those in lowest brackets may actually see a negative deferral on income not eligible for the SBD. No jurisdictions will have negative deferrals in respect of income eligible for the SBD.

Note that when using the marginal tax rate brackets, the reported deferral and tax cost/savings are only generally applicable to the point that the corporate income in question would increase personal income to the next tax bracket. However, since there is very little variation in FT cost/savings between brackets, the FT tax cost/savings rate for the first applicable bracket would be a good indicator of the final impact, even if the income in question would push the individual into higher brackets.

The attached Appendix reflects the effective tax deferral and overall FT tax cost/savings in respect of active business income for each of the shareholder's possible personal tax brackets.

PART 2 – SALARY-DIVIDEND PLANNING CONSIDERATIONS

As indicated above, there is not generally an absolute FT tax savings incentive to flow earnings through the corporate tax system and pay dividends. It is fairly neutral. Even for income earned and distributed in the same year, this factor is not likely to drive the choice between salaries and dividends.

The integration tables do, however, demonstrate the significant value of the potential tax deferral. Therefore, if there were no other factors considered, the deferral possibility would likely push most business owners not requiring additional cash for personal spending to receive dividends later, rather than salaries now.

Salary-dividend planning: non-integration considerations

However, as with most tax issues, things are not so simple. There are numerous other factors which could significantly affect the decision. In order to mimic an actual meeting with a client (and provide some structure to our paper), we've grouped the factors into various topics of conversation: immediate costs, other deductions and credits, personal life, retirement savings, low tax brackets, risk of business failure, administrative or organizational sophistication, involvement in the business and other considerations.

Immediate costs
Paying salaries generally comes with more additional immediate costs than dividends.

Factors encouraging dividends:

- **CPP** will have to be withheld, and a matching employer component will have to be paid. This totals 10.50% of the first $58,700 of earnings for 2020 (less the $3,500 basic exemption amount). Rates and amounts are scheduled to increase annually through 2025 (see details at https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-enhancement.html). Note that if an individual has already reached the minimum number of years required at full contribution levels (39 years), paying more into the CPP system may not result in greater future benefits. However, it is important to note that beginning in 2019, an enhanced portion was required. Payment of these enhanced portions would transition individuals from a CPP payout which targeted 1/4 of average work earnings to one that targets 1/3 of average work earnings.

- **Payroll/health tax costs** for Ontario, Manitoba, BC, Quebec and Newfoundland and Labrador must be considered. The EHT in Ontario starts with 0.98% on the first dollar of payroll in excess of the $490,000 exemption, and peaks at 1.95% for every dollar that is over $400,000 over the exemption. The exemption for 2020 has been increased to $1,000,000 in light of COVID-19. The EHT in BC starts at 2.925% of payroll between $500,000 and $1,500,000, and is calculated at 1.95% of the total payroll if it is greater than $1,500,000 (https://www2.gov.bc.ca/gov/content/taxes/employer-health-tax/employer-health-tax-overview). The Manitoba Health and Post-Secondary Education Tax Levy starts at 4.3% of payroll between $1,250,000 and $2,500,000, and is calculated at 2.15% of the total payroll if it is greater than $2,500,000 (https://www.gov.mb.ca/finance/taxation/taxes/payroll.html). The Quebec Health Fund contribution rate is a more complicated calculation based on the entities activities and payroll level, but generally ranges from 1.25% to 4.26% (https://www.revenuquebec.ca/en/businesses/source-deductions-and-employer-contributions/calculating-source-deductions-and-employer-contributions/contribution-to-the-health-services-fund/). The Newfoundland and Labrador Health and Post-Secondary Education Tax is 2% with a $1,300,000 exemption threshold (https://www.gov.nl.ca/fin/tax-programs-incentives/business/education/). With the state of provincial financing as we emerge from the COVID-19 pandemic, these rates may increase, and other provinces may consider similar taxes.

- **Other employee costs** also may be applicable in particular jurisdictions or workspaces. For example, workers compensation or safety insurance (the exact name varies across the country) may also be required for employees. In some cases, payments are also required in respect of owners that receive dividends.

Other deductions and credits
Some deductions are available against salaries, but not dividends, or otherwise carry different income tax results depending on the methodology selected.

Factors encouraging salaries:

- **Child care costs** cannot be deducted against dividends, but they can be deducted against salaries (Section 63).

- **Moving expenses** cannot be deducted against dividends, but they can be deducted against salaries (Section 62).

- The **disability supports deduction** is available for costs incurred to assist in earning employment or business income, and requires earned income to be deductible (Section 64).

- **Employment expenses** are generally limited to employment income earned (Section 8).

- **Alternative minimum tax** (AMT) is computed with no dividend tax credit or gross-up. Receipt of dividends, especially eligible dividends, can exacerbate an existing AMT concern, or delay recovery of AMT paid in previous years (Section 127.5).

Factors encouraging dividends:

- **Cumulative net investment losses** which can impede access to the capital gains deduction are reduced by dividends, but not by salaries (Subsection 110.6(1)).

- **RDTOH** accumulated on a CCPC's investment income can be recovered by payment of dividends (Section 129).

Personal life
Many non-tax issues may also be affected by the choice between salaries and dividends.

Factors encouraging salaries:

- As the **Canada child benefit** is eroded by net income, the dividend gross-up can result in reduced eligibility for these benefits (Section 122.6).

- **Provincial benefits**, including some for families with children, are sometimes dependent on earned income which includes salaries, but not dividends.

- **Disability insurance** coverage is generally more straightforward to obtain on salaries than on dividends.

- **Mortgage and loan applications** can often be improved where a consistent level of salaries is demonstrated.

Factor encouraging dividends:

- **Disability insurance** benefits may be reduced by earned income, such as salaries, but unaffected by dividends.

Retirement savings
The types of vehicles that a taxpayer prefers to use to finance retirement will influence the decision.

Factors encouraging salaries:

- **CPP retirement and disability** payments are based on pensionable earnings which can only be generated with salaries, not dividends. For those individuals who spend money as fast as they earn it, CPP may form the backbone of their retirement income – unless they adopt a "dividends-only" tax strategy.

- **RRSP and Individual Pension Plan** contribution room is generated by salaries, not by dividends. On the other hand, simply retaining the cash in the corporation rather than contributing it to an RRSP can offer extra investment flexibility as it is not restricted by the RRSP rules.

Low tax brackets
If the taxpayer has no other income, or is in a low tax bracket, earning small salaries could increase credits and benefits, while earning too much could erode them.

Factor encouraging salaries:

- The **maximum Canada employment tax credit** is obtained once an individual receives $1,245 for 2020 in employment income (Subsection 118(10).

- The **Canada workers benefit** is maximized once working income (including salaries but not dividends) reaches about $9,000 and begins to decline at a 12% rate at approximately $13,000. Actual dollar figures vary by province (Section 122.7).

- **Refundable medical supplement** are available to some low-income individuals who have earned income (Section 122.51).

- **Dividend tax credits** may be wasted (Section 121). When income levels are too low, the dividend tax credits may not be able to be fully utilized, meaning that the taxpayer will not receive full credit for the corporate tax paid. This can result in an overall higher amount of tax paid between the corporation and individual. The potential for this loss is not incorporated into the integration tables, which assume the full dividend tax credit is accessible at lower marginal rates.

- The **age credit** (Subsection 118(2)) is eroded by 15% of net income in excess of $38,508 for 2020.

Risk of business failure
If there is a higher risk of business failure, the way in which a shareholder is remunerated could expose them to liability or additional tax.

Factor encouraging salaries:

- **Section 160 protection** is available for salary but not dividend payments. Where a person receives assets (including dividends) from a non-arm's length person who owes taxes, the recipient becomes jointly and severally liable for the transferor's tax debts. This liability is limited to the excess of the fair market value (FMV) of the property received over the consideration provided for the property (which would likely be $0 in the case of a dividend).

Factor encouraging dividends:

- **Losses carried back** will generate reduced tax recoveries if the corporation bonused down to the SBD limit, or bonused out most or all of its income (Paragraph 111(1)(a)).

- **Unusable losses** may be generated if a salary is taken and there is no expected positive earnings against which it can be offset (Paragraph 111(1)(a)). This will effectively mean that personal tax will be paid without the tax benefits of a corporate tax reduction. Paying a dividend will at least subject the shareholder to a lower personal tax rate. Note that the ability to pay a dividend is generally a function of provincial corporate law, which generally turns on whether it restricts other shareholders rights and corporate liquidity, rather than whether it is a distribution of profits. Having said this, such a dividend payment could also subject the shareholder to other liability outside of the tax context.

Administrative or organizational sophistication
Higher levels of sophistication and organization render the following points less important. However, if the taxpayer does not have these resources or skills, these complexities can significantly impact their operations and profitability.

Factors encouraging salaries:

- **Less surprises will occur at tax time** if regular salary is taken and the remittances are automatically submitted (Section 153). On the other hand, if dividends are paid, not enough cash may be on hand to pay the associated personal tax bill when due.

- **Personal instalment payment** requirements may be triggered if dividends are paid since is a higher chance that more than $3,000 will be due when filing personal tax returns (Section 156).

- **Corporate instalments** will also be increased where a dividend payment strategy is followed (Section 157).

Factors encouraging dividends:

- **Registration for a payroll account** will be required if salaries are to be paid. Of course, the impact of this is reduced if there are other employees and an account would have to be set-up anyways.

- **Payroll tax penalties** are significant, and strictly applied. If the taxpayer has challenges with keeping organized and making regular remittances, the penalty costs range from 3%, rising to as much as 10% if more than 7 days late (Subsection 227(9)). Further offences in a calendar year may cost 20%.

Involvement in the business
The taxpayer's level and type of involvement in the business will dictate whether, and to what extent, they are at risk of having negative tax consequences assessed for things like non-taxable allowances, tax on split income and personal services business. The remuneration method chosen may support the taxpayer's position, or reduce exposure, in cases of an adverse decision.

Factors encouraging salaries:

- **Non-taxable benefits and allowances** (such as participation in a private health services plan and the receipt of non-accountable reasonable travel allowances) are available if received in the shareholder's capacity as an employee. Although an individual could be an employee on an unpaid basis, receiving salary provides further support that the individual was an employee, and thus the position that benefits were received in an employment capacity.

- **Tax on split income** (TOSI, Section 120.4) can be assessed at the highest marginal tax rate on the receipt of dividends, but not on salary (unless the "salary" is considered to be a benefit of shareholdings, and therefore an income inclusion under Section 15). However, salary still needs to be reasonable to be deducted. Further, receiving a salary could support, or at least be consistent with, assertions that the taxpayer is sufficiently engaged in a business to access the "excluded business" (defined in Subsection 120.4(1)) exception from TOSI. As well, for a taxpayer who has received significant dividends prior to the advent of TOSI, the fact that a "reasonable return" (Subparagraph (g)(ii) of the definition of excluded amount in Subsection 120.4(1)) looks at the taxpayer's history of contributions and receipts from the corporation may preclude payment of dividends. The reasonableness of a salary for current year services is not eroded by past receipt of dividends.

- **Personal services business classification** (defined in Subsection 125(7)) can significantly increase the overall tax costs as demonstrated in the final two columns of the integration charts. The payment of salaries reduce the level of income that is exposed to these overall higher rates. If there is a chance of reclassification to a personal services business, and only dividends have been taken, the corporation would be subject to the higher tax rate on all income if reassessed. If CRA permits the dividend(s) to be reclassified as eligible rather than non-eligible (which moves us from the final column scenario in the chart to second last column), the overall impact is lessened, but still significantly negative. Given the negligible FT savings/cost of receiving salaries rather than dividends, taking drawings as salaries rather than dividends is a relatively low-cost strategy for reducing the impact if the taxpayer were later perceived as carrying on a personal services business.

Factors encouraging dividends:

- **Salaries/bonuses must be reasonable** to be deductible (Section 67). For actively engaged owners of a business generating active business income, generally any amount is considered reasonable. However, if the owner is not active, or if the corporation is generating specified investment business income, this blanket administrative concession from CRA will not apply. The advent of TOSI has significantly reduced the impact of this factor by adding a reasonableness standard to many dividend strategies.

Other considerations

Factors encouraging salaries:

- **Highly taxed streams of corporate income** may be reduced by salaries and wages. For example, investment income is taxed at over 50% in most jurisdictions, personal services business income results in an at least 11% additional tax cost in all jurisdictions, and income derived from essentially non-arm's length entities (specified corporate and partnership income rules, defined in Subsection 125(7)) are not eligible for the small business deduction. However, when reducing such streams of income by wage costs, it is important to be able to demonstrate how the wage ties to that specific stream, and that the remuneration is reasonable.

- **Government benefits and supports (either current or potential), may be dependent on payroll**. For example, eligibility and level of support under the Canada Emergency Wage Subsidy (CEWS, Section 125.7), and the "payroll stream" option under the Canada Emergency Business Account (CEBA) are dependent on payroll not only during the programs, but prior to their announcement. Given that there has been a recent trend towards supporting employment, paying salary may not only assist with current support applications, but also with future programs.

- **Multiple shareholders of a particular class** of shares reduce flexibility of dividend declarations since dividends for the shareholders must be paid in proportion to their holdings of that particular class of shares.

- **Corporate tax liability due dates are expedited** from three months after year-end to two if a CCPC's income exceeds its small business deduction limit (or that of the associated group) (Paragraph 157(1)(b)). If timing of payment is a concern, bonusing down to the small business limit retains the extended payment deadline.

Neutral factors:

- **Provincial/territorial mismatch of corporate vs personal tax liabilities** can either create opportunities for tax savings, or cause additional tax, depending on the type of remuneration paid. If the corporation is subject to tax in a jurisdiction with high corporate rates, but the individual shareholder is resident in a jurisdiction with low rates, taking a salary does double duty. It reduces overall corporate income to be taxed at the higher rates. Also, it can shift the portion of corporate income that is to be taxed in that higher rate jurisdiction to the lower rate jurisdiction based on the gross income/salary allocation calculation (assuming there is a permanent establishment in the individual's home province/territory, Income Tax Regulation 400(3)). On the other hand, if the corporation is in a low corporate rate jurisdiction, and the individual shareholder is located in a low dividend tax rate jurisdiction (usually meaning a high corporate rate jurisdiction), the payment of dividends would likely produce a better overall tax result.

Timing and level of remuneration

As indicated previously, one of the most significant advantages of using a corporation for income generating operations is the opportunity to defer and time the personal income tax inclusions. When determining how much income should be taken, consider the following:

- **Use of lower marginal tax brackets** is important in our progressive income tax system. Receiving and reporting additional income in a low-income year allows the accumulation of a shareholder loan balance to be drawn in lieu of higher personal income in a higher income year. At very low income levels, it is even more important to ensure that personal tax credits (both federal and provincial) are not wasted.

- **Canada child benefit** (CCB) is dependent on the number of children, their ages, and family income (Section 122.6). Since dividends are grossed up, net income will be higher, therefore there will be a greater grind to the CCB (however, this may be negligible if comparing it to the level of salary that would be required to leave the shareholder in the same position). On the other hand, retaining cash in the corporation and paying particular attention to the timing of dividends could result in lower income levels for particular years, thereby enabling greater CCB.

- **Old Age Security** (OAS) for June 2021 to June 2022 is reduced by 15% of each dollar of net income in excess of $79,054 (Section 180.2)**.** Dividends inflate net income more than salaries due to the gross-up. However, being able to retain income in the corporation to reduce grinds to OAS will garner a 15% savings. Seniors with very low income will generally see their eligibility for the Guaranteed Income Supplement eroded with every dollar of additional income. Many provincial benefits for seniors are also income-tested.

- **Employment insurance** benefits must be partially repaid where net income exceeds 125% of maximum yearly insurable earnings ($54,200 x 1.25 = $67,750 for 2020).

- **The Canada Recovery Benefit** must be repaid at 50 cents for every dollar of income in excess of $38,000 for the calendar year (this will only impact 2020 and 2021 based on current proposals)

- **Various other personal costs vary** depending on personal tax return income level, such as municipal facilities and transit passes and nursing home/care home fees.

- **Investment within the business** is broadened due to the higher level of capital available. Of course, nothing prevents the shareholder advancing salaries or dividends (net of the personal tax costs) back to their corporation as a loan.

- **Expected tax rate changes** can cause an inflated tax bill, or create a planning opportunity. For example, if you know that personal rates will be changing in the subsequent year (as we did, for example, in late 2015), you can time the payment to be just before, or just after, depending on your preference. Further, this added timing flexibility provides more opportunity for smoothing income such that lower marginal tax brackets are fully utilized. Similar planning can be undertaken when dividend tax credits will change in a future year.

- Note that **bonuses must be paid** within 180 days of year end to be deductible (Subsection 78(4)), and source deductions are due shortly thereafter (IT109R2). Dividends can be declared and paid at any time. Of course, shareholders withdrawals that are not included in income (via either bonus or dividend), will eventually become a shareholder income inclusion (Subsection 15(2)) if not repaid by the end of the next fiscal period.

Strategy – Taking at least a minimum salary level

One strategy that is being more commonly employed is taking at least a minimal salary, and then choosing whether the remainder should be taken as a dividend or salary. Taking at least a minimal salary achieves the goals of many of factors above that encourage salary taking, while at the same time give the opportunity to take advantage of dividends. For example, taking a salary of at least $6,000 enables the employment tax credit claim, allows for some childcare/moving deductions, and entitles the individual to the insurance of CPP disability benefit, while only costing nominal CPP (given that there is a $3,500 exemption) and tax leakage on integration, if any.

Taking a regular salary to cover personal living expenses, and remitting regular source deductions, also reduces the stress which often accompanies the requirement to deal with significant drawings at the time of year-end financial statement and tax return preparation.

PART 3 – TAX ISSUES WHEN WORKING FROM HOME

As we continue to practice physical distancing, many employees are working and will likely continue, to some extent, to perform their employment duties at home. In fact, a Statistics Canada report (https://www150.statcan.gc.ca/n1/daily-quotidien/200417/dq200417a-eng.htm) from late March 2020, found that 4.7 million Canadians started to work from home due to the pandemic. Considering those who normally work from home, approximately 6.8 million (about 40% of Canada's workforce) were working from home.

This significant shift has presented a number of tax implications, as well as concerns, some of which have, or will be, addressed by CRA, and others which we expect the Courts to address in the coming months and years.

Home office expenses

In order for home office expenses to be deductible against employment income, the employee must be required by contract (Paragraph 8(1)(i)(iii)) to incur such expenses, and one of the following has to be met:

i. The home is where the employee principally (more than 50% of the time) does their work (Subparagraph 8(13)(a)(i)); or
ii. The employee uses the space exclusively to earn employment income, and it is used on a regular and ongoing basis for meeting clients, customers or other people in the course of performing employment duties (Subparagraph 8(13)(a)(ii)).

In addition the employer must provide a T2200 form certifying the requirement that the employee incur expenses in the course of her employment (Subsection 8(10)). CRA's policy specific to owner-managers and related persons, is that the individuals must be required to pay for the expenses personally as part of their employment duties (see below discussion on a recent CRA project to that effect).

Similar requirements exist for deductions against business income (Subsection 18(12)). CRA has noted that these restrictions do not extend to deductions from property income (Paragraphs 2.45 and 2.46 Folio S4-F2-C2, Business Use of Home Expenses (https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-4-businesses/series-4-businesses-folio-2-deducting-business-expenses/income-tax-folio-s4-f2-c2-business-use-home-expenses.html). The focus of this paper is on the deduction against employment income, unless specifically noted otherwise.

Where the employee principally works
Given that the COVID-19 pandemic has required many to work from home, many more will likely be eligible under (i) than in previous years. However, one question is whether the work space must be the main place of work in context of the entire year or just a specific period, such as the several months dictated by preventative COVID-19 measures.

A Technical Interpretation from September 10, 1996 (#9620507), softly addressed this concern. CRA stated that "in circumstances where an employee satisfies the eligibility criteria for a portion of the year, a reasonable claim in respect of that portion will be permitted." CRA also opined that the T2200 simply asks the employer whether the employee was required under a contract of employment to use a portion of his or her home. If there is, in fact, a contract or agreement which requires the home work space as one of the conditions of employment (whether part of the main contract or a separate agreement), then the employer may so certify. The Act does not require the employer to consider whether an employee performs the duties of the office or employment "principally" in that office for the purposes of completing a T2200.

As this position is over 20 years old, there is a question as to whether it still represents CRA's administrative position. Hopefully, CRA will provide current guidance on their interpretations, both in general and in light of the COVID-19 pandemic, before the personal income tax preparation season begins.

For the many employees who were forced to work from home due to the pandemic, and do not maintain a segregated work space used exclusively for working, the question of whether they can qualify under the first criteria on the basis they performed their employment duties "principally" at home for a portion of the year is crucial.

Meeting customers on a regular and ongoing basis
In a December 10, 2013 Technical Interpretation (2013-0481171E5, Underhill, C.), CRA stated that the phrase "meeting customers or other persons" includes only face to face encounters. However, the Tax Court has held that telephone meetings can also establish eligibility in several informal procedure cases (see Jenkins vs. H.M.Q. (2005 TCC 167), Vanka vs. H.M.Q. (2001 CanLII 2096 (TCC)), Molckovsky vs. H.M.Q. (2004 TCC 13), Landry (2007 TCC 383), Ryan vs. H.M.Q. (2006 TCC 132), or Hemond (2003 TCC 705 , for example). In light of the government encouraging physical distancing and limiting face-to-face interactions, employees will likely be engaging in more virtual meetings. Given the growth in virtual meetings online, as well as telephone meetings, hopefully CRA will take this opportunity to transition their historical position, which has never been upheld by the Tax Court, into the realities of remote communications.

In CRA's Folio S4-F2-C2, Business Use of Home Expenses, CRA discussed their interpretation of the required frequency; "regular and continuous basis". They note that a doctor meeting two clients each week would not be sufficient, but meeting 5 patients each day for 5 days each would be. While the comments relate specifically to businesses, the same concept would apply for employees.

Requirement to incur the cost – T2200
Many employers have expressed concern with respect to the administrative burden associated with issuing T2200s for all employees eligible to claim home office expenses.

While a T2200 is technically required, a February 20, 2018 Tax Court of Canada case (Chao vs. H.M.Q., 2018 TCC 72) provided comments where an individual wished to claim employment expenses but did not provide the T2200 certifying the requirement for them to incur expenses in the course of their employment. The Court indicated the legal maxim that "the law does not require the impossible" also applies and could permit claiming employment expenses without a T2200. However, "a very high standard of effort to comply with the law would be required". Further, where an employer refused to provide a T2200, it would need to be shown that this was unreasonable, or in bad faith. These efforts to obtain the form would have to be made before the tax return is due, as the form is required to be submitted with the tax return or retained in case CRA wishes to see it.

While this does not provide much scope for alleviating the administrative burden for employers, it may at least provide some relief where the employer is a casualty of the economic fallout of the pandemic, and is not around to provide a T2200 for its employees.

Requirement to incur the cost – contract of employment
In a March 19, 2019 Technical Interpretation (2018-0758641E5, Baltkois, Thomas), CRA noted that there is no requirement that the contractual term be in writing. Where the employee can demonstrate that there was an implied requirement that the expenses be incurred, and that they were necessary under the circumstances, these expenses would be deductible. See the Federal Court of Appeal case (Urquhart vs. H.M.Q., 2016 FCA 76) where such an implicit requirement was reviewed.

However, a deduction for such home office expenses would not be permitted where an employee has an option to pay such expenses, or where reimbursements and allowances are available in respect of the expenses, even if the employee chooses to forgo them.

Broader Issues – This may be a concern for employees whose employer allowed them the option of working from home or coming in to the office. Technically, they would not meet this condition. Where the employer was required to close (for example, due to public health orders or bylaws), or chose to shut down for a period of time during the pandemic, it seems like any employee required to continue working was required to provide a work space somewhere. Perhaps the fact that CRA closed its own offices for many weeks, requiring its employees to work from home, will generate some sympathy for taxpayers employed by other organizations in similar circumstances.

Maximum deduction
The maximum deduction (Paragraph 8(13)(b)) for such expenses is limited to the amount of employment income remaining after all other employment expenses have been deducted; a taxpayer cannot use work space expenses to create or increase a loss from employment. Also, the taxpayer can only deduct work space expenses from the income to which the expenses relate and not from any other income.

Amounts not deductible for this reason can be deducted in the following year as long as the taxpayer is reporting income from the same employer and as long as no loss is created or increased (Paragraph 8(13)(c)).

Deductible expenses
Only certain expenses can be deducted as home office expenses for employees. This includes, for example, the portion of costs related to the work space, including the cost of electricity, heating, and maintenance as they are considered the cost of supplies consumed directly in the performance of employment duties (Subparagraph 8(1)(i)(iii)). While property tax and home insurance cannot be claimed against regular salaried income (as these are not considered supplies consumed), they can be claimed against commission income, as commissioned salespersons enjoy broader access to deductions (Paragraph 8(1)(f)). Mortgage interest, and CCA cannot be deducted at all as they are capital costs.

Expenses for a work space in the home incurred to earn business income, are not subject to these restrictions (Subsection 18(12)), however some claims can have other costly consequences, such as CCA impairing the ability to access the principal residence deduction on that portion of the home.

Internet and phone expenses
CRA also does not accept a deduction for a phone line that is not used exclusively for employment purpose, nor does it allow monthly access fees for home internet service. CRA takes the position that these are personal costs, with no incremental cost for employment or business use. However, a July 23, 2018 Tax Court of Canada case (Harris vs. H.M.Q., 2018 TCC 148) allowed 80% of the home internet charges as a deductible business expense given the technologically intense nature of the taxpayer's business.

Where the employee was already paying for internet access for personal use, and incurred no additional cost due to working from home, CRA may consider no deduction to be available. However, many of us have experienced situations where we must ask family members to log off from the home internet (or we are asked to log off) to free up bandwidth for employment-related teleconferencing or other uses of bandwidth. This seems to suggest a partial switch from personal to employment/business usage.

Where the employee was required to incur incremental costs (for example, for higher bandwidth) to accommodate their employment duties, the case for a deduction for at least the incremental costs seems even stronger.

Other potential issues
Beyond tax, a number of recent news articles (for example, https://www.cbc.ca/news/canada/sudbury/work-from-home-insurance-covid19-1.5530509 and https://www.lowestrates.ca/blog/homes/home-insurance-cover-working-from-home-or-home-business) remind individuals that operating a business from their home, which could include workers doing work for their employers from their home, could impact home insurance coverage. Each specific policy should be reviewed. For example, some policies allow for a rider to be purchased to cover this type of activity. Beyond property insurance, if an individual has clients coming to their home, consideration should be given to additional liability insurance in the event of an accident.

In addition, employers may want to review their business insurance to determine whether business assets situated at the employer's home would be covered.

Business use of home – eligible expenses

A November 27, 2019 French Tax Court of Canada case (Hebert vs. H.M.Q., 2019 TCC 266) reviewed various deductions claimed against the taxpayer's business income derived from engineering and arbitration services related to the business use of his home. The taxpayer and CRA had agreed that 35.83% of the home, mainly the basement which was used as a business office, was used for business purposes.

CRA had disallowed gardening and swimming pool maintenance costs which the taxpayer argued were business related as he met clients at his home and sometimes conducted arbitrations in the garden. He also argued that there was no personal use of the pool, but clients sometimes used it. CRA had also disallowed costs for repair and renovation of the living room, which the taxpayer argued made that room suitable for hosting arbitrations.

Taxpayer wins – in part
The Court accepted that the gardening expenses were ordinary home maintenance costs, deductible in proportion to business use of the home (35.83% as noted above), allowing a deduction of $1,271. The pool expenses were not allowed, on the basis these were not ordinary expenses of a business of this nature, and the Court was not convinced that clients used the pool. It was not relevant that the taxpayer and his wife did not use the pool.

Claims for repairs and renovations to the living room were denied as the taxpayer had ample space in the basement office and the garden to host arbitrations and conduct his other business activities. The living room was not part of the floor space making up the agreed 35.83% business portion of the home. As well, the evidence showed the renovations were required to comply with city regulations, including removal of a wood fireplace.

Is the home office a "place of business"?

An individual can deduct travel and/or motor vehicle expenses (Paragraphs 8(1)(h) and (h.1)) if the employee was required under their contract of employment, to ordinarily carry on duties of employment away from the employer's place of business.

As individuals work more and more from home, for many individuals nearly exclusively, there is a question as to whether their home office is considered a place of business of the employer. If so, travel from the place of business at the individual's home to client's locations, or perhaps other places of business of the employer, could be deductible against employment income. Likewise, a reasonable travel allowance received in respect of travel from the place of business at the employer's home to another place of business could be non-taxable (Subparagraph 6(1)(b)(vii.1)).

In an August 15, 2019 Tax Court of Canada case (MacDonald vs. H.M.Q., 2019 TCC 169), at issue was the deductibility of a number of employment expenses (travel, lodging and motor vehicle being three of the largest) incurred by the taxpayer. While a taxpayer was unsuccessful in arguing that his home office was a place of business, some of the Court's comments may be of interest in this respect. The Court observed that the fact that the employee might choose to "squeeze in" work (in this case on some Mondays or Fridays) at his home office did not, without more, constitute the home being an employment location. Clearly, with the COVID-19 pandemic, many employees have been far beyond just "squeezing in" a little bit of work from home.

Change in use – personal space to home office

If an individual converts part of a principal residence into an income-producing space, the portion converted is deemed to be disposed of at fair market value (Paragraph 45(1)(c)). This could be the case where an individual is no longer able to conduct their employment duties at an outside location, and starts operating out of their home.

Historically, in cases of a partial change in use, taxpayers relied on CRA's administrative position not to apply the deemed disposition rule where:

- the income-producing use is ancillary to the main use of the property as a residence;
- there is no structural change to the property; and
- no CCA is claimed on the property.

This policy is still published (as of September 8, 2020) in CRA's Folio S1-F3-C2, Principal Residence.

However, Budget 2019 proposed changes to Subsections 45(2) and (3) which would allow for the existing elections to be used to avoid a deemed disposition on a partial change in use. The change was proposed to apply to changes in use of property that occur on or after March 19, 2019. Prior to this proposal, the election could only be used on a complete change of use of a property.

While released as draft legislation on July 30, 2019, these amendments have not yet been passed into law. There is uncertainty as to if/how CRA's administrative position may change, if the above proposed changes to expand access to the elections under Subsections 45(2) and (3) receive Royal Assent.

Broader Issues – For the time being, practitioners will have to decide whether to file in accordance with the more restrictive administrative position (i.e. there can be no structural change to the property and the income-producing use must be ancillary to the main use of the property as a residence), or in accordance with the proposed expanded election (which will require the filing of an election).

It seems likely that the greater the income-generating proportion of the home becomes, the greater the likelihood CRA might consider a partial change of use to have occurred. This requires the individual to weigh the risks of CRA asserting there has been a partial change of use (and a portion of the property has ceased to be part of the principal residence) against the risks which come with making CRA aware of a substantial claim for a work space in the home by filing an election.

Owner-manager – employment expenses

While the project discussed below originally focused on travel and motor vehicle expenses, CRA's updated administrative position applies to all varieties of employment expenses (including home office) claimed by shareholder-employees and related persons.

For an employee to deduct travel or motor vehicle expenses against employment income, the employee must be normally required to work away from the employer's place of business,
be required to pay the travel expense under the contract of employment, and have a signed and completed T2200 (Paragraphs 8(1)(h) and (h.1)). Also, the employee cannot receive an allowance excluded from income in order to claim an employment expense.

In 2017, CRA began denying travel expenses claimed on the personal tax return of many employees who were also shareholders of the employer or related to a shareholder. This occurred even where detailed receipts, records and logs were provided.

CRA took the position that such expenditures were not truly required as a condition of employment. They stated that due to the relationship between employer and employee, no adverse consequence would arise if the taxpayer did not personally incur the travel expense. Therefore, the expenditures were not truly required.

This position was based on the Tax Court of Canada decision in Adler vs. H.M.Q. (2009 TCC 613). The Court found that the taxpayer, the sole shareholder of his employer, would not be subject to adverse consequences (such as the company suing the employee for breach of contract, taking disciplinary action, or issuing a poor performance review) if he refused to incur employment expenses. As such, the Court opined that the employee chose to incur these expenses personally rather than have the company pay for the expenditures.

After receiving concerns from stakeholders regarding this assessing practice, CRA reversed their assessments, indicating that "clear guidelines for taxpayers and their representatives" were important to the Canadian self-assessment system and that additional consultation and guidance was needed in this area.

CRA's Updated Administrative Position

In September of 2019 CRA released the promised guidance. It noted that the following conditions had to be met for employment expenses incurred by shareholder-employees to be deductible:

1. The expenses were incurred as part of the employment duties and not as a shareholder.
2. The worker was required to pay for the expenses personally as part of their employment duties.

When the employee is also a shareholder, the written contract may not be adequate, and the implied requirements may be more difficult to demonstrate. However, CRA noted that both of these conditions may be satisfied if the shareholder-employee can establish that the expenses are comparable to expenses incurred by employees (who are not shareholders or related to a shareholder) with similar duties at the company or at other businesses similar in size, industry and services provided.
This document can be found on CPA Canada's website (https://www.cpacanada.ca/-/media/site/operational/tx-taxation/docs/cra-blurb.pdf), and has been added to the CRA website (https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/employees-shareholders.html).

Broader Issues – Care should be afforded such that any employment expenses claimed on the shareholder and a related person's personal tax return considers CRA's updated administrative position.

That said, as employment expenses claimed on personal tax returns see a high incidence of CRA review, alternative compensation for the owner-manager may be considered. This may include, for example, the corporation providing a reasonable non-taxable allowance, or reimbursing the relevant business expenses directly. However, this may not always be possible or desired by the client. For example, where there are multiple shareholders, they may prefer to have each shareholder decide what expenses will generate the best return, and claim these amounts personally. In some cases, a client may have decided on this option in the past and simply does not want to change.

Renting office space from employee

Where an employer "rents" a personal asset, such as the home-office, of an employee for its business use, complexities may arise.

For example, a determination would have to be made as to whether the earnings are rental income, or employment income for which offsetting expenses would be limited. CRA has opined that where the property owner is also an employee, the earnings would be employment income. Finally, where the employee was also a GST/HST registrant, they would be required to collect and remit GST/HST on the rent. Registration would be required if the total taxable supply from all the individual's businesses is more than $30,000 in the four prior calendar quarters, or in any calendar quarter. This would also include the taxable supplies of associated entities such as a corporation controlled by the individual.

Telecommuting allowances and reimbursements

In an April 14, 2020 French Technical Interpretation (2020-0845431C6), CRA was asked whether amounts paid to an employee for costs of equipment for working remotely would be a taxable benefit. CRA first noted that a non-accountable allowance would always be taxable, as no provision would provide for an exclusion of such amounts.

Generally, a reimbursement for a personal purchase of equipment used for working remotely would also be a taxable benefit. However, CRA noted that, in the context of the COVID-19 pandemic, which has required many employees to work remotely, acquisition of computer equipment may be primarily for the employer's benefit. In that context, CRA indicated that they are prepared to accept a reimbursement, supported by actual invoices or receipts, of no more than $500 towards such equipment would be a non-taxable benefit to the employee.

Broader Issues: Non-accountable allowances are taxable, as no provision would provide for an exclusion of such amounts. As such, receipts are essential to claim the amount as a reimbursement, and not simply an allowance.

CRA did not comment on the consequences if the equipment were used exclusively for employment and was owned by the employer, not the employee. CRA has indicated in the past (November 29, 2011 Technical Interpretation (2011-0425801C6, Allan, Mary)) that, where equipment is property of the employer, and any personal use is incidental, there would be no taxable benefit to the employee.

Comments from CRA to date do not appear to extend similar relief to other home office assets, such as desks, chairs, etc.

PART 4 – EMPLOYMENT AND SHAREHOLDER BENEFITS UPDATE

Since 2012, CRA has published their interpretation of the Income Tax Act as it applies to many aspects in Folios (https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index.html). These are updated when an interpretation changes, or other major developments occur.

In October, 2017, CRA removed Folio S2-F3-C2, Benefits and Allowances Received from Employment, from the internet noting that it was under review. CRA advised that employers should refer to Guide T4130, Employers' Guide – Taxable Benefits and Allowances, as needed.

The authors of this paper expect (perhaps, given the time which has passed, "hope" might be the better word) CRA to release an updated Folio which addresses their position, ideally in light of the subsequent court decisions discussed below.

Although many cases discussed herein involved arm's length employees, most of the concepts are equally applicable to the typical owner-manager, who is both a shareholder and an employee.

Specific employment benefits

The value of benefits of any kind whatever received or enjoyed by the taxpayer (or a person non-arm's length to the taxpayer) in respect of, in the course of, or by virtue of his employment should be included in the taxpayer's income, subject to specific exceptions (Paragraph 6(1)(a)). Historically, where something is provided to the employee primarily for the benefit of the employer, CRA (for example, see CRA Guide T4130, Taxable Benefits and Allowances) and numerous court decisions have not considered it a benefit received for this purpose, even if there is incidental personal enjoyment, and would therefore not consider it taxable.

For example, a May 12, 2004 Federal Court of Appeal case (McGoldrick vs. H.M.Q., 2004 FCA 189) indicated that "[w]here something is provided to an employee primarily for the benefit of the employer, it will not be a taxable benefit if any personal enjoyment is merely incidental to the business purpose", citing a prior decision of that Court (Lowe vs. H.M.Q., 96 DTC 6226). However, a 2019 Federal Court of Appeal case re-considered the concept of "primary beneficiary" in this context.

The parking pass

In a June 10, 2019 Federal Court of Appeal case (Smith vs. H.M.Q., 2019 FCA 173), the Court upheld the previous decision to classify employer-provided parking passes as taxable benefits to an employee of an airline. However, in doing so, the Court provided differing reasons which may affect employees in all sectors.

The evidence showed that public transit was not a practical alternative, so the employee had to commute by automobile. The employee did not require a vehicle in carrying out his duties of employment as a flight attendant. However, the employer needed flexible, reliable and punctual employees for its business success and testified this was the reason for providing parking passes to all employees in the taxpayer's position.

In the predecessor Tax Court of Canada case (Smith vs. H.M.Q., 2017 TCC 62), the argument focused on whether the primary beneficiary of the pass was the employer or the employee, with the Court finding the employee was the primary beneficiary. The benefit was taxable.

Taxpayer loses

While the FCA also found the benefit to be taxable, it came to this conclusion for different reasons.

The FCA stated that when determining whether a benefit has been conferred, the ultimate goal should be determining whether the employer conferred something of economic value on the employee. The determination of whether the employee was the primary beneficiary is useful in determining whether an economic benefit was conferred but is not the ultimate test in and of itself. Instead, the factors weighed in the primary beneficiary test may help determine that there was only incidental or no personal economic benefit, in which case it would not be a taxable benefit.

The FCA also noted that the fact that the good or service provided is necessary for the discharge of employment-related activities is relevant in drawing an inference about whether it is also providing a personal benefit to employees. Basically, if the benefit provided is necessary for the employee to do their job, it is less likely personal.

Since having the employee's car at work was not necessary to, or required by, the employer, the Court determined that the cost of parking was a personal decision and, therefore, a personal benefit.

In addition, the FCA acknowledged that while the employer had a business purpose in paying for parking – incentivizing flight attendants to use a reliable mode of transport – and that it therefore benefitted from doing so – the employer's business purpose does not support the inference that employee received no economic value from the provision of the parking pass, or the conclusion that the value he received was merely incidental.

Broader Issues – The authors are very interested in CRA's interpretation of this Federal Court of Appeal decision and how it may impact their administrative position. The historical test of "who is the primary beneficiary?" seems inconsistent with this case, which seems to indicate that a taxable benefit arises whenever the employee received anything of economic value, beyond an incidental amount, regardless of any benefits to the employer. If CRA adopts the Court's reasoning, it could significantly impact their interpretation of many benefits, requiring many employers to review the income tax implications of their benefit packages.

Reimbursement of Moving Expenses
Notwithstanding the above, CRA continues to issues opinions based on the concept of "primary beneficiary" (for example, see the above Technical Interpretation which allowed for a reimbursement of up to $500 for COVID-19 computer equipment to be non-taxable, and the following Technical Interpretation).

In a November 6, 2019 Technical Interpretation (2019-0821351E5, Baltkois, Thomas), CRA commented on whether the reimbursement of moving expenses by an employer would be taxable and whether a delay in reimbursement would impact the taxability.

According to CRA policy, reimbursements of moving expenses by an employer would not be taxable benefits (Paragraph 6(1)(a)) if:

- the moving expense would have otherwise been deductible under Subsection 62(1); or
- it is established that the employer is the primary beneficiary of the move.

CRA opined that if either of these two conditions were met, all expenditures which were incurred in connection with the relocation would be non-taxable. Specifically, CRA confirmed that there is no specific timeframe within which the employer must provide reimbursement in order to benefit from this administrative position.

In this particular situation, a memo was provided to employees four to six months prior to a required move, after which certain reimbursable moving expenses could be incurred. Amounts were then reimbursed after the move. In some instances, expenses were incurred, but then the actual move date was delayed due to an extension of responsibilities at the current location, which in turn delayed the reimbursement.

Broader Issues – Depending on the circumstances, it may be possible to reimburse costs which relate to the relocation but which would not be deductible by the individual as moving expenses. For a listing of the type of reimbursed moving expenses that CRA does not consider taxable, visit the CRA payroll moving expense reimbursement webpage (https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/provided/moving-expenses-relocation-benefits/moving-expenses-paid-employer-that-a-taxable-benefit.html).

Employee discounts
CRA Guide T4130, Employers' Guide Taxable Benefits and Allowances, states that an employee enjoying a discount on the purchase of merchandise from their employer is only taxable if one of the three situations exist:

- the employer makes a special arrangement with the employee or group of employees to buy the merchandise at a discount;
- the employee buys the merchandise for less than the employer's cost; or
- the employer makes a reciprocal arrangement with another employer so that the employees of one employer can buy merchandise from the other at a discount.

However, in July 2017, CRA published an update to its Folio S2-F3-C2, Benefits and Allowances Received from Employment, noting that where an employee receives a discount on merchandise because of their employment, the value of the discount is generally a taxable benefit (Paragraph 6(1)(a)). After significant backlash from the public and comments from the Minister of National Revenue and Prime Minister, CRA removed the Folio from the internet and stated that it is under review. As indicated above, it remains under review at September 8, 2020.

The 2017 Folio change was consistent with two Federal Court of Appeal cases (Schroter vs. H.M.Q., 2010 FCA 98, and H.M.Q. vs. Spence, 2011 FCA 200), both of which held that the value of an employment benefit is based on the difference between the fair market value of the goods or services received by the employee and the cost paid by the employee.

Employee Discounts on Services
In a March 26, 2019 Technical Interpretation (2017-0729441E5, Baltkois, Thomas), CRA was asked whether their administrative position that many employee discounts on merchandise are not taxable benefits would apply to an incentive program which allowed discounts on insurance policies, based on the employer waiving commissions. CRA indicated that discounts on services are taxable, so their administrative position would not apply, even where the benefit is available to all employees and to certain clients of the employer.

The sole exception applies to commissions received by the employee for a life insurance policy acquired personally.

In an April 19, 2018 French Tax Court of Canada case (Melancon vs. H.M.Q., 2018 TCC 73), the taxpayer (sole shareholder of the corporation) reimbursed his corporation for its cost to construct the taxpayer's residence. CRA, however, assessed a benefit on the taxpayer, being the imputed profit margin based on other projects of the corporation. The court upheld the assessment, noting that no other customer would receive similar services without a profit margin.

Broader Issues – Care should be afforded when providing employees with discounts on their employer's services as this would be a taxable benefit. At least for the time being, the tax consequence is significantly different where an employer provides a discount on merchandise as compared to a discount on services to an employee or their family.

Travel Allowances

In a May 15, 2020 Federal Court of Appeal case (M.N.R. vs. Al Saunders Contracting & Consulting Inc., 2020 FCA 89), the Court reviewed whether various allowances paid to employees of the taxpayer were subject to CPP and EI withholdings. This required determining whether the allowances were taxable. The Tax Court of Canada had previously ruled that some of the allowances were partially taxable, while others were either fully taxable or fully non-taxable. At issue in this case was whether an allowance could be partially taxable or whether being in excess of a reasonable amount resulted in the allowance being entirely taxable.

Taxpayer loses
After reviewing the text, context and purpose of the exclusion of reasonable travel allowances from income (Subparagraph 6(1)(b)(vii)), the Court concluded that the entire allowance is excluded from income if it is reasonable, or included in income if it is unreasonable. It cannot be partially taxable. As the allowances in question exceeded a reasonable amount, they were entirely taxable.

Broader Issues – Particular care should be afforded to ensuring that travel allowances are reasonable, as an amount, even slightly in excess of a reasonable amount, would render the entire allowance taxable.

Disability Related Employer-Provided Travel Benefits
In an October 19, 2019 Technical Interpretation (2019-0807801E5, Springate, Sarah), CRA discussed the possibility for an employer to provide a non-taxable benefit or allowance (not exceeding a reasonable amount) in respect of expenses incurred for transportation between an employee's ordinary residence and their workplace if the employee receiving the allowance is blind or has a mobility impairment which qualifies them for the disability tax credit (DTC; Paragraph 6(16)(a)).

CRA opined that the supporting information for this benefit should include the completed T2201 and the notice of determination that the T2201 has been approved. It is the responsibility of the employee to show their employer that they meet this condition and that the value of this benefit should not be included in income.

Further, CRA confirmed that, if an employee meets this condition, then the actual costs of taxi fare, ride sharing services, or para-transportation provided by the employer would be excluded from income, notwithstanding the fact that the individual may be capable of taking public transport.

Specifically related to the blindness criteria, CRA stated that they consider an individual to be blind if, even with the use of corrective lenses or medication, the individual's vision meets either of the following:

- the visual acuity in both eyes is 20/200 or less with the Snellen Chart; or
- the greatest diameter of the field of vision in both eyes is 20 degrees or less.

Contributions to Employee's Crowdfunding Campaign

In an August 23, 2019 Technical Interpretation (2018-0779191E5, Springate, Sarah), CRA considered whether an employer's contribution to their employee's crowdfunding campaign to assist with the cost of additional therapies and support for the employee's recently born child would be received in the recipient's capacity as an employee (taxable) or individual (not taxable). While not discussed in this Technical Interpretation, consideration should also be provided as to whether payments to a shareholder-employee's crowdfunding campaign would be a non-deductible shareholder benefit.

While it remains a question of fact, CRA provided factors which could indicate the contribution was received as an individual, such that the contribution would not be taxable.

CRA indicated that, where the person is dealing at arm's length with the employer and is not a person of influence (such as an executive who controls employer decisions), the benefit or amount would generally be received in the person's capacity as an individual where the amount is:

- provided for humanitarian or philanthropic reasons;
- provided voluntarily;
- not based on employment factors such as performance, position, or years of service; and
- not provided in exchange for employment services.

Additional factors CRA may consider include whether:

- the individual was affected by extenuating circumstances or an event (outside of work) that was beyond their control (e.g., serious illness or injury of the individual or a family member, disaster, funeral expenses);
- the contribution was based on compassionate grounds and was meant to provide short term financial assistance to compensate the individual for personal losses or damage suffered, increased living costs incurred as a result of the extenuating circumstances or event, or to cover the basic necessities of life;
- the contribution was received as a one-time lump sum amount;
- the employer had a reasonable expectation that the contribution would be spent within a reasonable amount of time and on items or expenses arising from the extenuating circumstances or event or on the basic necessities of life;
- the value of the contribution was reasonable and was made within a reasonable period of time following the extenuating circumstances or event; and
- the contribution was not meant to compensate for loss of income and is not subject to any conditions tied to the individual's employment.

However, where the contribution represents a disguised form of remuneration, it would be considered employment income.

CRA reminded that the employer would not be entitled to a charitable deduction as the contribution was not made to a registered charity or qualified donee. Further, CRA opined that as the contribution was not an expense incurred for the purpose of gaining or producing income, it would not be deductible.

Broader issues: While CRA opined that a gratuitous payment for non-business purposes would not be deductible, some payments may be incurred for business purposes.

Health Care Spending Accounts (HCSA)

HCSA Impact of COVID-19

CRA accepts (see https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2019/warning-buyer-beware-when-it-comes-to-health-spending-accounts.html) that some HCSAs can be Private Health Service Plans (PHSP) which generate no taxable employment benefit. Paragraph 16 of IT-529, Flexible Employee Benefit Programs, states that "a Plan which permits the carry-forward of either the unused allocation or eligible medical expenses (but not both) up to a maximum of 12 months will not be disqualified as a PHSP solely by reason of the carry-forward provision in the Plan."

In a May 25, 2020 Technical Interpretation (2020-0846751E5, D'Angelo, S., CPA, CMA), CRA advised that a HCSA which qualifies as a PHSP and has unused credits expiring between March 15 and December 31, 2020 may temporarily permit an extended carry-forward period without loss of PHSP status. The extended period must be reasonable to permit plan members to access services that were restricted during the COVID-19 outbreak. A period of up to six months would generally be considered reasonable in this regard.

HCSA Tax Schemes

CRA has also advised (see https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2019/warning-buyer-beware-when-it-comes-to-health-spending-accounts.html) that they are aware of a number of businesses that are improperly claiming deductions related to HCSAs. In particular, they are concerned that some insurance agents/brokers and financial planners are marketing HSAs to sole proprietors that have no arm's length employees.

A valid HSA must conform to the rules of a private health services plan (PHSP). CRA opined that, if the business is a sole proprietorship with no arm's length employees, the HSA cannot be a PHSP and any costs incurred for amounts paid to this account are not deductible.

CRA also reminded corporations that they are eligible to participate in an HSA, even if there is only a single employee. CRA stated that shareholders must also be employees earning T4 income to benefit from an HSA.

In prior Technical Interpretations (such as 2003-0012351E5), CRA explained that, in a cost-plus arrangement (like an HSA), it is the employer, and not the administrator, who insures the employees. Accordingly, it is their view that a cost-plus plan for a sole proprietor does not constitute insurance unless the plan provides coverage for at least one employee as well as the sole proprietor. CRA has issued numerous interpretations considering whether an HSA in a corporation would be a PHSP (for example, see Technical Interpretation (2017-0703871C6, Waugh, Phyllis)).

If a proprietor does not have employees, the proprietor can still deduct PHSP premiums, provided that the plan meets all the other conditions allowing for a deduction (Section 20.01) and is not an HSA. Also note that if a proprietorship has arm's length employees, equivalent PHSP coverage must be offered to these employees for the premiums to be deductible.

Deferred Salary Leave Plan (DSLP) – Impact of COVID-19

A Salary Deferral Arrangement (SDA) is a plan or arrangement where a person has a right to receive an amount in a future year in respect of salary, wages or services rendered by the person in the year or preceding year and where one of the main purposes of the plan is to defer tax. A person who acquires a right to a deferred amount is generally required to include the deferred amount in their income for the year in which the right is acquired (Subsection 6(11)).

A DSLP is an exception from the SDA rules which permits employees to defer salary to fund a leave of absence (LOA) from employment, subject to various conditions (Regulation 6801(a)), including the following:

- it is not established to provide post-retirement benefits;
- it is established for the purpose of funding a LOA through salary deferrals;
- the LOA will be for a period of at least six consecutive months (reduced to three months if taken for the purpose of full-time post-secondary education); and
- the LOA will commence immediately after a period of no more than six years after the date on which deferrals of salary commence.

In a May 14 and a May 28, 2020 Technical Interpretation (2020-0848641E5 and 2020-0849681E5, Doiron, W.), CRA was asked whether the six-year period for a DSLP could be extended in light of the COVID-19 pandemic. CRA noted that they have no discretion to extend the six-year period as this would require an amendment to the Regulations. This concern has been discussed with the Department of Finance, which is considering multiple submissions relating to these requirements, in light of the COVID-19 pandemic.

CRA advised that, pending completion of this review, they will not require a DSLP be terminated where the LOA is deferred past the six-year maximum period, regardless of the reason for the deferral. CRA noted that this will provide flexibility for health care workers, other essential service workers, and employees who planned to use their LOA to travel but cannot due to travel restrictions.

On July 2, 2020, the Department of Finance released regulations which would extend the six-year period, in respect of an arrangement would end on or after March 15, 2020 and on or before April 30, 2021, to be 86 months (7 years and 2 months).

Business expense or shareholder benefit?

The Courts continue to examine the deductibility of business expenses as well as whether the amounts should be a shareholder benefit.

Shareholder Benefit – The Space Trip
In a May 29, 2020 Federal Court of Appeal (FCA) case (Laliberté vs. H.M.Q., 2020 FCA 97), the Court reviewed the Tax Court of Canada's (TCC) ruling that a $41 million dollar 12-day trip to the International Space Station was undertaken primarily for personal reasons, such that 90% of the cost was a taxable benefit to the shareholder.

The corporation did not deduct any of the costs for tax purposes. Although the individual did not consider any portion of the cost to be a personal benefit, he reported a shareholder benefit of $4 million in the hope that this would avoid a dispute with CRA and the potential bad publicity if there was a reassessment. The shareholder argued that his personal participation was a stunt marketing event which should have been fully deductible to the corporation (which was not a party to the appeal), with no shareholder benefit to himself.

The taxpayer argued that the TCC had improperly applied the test for corporate deductibility, rather than the test for a shareholder's benefit. The taxpayer further asserted that, because he intended to use the trip to promote the corporation's business, this was sufficient to demonstrate it was a corporate expense incurred for the purpose of earning income and not a taxable benefit to him personally.

Taxpayer loses
The FCA held that the reasons set out in the TCC decision were sufficient to support its ruling that the purpose of the trip was overwhelmingly personal.

Such reasons in the TCC included:

- The taxpayer intended to take the trip personally and the possibility of another person going in his stead was not considered.
- The cancellation insurance and accidental death policy were taken out and paid for by his family holding company.
- The CFO of the company, who was also the taxpayer's personal tax advisor, was under the original understanding that the trip would take place even without the charity broadcast. It was uncertain that the broadcast could even take place until very shortly before the launch. Also, NASA would not allow any commercial promotion as part of the charity broadcast or related documentary.
- The communications sent to others involved in the charitable event the broadcast was intended to support did not describe the event as a promotion of Cirque du Soleil.
- The flight agreement and original payment were made by L's family holding company. The purpose of the trip was not originally set out or tied to Cirque du Soleil's business. The amount was eventually charged to the Cirque du Soleil operating company. L did not seek the approval of anyone else in the operating company prior to entering into the flight agreement.
- An arm's length 20% shareholder of the operating company was effectively reimbursed for its portion of the expense.
- The CFO did not indicate that there was thought or analysis as to the expected value to Cirque du Soleil prior to the trip.
- In the documentary video, the taxpayer gave three reasons for the flight: two were personal and the third was to assist with the charitable mission. It was also noted that the taxpayer had specifically shown interest in going to space prior to this endeavor.

This indicated that the cost was not incurred to earn income and was, therefore, not deductible to the corporation (Paragraph 18(1)(a)). It also indicated that it was a personal benefit conferred on the shareholder. The fact that the corporation had not deducted the costs was relevant, but not determinative. The issues of deductibility and shareholder benefit are distinct but, to a certain extent, intertwined.

The FCA noted that the TCC had found that “having decided to travel, [the taxpayer] genuinely intended to use his time on the trip to promote Cirque du Soleil, and himself as its most recognizable public representative, to enhance the value of his business while he was on his trip to space”. The Court placed little weight on this intention. Because it was formulated after the decision to undertake the space trip was made, it was not indicative of his primary intention when the agreement was signed. As well, the Court must assess corporate and personal intent based on all of the facts, and the TCC had properly concluded that the facts indicated an overwhelmingly personal purpose. The TCC decision that 90% of the cost (so approximately $37.6 million) was properly a taxable benefit.

Broader Issues – The TCC stated that there is a difference between a business trip which involves or includes personal enjoyment aspects and a personal trip with business aspects, even significant ones, tacked on.

The space trip was compared to an owner-manager of a business who decided to personally go on a cross-country trip and then decided that he would stop in to visit business clients and suppliers, and potential clients and potential suppliers along the way. In such cases, incremental direct costs associated with his business promotion activities and side trips would be deductible but little, if any, of the trip itself would be. Where the company paid for the whole trip, even if it did not deduct the cost for tax purposes, it would allow the individual to pay for the trip in pre-tax dollars. The Court then noted that the shareholder benefit provisions exist for just such reasons, and going offside can often result in double taxation once corrected.

Shareholder Benefit – Owner-Managed Business
Another case examined the more typical personal expenses that a shareholder may run through their corporation. It also examined whether the amounts would be an employment benefit incurred for business purposes or a shareholder benefit.

In a July 23, 2020 Tax Court of Canada case (Hilderman et al. vs. H.M.Q., 2020 TCC 58), at issue were a number of expenses claimed by the taxpayers (a corporation and its sole individual shareholder) in respect of the business of selling financial products and providing financial planning advice. CRA denied various expenses spanning 2007 and 2008 and assessed many of them as shareholder benefits (Subsection 15(1)). CRA also assessed beyond the normal reassessment period (Paragraph 152(4)(a)) and applied gross negligence penalties (Subsection 163(2)).

Such expenses reviewed included:

- bonuses paid to family members who were not employees of the taxpayer;
- payments to family members under an Employee Profit Sharing Plan where there was no evidence that the payments referred to profits;
- salaries paid to family members (including the shareholder’s daughter who received a salary of $5,000 in 2007 and $400 in 2008);
- salaries paid to the taxpayer’s children’s care providers;
- salaries to the taxpayer’s former spouse, which the taxpayer argued was the same as personally paying spousal support;
- travel costs for the taxpayer and his family to go on a cruise on which the taxpayer made business-related presentations (CRA conceded the taxpayer’s travel costs);

- significant interest expense with very little support; and
- many other costs such as clothing, toys, jewelry, personal items, lawncare, maid service, and pet care for the shareholder and family members.

While the taxpayer originally claimed the travel expenses for the taxpayer's family to travel to Hawaii for a shareholders' meeting, the taxpayer conceded these amounts.

The taxpayer argued that any benefits taxable to him personally were conferred by virtue of his employment, not his shareholdings, and, therefore, should be deductible to the corporation.

Taxpayer loses
In dismissing the taxpayer's argument, the Court found that the vast majority of expenses reviewed were personal in nature and denied the deduction. The Court also found the vast majority of denied expenses to be a shareholder benefit. These expenses were not, by and large, expenses a reasonable employer would otherwise pay for the benefit of an arm's length employee. The taxpayer, through his unfettered control, chose not to pay salaries or bonuses but rather to deduct the disallowed expenses from the corporate receipts and never report or ascribe any amount of benefit or employment income to himself.

The Court upheld CRA's assessment beyond the normal limitation period as well as gross negligence penalties, noting:

- the sole shareholder's education and training regarding complex tax integration, small business deduction strategies, and corporate/personal lifestyle structuring;
- the individual unilaterally directed which expenses the corporation should deduct, even though some were clearly personal; and
- the degree and scope of the upheld assessments were very large – in excess of $700,000 for the corporation and in excess of $1,100,000 for the individual, both spanning a two-year period.

The Court stated that the gross negligence penalties exist for these such situations: sophisticated taxpayers must appreciate that using corporate structures to mask inappropriate deductions and shield personal income from tax should not be done.

Broader Issues – The result of these inappropriate deductions was effectively triple taxation – corporate tax on disallowed deductions, personal tax on shareholder benefits, and a 50% gross negligence penalty on both the corporate and personal taxes. It would have been much cheaper had the taxpayer taken additional salaries or dividends, and paid the additional taxes up front, rather than running personal expenses through the corporation.

Paying his former spouse through the corporation carried even greater costs. If the taxpayer had instead agreed to pay spousal support, he could have taken a higher deductible salary from the corporation and deducted the spousal support payments. This would have resulted in all three parties having the same taxable income the taxpayer tried to achieve with a corporate salary to his former spouse without the issues which come with corporate payroll. This 'short-cut' cost the taxpayer substantial tax which could safely have been avoided.

Another case
In another July 16, 2020 Tax Court of Canada case (Lavigne vs. H.M.Q., 2020 TCC 57), the Court disallowed over half of the $280,000 in expenses a mortgage agent claimed over two years. Some invoices were doctored while others did not have support at all. Of interest, the Court upheld CRA's denial of a portion of meal expenses in one year based on the portion of meal expenses CRA concluded were deductible in the other year after reviewing all the invoices of that other year. Gross negligence penalties were also upheld.

Shareholder Benefits – Leasehold Improvement to Shareholder's Property

In a September 24, 2019 Tax Court of Canada case (Wise vs. H.M.Q., 2019 TCC 196), leasehold improvements were made by a corporation to the building in which it operated. Since the building was owned by a shareholder (W), at issue was whether the improvements resulted in a shareholder benefit at a time when it was still being rented.

In 2010, W leased the bottom portion of her building to a corporation (Aco) owned by herself and her son. The lease was for a five-year term, with an additional five-year option. Aco performed leasehold renovations costing $457,663 in 2011 and $164,005 in 2012. The work was both structural and cosmetic. Aco operated a mortgage brokerage and real estate agency out of the premises. CRA argued that the improvements constituted a benefit conferred on W, a shareholder of the corporation, required to be included in her income (Subsection 15(1)).

Taxpayer wins
The Court found that no benefit was received in 2011 or 2012 because the use of the property had not yet reverted back to the owner due to the lease agreement. Rather, the residual value of the improvements would be a taxable benefit when Aco vacated the premises.

Another case
In another April 19, 2018 French Tax Court of Canada case (Melancon vs. H.M.Q., 2018 TCC 73), the taxpayer's corporation renovated the taxpayer's basement, then leased it for business purposes, after which the corporation stopped using it and returned it to the taxpayer. CRA assessed the taxpayer with an income inclusion of the fair market value of the renovated basement, as estimated by a real estate appraiser ($28,500), in 2010, when the corporation's use of the basement ended. The case notes that the construction costs of the renovations in 2007 were significantly higher (at least $44,000). The court upheld CRA's assessment of income.

Overdrawn Shareholder Loans

In a July 8, 2019 Tax Court of Canada case (Mazzafero vs. H.M.Q., 2019 TCC 147), CRA had reassessed the taxpayer to add loans from a corporation controlled by her brother and his wife to her income (Subsection 15(2)) after the ordinary reassessment period had expired.

Taxpayer loses
The Court held that the taxpayer had made a misrepresentation by failing to report the loans as income. Her knowledge that she had borrowed $45,000 from a corporation controlled by family members over the period from 2009 to 2012, and her failure to seek advice from anyone, including the corporation's accountant, regarding the tax implications of such a loan was sufficient neglect or carelessness to permit reassessment of each year in which funds were advanced beyond the ordinary reassessment period (Subsection 152(4)). The loans had not been repaid within the period permitted to avoid such an income inclusion (the end of the corporation's year following the year in which the loan was advanced; Subsection 15(2.6)).

Broader Issues – A deduction may be available in a later year in which the loans were repaid (Paragraph 20(1)(j)). However, if those years were beyond the normal reassessment period, it may be difficult to access the deduction. One possibility would be to file an application through Taxpayer Relief to allow CRA to reassess the individual taxpayer, at the taxpayer's request, up to 10 calendar years back (Subsection 152(4.2)). It is at CRA's discretion as to whether they reassess the taxpayer to allow the deduction.

In this case, the year of repayment was not under appeal.

Broader Issues: The shareholder loan rules apply to loans advanced to a shareholder or a "connected person" (which includes any related person; Subsection 15(2.1)). The Tax Court's ruling in this case highlights the potential for a reassessment where these rules are not applied, even when the year(s) in which the loans were advanced are believed to be statute-barred. As the loan principal was included in income in the years of advance, interest benefits (Subsection 80.4(2)) would not apply (Paragraph 80.4(3)(b)), and such benefits were not discussed by the Court.

Unlike the shareholder loan rules, the shareholder benefit provisions (Subsection 15(1)) apply only to shareholders and not more broadly to "connected persons". However, where a benefit is conferred on an individual who is affiliated with, or does not deal at arm's length with, a shareholder, that benefit is deemed conferred on the shareholder, except where it is included in the income of the individual or some other person under a different provision (Paragraph 15(1.4)(c)).

Note also that the Tax on Split Income (TOSI) can apply to income inclusions under Section 15 and that the TOSI provisions may result in no deduction being available for future repayments (see May 2019 edition of Canadian Tax Focus (Shareholder Loans: TOSI Prevents Deduction on Repaymen**t**, Martin Lee, Kakkar CPA Professional Corporation)).

Home Purchase Loans

Employee or Shareholder Capacity
In a March 14, 2013 Tax Court of Canada case (Mast vs. H.M.Q., 2013 TCC 309), at issue was whether a loan made to an employee/shareholder and his spouse for a house was received due to his capacity as an employee or as a shareholder.

The loan agreement was examined to evaluate the likeliness a non-shareholder employee would be offered similar terms. The Court noted that although the loan was made to only full-time employees, which happened to be only the shareholder and his spouse, the following considerations indicated that the loan was made on account of the recipient's ownership:

- the loan was unsecured and non-interest bearing;
- the spouse never repaid the loan nor included a personal tax benefit on her return;
- the loan was recorded on the balance sheet consistently as "Loan receivable – shareholder";
- the loan represented a substantial part of the Company's assets and retained earnings for the period in question; and
- the taxpayer commonly used the company for other loans.

As such, the loan principal was properly included in the taxpayer's income (Subsection 15(2)), as the exception for home purchase loans does not apply to loans received due to shareholdings, rather than to employment (Subsection 15(4.2)).

Prospective Employee / Shareholder
Where a shareholder has received a loan from, or has become indebted to, a corporation, the amount of the loan or indebtedness is included in computing the income of the shareholder for the year in which the loan was received or the indebtedness arose (Subsection 15(2)). However, a specific exception is available if the following conditions are met (Paragraphs 15(2.4)(b), (e) and (f)):

- the loan was made in respect of an individual who is an employee of the lender or creditor;
- the loan was made to enable or assist the individual to acquire a dwelling, provided that the dwelling is acquired for the individual's habitation;
- it is reasonable to conclude that the loan or indebtedness was received because of the individual's employment rather than because of any person's shareholdings; and
- bona fide arrangements were made for the repayment of the loan or indebtedness at the time it was incurred.

With the downside of a disputed loan being a full income inclusion in the year the loan is received, care should be afforded in establishing these loans.

In a June 14, 2019 Technical Interpretation (2019-0808411E5, Thomas, Allison), CRA provided a number of factors to consider when determining whether a home purchase loan to a employee/shareholder would be received in their capacity as an employee of shareholder.

More specifically, CRA examined whether a prospective employee of a CCPC would be subject to a full income inclusion in respect of a home purchase loan of $1,000,000 (repayable over 5 years, subject to interest at the prescribed rate) included as part of his proposed employment contract. The prospective employee would also become a shareholder, receiving 3% of the outstanding share capital. The employer did not have a history of providing these loans but had provided loans to employees to assist in acquiring shares of the corporation. In responding that it would be a question of fact as to whether the home purchase loan would be subject to a full income inclusion, CRA provided a number of general comments related to home purchase loans.

CRA reiterated their view that where a person can significantly influence the corporation's business policy, any loan would be received in their capacity as a shareholder. However, for a minority shareholder of the corporation who does not otherwise have significant influence over the corporation, this may not be the case.

A benefit conferred as part of a reasonable employee remuneration strategy would generally be considered to have been conferred in the recipient's capacity as an employee. This may be the case where the parties were at arm's length at the time the remuneration package was being negotiated.

Where the individual is the only shareholder (or a majority shareholder), CRA will generally consider a loan to be received by virtue of employment where it can be shown that other employees (who are not shareholders) with similar duties and responsibilities of another similar-sized employer receive loans of similar amounts and under similar terms and conditions.

In addition, unless the facts clearly indicate otherwise, where the option to borrow is only made available to shareholders, or when the terms and conditions attached to loans made to employee-shareholders are more favourable than those attached to loans made to other employees, the loan will be considered to have been made to the individual in their capacity as a shareholder.

CRA noted that other factors may also be relevant.

Broader Issues – While housing loans have been a tool for many years, we have not seen much activity in the Courts or from CRA in publicly released Technical Interpretations over the past few years. This Technical Interpretation did not opine on whether the hypothetical situation would meet the exception, or not, but rather provided factors CRA would consider. These factors may be applicable in a wide range of situations where a corporation extends a home purchase loan to a shareholder.

CRA often indicates they will lean to "shareholder benefit" rather than "employment benefit". The facts here seem quite clear that the loan was being advanced due to the borrower's employment – actually as an incentive to accept employment – rather than the nominal equity interest being offered for similar reasons. Yet, CRA was still not prepared to say that the facts here, absent any other facts and circumstances, seem to indicate employment status.

CONCLUSION

Planning for the compensation of owner-managers is an area of never-ending evolution. Strategies which may seem settled and lacking in controversy may find themselves the surprising targets of legislative changes, a recent example being the expansion of the Tax on Split Income (TOSI) provisions (Section 120.4). In addition to legislative changes, the business owner, and their advisors, must be vigilant to changes in CRA's interpretations and administrative practices, such as the recent activity related to employment expenses claimed by shareholder-employees. Of course, the Courts continue to contribute to changes in our understanding of the law, such as the Federal Court of Appeal's recent decision in the Smith case, which may radically change the manner in which we assess whether certain benefits are taxable to employees.

As tax advisors, we struggle to keep up with what seems an ever-accelerating pace of change. Imagine how our business owner clients, for whom tax is one small element of their business and financial lives, and not their full-time career, must feel! As we emerge into whatever the new, post-COVID-19, world may hold, we can at least be confident that the value of, and demand for, our services to the business community will remain strong.

APPENDIX
2020 Integration tables

Integration in British Columbia
December 31, 2020

	Active Business Income		SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	No SBD (2)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(110.00)	(270.00)	(506.67)	(383.33)	(383.33)	(450.00)	(450.00)
Dividend Refund	-	-	306.67	383.33	383.33	-	-
Available for Dividend	890.00	730.00	800.00	1,000.00	1,000.00	550.00	550.00
Personal Tax (highest rate) (10)	(435.12)	(267.98)	(391.12)	(365.40)	(488.90)	(200.97)	(268.90)
Net After Tax Cash	454.88	462.02	408.88	634.60	511.10	349.03	281.11
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate) (10)	(535.00)	(535.00)	(535.00)	(365.40)	(488.90)	(535.00)	(535.00)
Net After Tax Cash	465.00	465.00	465.00	634.60	511.10	465.00	465.00
Deferral	425.00	265.00	28.33	(17.93)	105.57	85.00	85.00
Deferral as a percentage	42.50%	26.50%	2.83%	-1.79%	10.56%	8.50%	8.50%
Savings (Cost)	(10.12)	(2.98)	(56.12)	-	-	(115.97)	(183.90)
Savings (Cost) as a percentage	-1.01%	-0.30%	-5.61%	0.00%	0.00%	-11.60%	-18.39%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible (9)	Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $41,725	20.06%	10.03%	-9.60%	10.43%	9.06%	-0.22%	-6.94%	-0.13%
over $41,725 up to $48,535	22.70%	11.35%	-5.96%	13.47%	11.70%	-0.29%	-4.30%	-0.14%
over $48,535 up to $83,451	28.20%	14.10%	1.63%	19.80%	17.20%	-0.42%	1.20%	-0.17%
over $83,451 up to $95,812	31.00%	15.50%	5.49%	23.02%	20.00%	-0.49%	4.00%	-0.18%
over $95,812 up to $97,069	32.79%	16.40%	7.96%	25.07%	21.79%	-0.52%	5.79%	-0.19%
over $97,069 up to $116,344	38.29%	19.15%	15.55%	31.40%	27.29%	-0.66%	11.29%	-0.22%
over $116,344 up to $150,473	40.70%	20.35%	18.88%	34.17%	29.70%	-0.71%	13.70%	-0.24%
over $150,473 up to $157,748	43.92%	21.96%	23.32%	37.87%	32.92%	-0.78%	16.92%	-0.25%
over $157,748 up to $214,368	46.02%	23.01%	26.22%	40.29%	35.02%	-0.84%	19.02%	-0.26%
over $214,368 up to $220,000	49.80%	24.90%	31.44%	44.64%	38.80%	-0.93%	22.80%	-0.28%
over $220,000	53.50%	26.75%	36.54%	48.89%	42.50%	-1.01%	26.50%	-0.30%

Corporate Rates - 2020

General	27.00%
M & P	27.00%
ABI to Fed SBD	11.00%
Investment	50.67%
Personal Services Business (6)	45.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums, Employer Health Tax, etc.). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

10 BC introduced a new top personal tax bracket commencing at $220,000 with a tax rate of 20.5% effective January 1, 2020.

Integration charts provided by Video Tax News Inc. and used with permission.

APPENDIX (Continued)

Integration in Alberta

December 31, 2020

	Active Business Income		SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	No SBD (2,10)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax (10)	(110.00)	(239.92)	(476.58)	(383.33)	(383.33)	(419.92)	(419.92)
Dividend Refund	-	-	306.67	383.33	383.33	-	-
Available for Dividend	890.00	760.08	830.08	1,000.00	1,000.00	580.08	580.08
Personal Tax (highest rate)	(376.56)	(245.27)	(351.21)	(317.10)	(423.10)	(183.94)	(245.43)
Net After Tax Cash	513.44	514.81	478.87	682.90	576.90	396.14	334.65
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(480.00)	(480.00)	(480.00)	(317.10)	(423.10)	(480.00)	(480.00)
Net After Tax Cash	520.00	520.00	520.00	682.90	576.90	520.00	520.00
Deferral	370.00	240.08	3.42	(66.23)	39.77	60.08	60.08
Deferral as a percentage	37.00%	24.01%	0.34%	-6.62%	3.98%	6.01%	6.01%
Savings (Cost)	(6.56)	(5.19)	(41.13)	-	-	(123.86)	(185.35)
Savings (Cost) as a percentage	-0.66%	-0.52%	-4.11%	0.00%	0.00%	-12.39%	-18.54%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible (9)	Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $48,535	25.00%	12.50%	-0.03%	15.86%	14.00%	-0.12%	1.01%	0.39%
over $48,535 up to $97,069	30.50%	15.25%	7.56%	22.18%	19.50%	-0.24%	6.51%	0.18%
over $97,069 up to $131,220	36.00%	18.00%	15.15%	28.51%	25.00%	-0.37%	12.01%	-0.04%
over $131,220 up to $150,473	38.00%	19.00%	17.91%	30.81%	27.00%	-0.42%	14.01%	-0.12%
over $150,473 up to $157,464	41.22%	20.61%	22.35%	34.51%	30.22%	-0.49%	17.23%	-0.25%
over $157,464 up to $209,952	42.22%	21.11%	23.73%	35.66%	31.22%	-0.52%	18.23%	-0.29%
over $209,952 up to $214,368	43.22%	21.61%	25.11%	36.81%	32.22%	-0.54%	19.23%	-0.33%
over $214,368 up to $314,928	47.00%	23.50%	30.33%	41.16%	36.00%	-0.63%	23.01%	-0.48%
over $314,928	48.00%	24.00%	31.71%	42.31%	37.00%	-0.66%	24.01%	-0.52%

Corporate Rates - 2020

General (10)	23.99%
M & P (10)	23.99%
ABI to Fed SBD	11.00%
Investment	47.66%
Personal Services Business	41.99%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

10 Alberta announced a reduction of the general corporate income tax rate to 8.0% from 10.0% effective July 1, 2020. The rates in the chart above reflect a blended rate for a calendar 2020 year-end. The small business tax rate will remain at 2.0%. The dividend tax credit on eligible dividends will be reduced effective for 2021.

APPENDIX (Continued)

Integration in Saskatchewan
December 31, 2020

	Active Business Income				SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	Fed and Prov SBD (3)	Prov but no Fed SBD (2,10)	No SBD (2) M & P	No SBD (2) Non-M & P		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(110.00)	(170.00)	(250.00)	(270.00)	(506.67)	(383.33)	(383.33)	(450.00)	(450.00)
Dividend Refund	-	-	-	-	306.67	383.33	383.33	-	-
Available for Dividend	890.00	830.00	750.00	730.00	800.00	1,000.00	1,000.00	550.00	550.00
Personal Tax (highest rate)	(359.29)	(257.82)	(225.52)	(217.45)	(322.96)	(296.40)	(403.70)	(163.02)	(222.04)
Net After Tax Cash	530.71	572.19	524.48	512.56	477.04	703.60	596.30	386.98	327.97
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(475.00)	(475.00)	(475.00)	(475.00)	(475.00)	(296.40)	(403.70)	(475.00)	(475.00)
Net After Tax Cash	525.00	525.00	525.00	525.00	525.00	703.60	596.30	525.00	525.00
Deferral	365.00	305.00	225.00	205.00	(31.67)	(86.93)	20.37	25.00	25.00
Deferral as a percentage	36.50%	30.50%	22.50%	20.50%	-3.17%	-8.69%	2.04%	2.50%	2.50%
Savings (Cost)	5.71	47.18	(0.52)	(12.44)	(47.96)	-	-	(138.02)	(197.04)
Savings (Cost) as a percentage	0.57%	4.72%	-0.05%	-1.24%	-4.80%	0.00%	0.00%	-13.80%	-19.70%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible (9)	Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $45,225	25.50%	12.75%	-0.72%	15.07%	14.50%	1.09%	-1.50%	-1.13%
over $45,225 up to $48,535	27.50%	13.75%	2.04%	17.37%	16.50%	1.04%	0.50%	-1.14%
over $48,535 up to $97,069	33.00%	16.50%	9.63%	23.70%	22.00%	0.91%	6.00%	-1.17%
over $97,069 up to $129,214	38.50%	19.25%	17.22%	30.02%	27.50%	0.78%	11.50%	-1.20%
over $129,214 up to $150,473	40.50%	20.25%	19.98%	32.32%	29.50%	0.74%	13.50%	-1.21%
over $150,473 up to $214,368	43.72%	21.86%	24.42%	36.02%	32.72%	0.66%	16.72%	-1.22%
over $214,368	47.50%	23.75%	29.64%	40.37%	36.50%	0.57%	20.50%	-1.24%

Corporate Rates - 2020

General	27.00%
M & P	25.00%
ABI to Fed SBD	11.00%
Sask SBD but no Fed SBD (10)	17.00%
Investment	50.67%
Personal Services Business (6)	45.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.
2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.
3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.
4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.
5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.
6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.
7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.
8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.
9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.
10 Saskatchewan's small business threshold is $600K (increased from $500K effective January 1, 2018).

Integration charts provided by Video Tax News Inc. and used with permission.

APPENDIX (Continued)

Integration in Manitoba

December 31, 2020

	Active Business Income		SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	No SBD (2)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(90.00)	(270.00)	(506.67)	(383.33)	(383.33)	(450.00)	(450.00)
Dividend Refund	-	-	306.67	383.33	383.33	-	-
Available for Dividend	910.00	730.00	800.00	1,000.00	1,000.00	550.00	550.00
Personal Tax (highest rate)	(424.70)	(276.68)	(373.36)	(377.80)	(466.70)	(207.79)	(256.69)
Net After Tax Cash	485.30	453.32	426.64	622.20	533.30	342.21	293.32
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(504.00)	(504.00)	(504.00)	(377.80)	(466.70)	(504.00)	(504.00)
Net After Tax Cash	496.00	496.00	496.00	622.20	533.30	496.00	496.00
Deferral	414.00	234.00	(2.67)	(5.53)	83.37	54.00	54.00
Deferral as a percentage	41.40%	23.40%	-0.27%	-0.55%	8.34%	5.40%	5.40%
Savings (Cost)	(10.70)	(42.68)	(69.36)	-	-	(153.79)	(202.69)
Savings (Cost) as a percentage	-1.07%	-4.27%	-6.94%	0.00%	0.00%	-15.38%	-20.27%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
	Ordinary Income	Capital Gains	Canadian Dividends		SBD		No SBD	
			Eligible	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $33,389	25.80%	12.90%	3.84%	18.38%	16.80%	0.07%	-1.20%	-4.15%
over $33,389 up to $48,535	27.75%	13.88%	6.53%	20.63%	18.75%	-0.02%	0.75%	-4.16%
over $48,535 up to $72,164	33.25%	16.63%	14.12%	26.95%	24.25%	-0.27%	6.25%	-4.19%
over $72,164 up to $97,069	37.90%	18.95%	20.53%	32.30%	28.90%	-0.49%	10.90%	-4.20%
over $97,069 up to $150,473	43.40%	21.70%	28.12%	38.62%	34.40%	-0.74%	16.40%	-4.23%
over $150,473 up to $214,368	46.62%	23.31%	32.56%	42.32%	37.62%	-0.89%	19.62%	-4.25%
over $214,368	50.40%	25.20%	37.78%	46.67%	41.40%	-1.07%	23.40%	-4.27%

Corporate Rates - 2020

General	27.00%
M & P	27.00%
ABI to Prov SBD	9.00%
Investment	50.67%
Personal Services Business (6)	45.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

APPENDIX (Continued)

Integration in Ontario
December 31, 2020

	Active Business Income				SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3,10)	Prov SBD, No Fed (10,11)	No SBD M & P (2)	No SBD Non-M & P (2)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(122.00)	(182.00)	(250.00)	(265.00)	(501.67)	(383.33)	(383.33)	(445.00)	(445.00)
Dividend Refund	-	-	-	-	306.67	383.33	383.33	-	-
Available for Dividend	878.00	818.00	750.00	735.00	805.00	1,000.00	1,000.00	555.00	555.00
Personal Tax (highest rate)	(419.16)	(330.03)	(297.57)	(290.41)	(384.31)	(393.40)	(477.40)	(218.34)	(264.96)
Net After Tax Cash	458.84	487.97	452.43	444.59	420.69	606.60	522.60	336.66	290.04
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(535.30)	(535.30)	(535.30)	(535.30)	(535.30)	(393.40)	(477.40)	(535.30)	(535.30)
Net After Tax Cash	464.70	464.70	464.70	464.70	464.70	606.60	522.60	464.70	464.70
Deferral	413.30	353.30	285.30	270.30	33.63	10.07	94.07	90.30	90.30
Deferral as a percentage	41.33%	35.33%	28.53%	27.03%	3.36%	1.01%	9.41%	9.03%	9.03%
Savings (Cost)	(5.86)	23.27	(12.27)	(20.11)	(44.01)	-	-	(128.04)	(174.66)
Savings (Cost) as a percentage	-0.59%	2.33%	-1.23%	-2.01%	-4.40%	0.00%	0.00%	-12.80%	-17.47%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates Ordinary Income	Capital Gains	Canadian Dividends Eligible (9)	Canadian Dividends Non-Eligible	Integration - Active Business Income SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $44,740	20.05%	10.03%	-6.86%	9.24%	7.85%	-0.26%	-6.45%	-1.65%
over $44,740 up to $48,535	24.15%	12.08%	-1.20%	13.95%	11.95%	-0.30%	-2.35%	-1.70%
over $48,535 up to $78,783	29.65%	14.83%	6.39%	20.28%	17.45%	-0.36%	3.15%	-1.76%
over $78,783 up to $89,482	31.48%	15.74%	8.92%	22.38%	19.28%	-0.37%	4.98%	-1.78%
over $89,482 up to $92,825	33.89%	16.95%	12.24%	25.16%	21.69%	-0.40%	7.39%	-1.80%
over $92,825 up to $97,069	37.91%	18.95%	17.79%	29.78%	25.71%	-0.44%	11.41%	-1.85%
over $97,069 up to $150,000	43.41%	21.70%	25.38%	36.10%	31.21%	-0.49%	16.91%	-1.91%
over $150,000 up to $150,473	44.97%	22.48%	27.53%	37.90%	32.77%	-0.51%	18.47%	-1.92%
over $150,473 up to $214,368	48.19%	24.09%	31.97%	41.60%	35.99%	-0.53%	21.69%	-1.95%
over $214,368 up to $220,000	51.97%	25.98%	37.19%	45.95%	39.77%	-0.57%	25.47%	-2.00%
over $220,000	53.53%	26.76%	39.34%	47.74%	41.33%	-0.59%	27.03%	-2.01%

Corporate Rates - 2020

General	26.50%
M & P	25.00%
Prov SBD, but no Fed (10,11)	18.20%
ABI to Fed SBD (10)	12.20%
Investment	50.17%
Personal Services Business (6)	44.50%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.
2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.
3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.
4 Neither eligible nor non-eligible dividends would be paid solely to recover RDTOH.
5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums, Employer Health Tax, etc.). These are not incorporated above.
6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.
7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.
8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.
9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.
10 Ontario's small business corporate tax rate decreased to 3.2% (from 3.5%) and the non-eligible dividend tax credit was reduced to coincide with with it, effective January 1, 2020.
11 Ontario did not mirror the federal passive income rules which grind the small business deduction (SBD). As such, some corporations will be eligible for the provincial SBD on income ineligible for the federal SBD.

APPENDIX (Continued)

Integration in Quebec
December 31, 2020

	Active Business Income				SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD to $500K (3,10) Non-M & P	SBD to $500K (3,10) M & P	Fed SBD, No Prov SBD (9)	No Fed or Prov SBD (2,9)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(140.00)	(130.00)	(205.00)	(265.00)	(501.67)	(383.33)	(383.33)	(445.00)	(445.00)
Dividend Refund	-	-	-	-	306.67	383.33	383.33	-	-
Available for Dividend	860.00	870.00	795.00	735.00	805.00	1,000.00	1,000.00	555.00	555.00
Personal Tax (highest rate)	(405.40)	(410.12)	(374.76)	(295.79)	(379.48)	(401.00)	(471.40)	(222.56)	(261.63)
Net After Tax Cash	454.60	459.88	420.24	439.21	425.52	599.00	528.60	332.45	293.37
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(533.10)	(533.10)	(533.10)	(533.10)	(533.10)	(401.00)	(471.40)	(533.10)	(533.10)
Net After Tax Cash	466.90	466.90	466.90	466.90	466.90	599.00	528.60	466.90	466.90
Deferral	393.10	403.10	328.10	268.10	31.43	17.67	88.07	88.10	88.10
Deferral as a percentage	39.31%	40.31%	32.81%	26.81%	3.14%	1.77%	8.81%	8.81%	8.81%
Savings (Cost)	(12.30)	(7.02)	(46.66)	(27.69)	(41.38)	-	-	(134.46)	(173.53)
Savings (Cost) as a percentage	-1.23%	-0.70%	-4.67%	-2.77%	-4.14%	0.00%	0.00%	-13.45%	-17.35%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible	Canadian Dividends: Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $44,545	27.53%	13.76%	4.53%	17.50%	13.53%	-1.52%	1.03%	-2.49%
over $44,545 up to $48,535	32.53%	16.26%	11.43%	23.25%	18.53%	-1.47%	6.03%	-2.55%
over $48,535 up to $89,080	37.12%	18.56%	17.76%	28.53%	23.12%	-1.42%	10.62%	-2.60%
over $89,080 up to $97,069	41.12%	20.56%	23.28%	33.13%	27.12%	-1.37%	14.62%	-2.64%
over $97,069 up to $108,390	45.71%	22.86%	29.62%	38.41%	31.71%	-1.32%	19.21%	-2.69%
over $108,390 up to $150,473	47.46%	23.73%	32.04%	40.42%	33.46%	-1.30%	20.96%	-2.72%
over $150,473 up to $214,368	50.15%	25.07%	35.75%	43.51%	36.15%	-1.27%	23.65%	-2.74%
over $214,368	53.31%	26.65%	40.10%	47.14%	39.31%	-1.23%	26.81%	-2.77%

Corporate Rates - 2020

General (9)	26.50%
M & P w/ SBD (10)	13.00%
ABI to Fed SBD (10)	14.00%
ABI to Fed SBD, no Prov SBD (9)	20.50%
Investment	50.17%
Personal Services Business (6)	44.50%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.
2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.
3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.
4 Neither eligible nor non-eligible dividends would be paid solely to recover RDTOH.
5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.
6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.
7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.
8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.18% on ordinary income, 0.09% on capital gains, 0.25% on eligible dividends and 0.21% on non-eligible dividends.
9 Quebec's general tax rate was gradually reduced up to 2020. (2019 - 11.6%, 2020 - 11.5%).
10 Quebec's small business tax rate was decreased from 7.0% to 6.0% effective January 1, 2019, followed by decreases until 2021 (2020 - 5.0%, and 2021 - 4.0%). The additional deduction for small business manufacturing and processing will be phased out such that the tax rate will remain at 4.0% going forward. The ability to obtain the small business deduction for entities outside of the primary and manufacturing sectors has been restricted.

APPENDIX (Continued)

Integration in New Brunswick

December 31, 2020

	Active Business Income			SIBI (4)		Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	Prov SBD, No Fed (12)	No SBD (2)	Trapped RDTOH (7)	All RDTOH Recovered (8)	Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(115.00)	(175.00)	(290.00)	(526.67)	(526.67)	(383.33)	(383.33)	(470.00)	(470.00)
Dividend Refund	-	-	-	294.23	306.67	383.33	383.33	-	-
Available for Dividend	885.00	825.00	710.00	767.57	780.00	1,000.00	1,000.00	530.00	530.00
Personal Tax (highest rate)	(422.59)	(291.41)	(237.92)	(366.51)	(372.45)	(335.10)	(477.50)	(177.60)	(253.08)
Net After Tax Cash	462.41	533.59	472.08	401.05	407.55	664.90	522.50	352.40	276.93
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(533.00)	(533.00)	(533.00)	(533.00)	(533.00)	(335.10)	(477.50)	(533.00)	(533.00)
Net After Tax Cash	467.00	467.00	467.00	467.00	467.00	664.90	522.50	467.00	467.00
Deferral	418.00	358.00	243.00	6.33	6.33	(48.23)	94.17	63.00	63.00
Deferral as a percentage	41.80%	35.80%	24.30%	0.63%	0.63%	-4.82%	9.42%	6.30%	6.30%
Savings (Cost)	(4.59)	66.59	5.08	(65.95)	(59.45)	-	-	(114.60)	(190.08)
Savings (Cost) as a percentage	-0.46%	6.66%	0.51%	-6.59%	-5.94%	0.00%	0.00%	-11.46%	-19.01%

Brackets (9,10) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
			Canadian Dividends		SBD		No SBD	
	Ordinary Income	Capital Gains	Eligible (11)	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $43,401	24.68%	12.34%	-5.99%	14.83%	13.18%	0.06%	-4.32%	-0.07%
over $43,401 up to $48,535	29.82%	14.91%	1.10%	20.75%	18.32%	-0.04%	0.82%	0.04%
over $48,535 up to $86,803	35.32%	17.66%	8.69%	27.07%	23.82%	-0.14%	6.32%	0.15%
over $86,803 up to $97,069	37.02%	18.51%	11.04%	29.03%	25.52%	-0.17%	8.02%	0.18%
over $97,069 up to $141,122	42.52%	21.26%	18.63%	35.35%	31.02%	-0.26%	13.52%	0.29%
over $141,122 up to $150,473	43.84%	21.92%	20.45%	36.87%	32.34%	-0.29%	14.84%	0.32%
over $150,473 up to $160,776	47.06%	23.53%	24.89%	40.57%	35.56%	-0.34%	18.06%	0.39%
over $160,776 up to $214,368	49.52%	24.76%	28.29%	43.40%	38.02%	-0.39%	20.52%	0.43%
over $214,368	53.30%	26.65%	33.51%	47.75%	41.80%	-0.46%	24.30%	0.51%

Corporate Rates - 2020

General	29.00%
M & P	29.00%
Prov SBD, but no Fed	17.50%
ABI to Fed SBD	11.50%
Investment	52.67%
Personal Services Business (6)	47.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This assumes RDTOH can be recovered only to the extent of taxable dividends available from investment income.

8 This assumes RDTOH can be fully recovered by paying dividends from retained earnings accumulated form other sources (most commonly active income). The personal tax cost of the additional dividends is not included above.

9 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

10 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

11 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

12 New Brunswick did not mirror the federal passive income rules which grind the small business deduction (SBD). As such, some corporations will be eligible for the provincial SBD on income ineligible for the federal SBD.

APPENDIX (Continued)

Integration in Nova Scotia
December 31, 2020

	Active Business Income		SIBI (4)		Dividends (4)		Personal Services Business Income (6)	
	SBD (3,12)	No SBD (2,12)	Trapped RDTOH (7)	All RDTOH Recovered (8)	Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax (12)	(116.23)	(294.93)	(531.60)	(531.60)	(383.33)	(383.33)	(474.93)	(474.93)
Dividend Refund	-	-	291.17	306.67	383.33	383.33	-	-
Available for Dividend	883.77	705.07	759.57	775.07	1,000.00	1,000.00	525.07	525.07
Personal Tax (highest rate)	(426.68)	(293.17)	(366.72)	(374.20)	(415.80)	(482.80)	(218.32)	(253.50)
Net After Tax Cash	457.08	411.90	392.85	400.87	584.20	517.20	306.75	271.57
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(540.00)	(540.00)	(540.00)	(540.00)	(415.80)	(482.80)	(540.00)	(540.00)
Net After Tax Cash	460.00	460.00	460.00	460.00	584.20	517.20	460.00	460.00
Deferral	423.77	245.07	8.40	8.40	32.47	99.47	65.07	65.07
Deferral as a percentage	42.38%	24.51%	0.84%	0.84%	3.25%	9.95%	6.51%	6.51%
Savings (Cost)	(2.92)	(48.10)	(67.15)	(59.13)	-	-	(153.25)	(188.43)
Savings (Cost) as a percentage	-0.29%	-4.81%	-6.72%	-5.91%	0.00%	0.00%	-15.33%	-18.84%

Brackets (9,10) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
			Canadian Dividends		SBD		No SBD	
	Ordinary Income	Capital Gains	Eligible (11)	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $25,000	23.79%	11.90%	-0.11%	13.54%	12.17%	0.20%	-5.70%	-5.63%
over $25,000 up to $29,590	24.32%	12.16%	0.62%	14.14%	12.70%	0.20%	-5.17%	-5.61%
over $29,590 up to $48,535	30.48%	15.24%	9.12%	21.23%	18.86%	0.09%	0.99%	-5.44%
over $48,535 up to $59,180	35.98%	17.99%	16.71%	27.55%	24.36%	0.01%	6.49%	-5.29%
over $59,180 up to $74,999	37.70%	18.85%	19.09%	29.53%	26.08%	-0.02%	8.21%	-5.25%
over $74,999 up to $93,000	37.17%	18.59%	18.35%	28.92%	25.55%	-0.01%	7.68%	-5.26%
over $93,000 up to $97,069	38.00%	19.00%	19.50%	29.88%	26.38%	-0.03%	8.51%	-5.24%
over $97,069 up to $150,000	43.50%	21.75%	27.09%	36.20%	31.88%	-0.12%	14.01%	-5.09%
over $150,000 up to $150,473	47.00%	23.50%	31.92%	40.23%	35.38%	-0.18%	17.51%	-5.00%
over $150,473 up to $214,368	50.22%	25.11%	36.36%	43.93%	38.60%	-0.23%	20.73%	-4.91%
over $214,368	54.00%	27.00%	41.58%	48.28%	42.38%	-0.29%	24.51%	-4.81%

Corporate Rates - 2020

General (12)	29.49%
M & P (12)	29.49%
ABI to Fed SBD (12)	11.62%
Investment	53.16%
Personal Services Business (6)	47.49%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.
2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.
3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.
4 Neither eligible nor non-eligible dividends would be paid solely to recover RDTOH.
5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.
6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.
7 This assumes RDTOH can be recovered only to the extent of taxable dividends available from investment income.
8 This assumes RDTOH can be fully recovered by paying dividends from retained earnings accumulated form other sources (most commonly active income). The personal tax cost of the additional dividends is not included above.
9 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.
10 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.
11 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.
12 The 2020 Nova Scotia Budget reiterated the government's intention to reduce the general corporate rate to 14% (from 16%) and the small business corporate rate to 2.5% (from 3%), both effective April 1, 2020. The rates in the chart above reflect a blended rate for a calendar 2020 year-end.

APPENDIX (Continued)

Integration in Prince Edward Island

December 31, 2020

	Active Business Income		SIBI (4)		Dividends (4)		Personal Services Business Income (6)	
	SBD (3,12)	No SBD (2)	Trapped RDTOH (7)	All RDTOH Recovered (8)	Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(120.00)	(310.00)	(546.67)	(546.67)	(383.33)	(383.33)	(490.00)	(490.00)
Dividend Refund	-	-	281.80	306.67	383.33	383.33	-	-
Available for Dividend	880.00	690.00	735.14	760.00	1,000.00	1,000.00	510.00	510.00
Personal Tax (highest rate)	(397.94)	(236.12)	(332.43)	(343.67)	(342.20)	(452.20)	(174.52)	(230.62)
Net After Tax Cash	482.06	453.88	402.71	416.33	657.80	547.80	335.48	279.38
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(513.70)	(513.70)	(513.70)	(513.70)	(342.20)	(452.20)	(513.70)	(513.70)
Net After Tax Cash	486.30	486.30	486.30	486.30	657.80	547.80	486.30	486.30
Deferral	393.70	203.70	(32.97)	(32.97)	(41.13)	68.87	23.70	23.70
Deferral as a percentage	39.37%	20.37%	-3.30%	-3.30%	-4.11%	6.89%	2.37%	2.37%
Savings (Cost)	(4.24)	(32.42)	(83.59)	(69.97)	-	-	(150.82)	(206.92)
Savings (Cost) as a percentage	-0.42%	-3.24%	-8.36%	-7.00%	0.00%	0.00%	-15.08%	-20.69%

Brackets (9,10) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible (11)	Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $31,984	24.80%	12.40%	-0.99%	14.98%	12.80%	-0.38%	-6.20%	-5.52%
over $31,984 up to $48,535	28.80%	14.40%	4.53%	19.58%	16.80%	-0.43%	-2.20%	-5.33%
over $48,535 up to $63,969	34.30%	17.15%	12.12%	25.91%	22.30%	-0.50%	3.30%	-5.06%
over $63,969 up to $97,069	37.20%	18.60%	16.12%	29.24%	25.20%	-0.53%	6.20%	-4.92%
over $97,069 up to $99,490	42.70%	21.35%	23.71%	35.57%	30.70%	-0.60%	11.70%	-4.66%
over $99,490 up to $150,473	44.37%	22.19%	24.56%	37.17%	32.37%	-0.34%	13.37%	-3.58%
over $150,473 up to $214,368	47.59%	23.80%	29.00%	40.87%	35.59%	-0.38%	16.59%	-3.42%
over $214,368	51.37%	25.69%	34.22%	45.22%	39.37%	-0.42%	20.37%	-3.24%

Corporate Rates - 2020

General	31.00%
M & P	31.00%
ABI to Fed SBD (12)	12.00%
Investment	54.67%
Personal Services Business (6)	49.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This assumes RDTOH can be recovered only to the extent of taxable dividends available from investment income.

8 This assumes RDTOH can be fully recovered by paying dividends from retained earnings accumulated form other sources (most commonly active income). The personal tax cost of the additional dividends is not included above.

9 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

10 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

11 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

12 PEI's small business corporate tax rate decreased to 3.0% (from 3.5%), effective January 1, 2020.

Integration in Newfoundland and Labrador
December 31, 2020

	Active Business Income		SIBI (4)		Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	No SBD (2)	Trapped RDTOH (7)	All RDTOH Recovered (8)	Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(120.00)	(300.00)	(536.67)	(536.67)	(383.33)	(383.33)	(480.00)	(480.00)
Dividend Refund	-	-	288.02	306.67	383.33	383.33	-	-
Available for Dividend	880.00	700.00	751.35	770.00	1,000.00	1,000.00	520.00	520.00
Personal Tax (highest rate)	(392.39)	(298.27)	(335.03)	(343.34)	(426.10)	(445.90)	(221.57)	(231.87)
Net After Tax Cash	487.61	401.73	416.32	426.66	573.90	554.10	298.43	288.13
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(513.00)	(513.00)	(513.00)	(513.00)	(426.10)	(445.90)	(513.00)	(513.00)
Net After Tax Cash	487.00	487.00	487.00	487.00	573.90	554.10	487.00	487.00
Deferral	393.00	213.00	(23.67)	(23.67)	42.77	62.57	33.00	33.00
Deferral as a percentage	39.30%	21.30%	-2.37%	-2.37%	4.28%	6.26%	3.30%	3.30%
Savings (Cost)	0.61	(85.27)	(70.68)	(60.34)	-	-	(188.57)	(198.87)
Savings (Cost) as a percentage	0.06%	-8.53%	-7.07%	-6.03%	0.00%	0.00%	-18.86%	-19.89%

Brackets (9,10) 2020 Taxable Income	Personal Tax Rates: Ordinary Income	Capital Gains	Canadian Dividends: Eligible	Non-Eligible	Integration - Active Business Income: SBD Deferral %	SBD Savings (Cost) %	No SBD Deferral %	No SBD Savings (Cost) %
first $37,929	23.70%	11.85%	4.53%	12.85%	11.70%	0.39%	-6.30%	-9.47%
over $37,929 up to $48,535	29.50%	14.75%	12.53%	19.52%	17.50%	0.32%	-0.50%	-9.27%
over $48,535 up to $75,858	35.00%	17.50%	20.12%	25.84%	23.00%	0.26%	5.00%	-9.08%
over $75,858 up to $97,069	36.30%	18.15%	21.91%	27.34%	24.30%	0.24%	6.30%	-9.04%
over $97,069 up to $135,432	41.80%	20.90%	29.50%	33.66%	29.80%	0.18%	11.80%	-8.85%
over $135,432 up to $150,473	43.30%	21.65%	31.57%	35.39%	31.30%	0.16%	13.30%	-8.80%
over $150,473 up to $189,604	46.52%	23.26%	36.01%	39.09%	34.52%	0.12%	16.52%	-8.69%
over $189,604 up to $214,368	47.52%	23.76%	37.39%	40.24%	35.52%	0.11%	17.52%	-8.65%
over $214,368	51.30%	25.65%	42.61%	44.59%	39.30%	0.06%	21.30%	-8.53%

Corporate Rates - 2020

General	30.00%
M & P	30.00%
ABI to Fed SBD	12.00%
Investment	53.67%
Personal Services Business (6)	48.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Neither eligible nor non-eligible dividends would be paid solely to recover RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This assumes RDTOH can be recovered only to the extent of taxable dividends available from investment income.

8 This assumes RDTOH can be fully recovered by paying dividends from retained earnings accumulated form other sources (most commonly active income). The personal tax cost of the additional dividends is not included above.

9 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

10 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

APPENDIX (Continued)

Integration in Northwest Territories

December 31, 2020

	Active Business Income		SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3)	No SBD (2)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(130.00)	(265.00)	(501.67)	(383.33)	(383.33)	(445.00)	(445.00)
Dividend Refund	-	-	306.67	383.33	383.33	-	-
Available for Dividend	870.00	735.00	805.00	1,000.00	1,000.00	555.00	555.00
Personal Tax (highest rate)	(320.33)	(209.50)	(296.40)	(283.30)	(368.20)	(157.23)	(204.35)
Net After Tax Cash	549.67	525.50	508.60	716.70	631.80	397.77	350.65
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(470.50)	(470.50)	(470.50)	(283.30)	(368.20)	(470.50)	(470.50)
Net After Tax Cash	529.50	529.50	529.50	716.70	631.80	529.50	529.50
Deferral	340.50	205.50	(31.17)	(100.03)	(15.13)	25.50	25.50
Deferral as a percentage	34.05%	20.55%	-3.12%	-10.00%	-1.51%	2.55%	2.55%
Savings (Cost)	20.17	(4.00)	(20.90)	-	-	(131.73)	(178.85)
Savings (Cost) as a percentage	2.02%	-0.40%	-2.09%	0.00%	0.00%	-13.17%	-17.89%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
	Ordinary Income	Capital Gains	Canadian Dividends		SBD		No SBD	
			Eligible (9)	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $43,957	20.90%	10.45%	-7.76%	6.75%	7.90%	2.03%	-5.60%	-0.11%
over $43,957 up to $48,535	23.60%	11.80%	-4.03%	9.86%	10.60%	2.02%	-2.90%	-0.15%
over $48,535 up to $87,916	29.10%	14.55%	3.56%	16.18%	16.10%	2.02%	2.60%	-0.21%
over $87,916 up to $97,069	32.70%	16.35%	8.53%	20.32%	19.70%	2.02%	6.20%	-0.25%
over $97,069 up to $142,932	38.20%	19.10%	16.12%	26.65%	25.20%	2.01%	11.70%	-0.31%
over $142,932 up to $150,473	40.05%	20.03%	18.67%	28.77%	27.05%	2.02%	13.55%	-0.32%
over $150,473 up to $214,368	43.27%	21.64%	23.11%	32.47%	30.27%	2.02%	16.77%	-0.36%
over $214,368	47.05%	23.53%	28.33%	36.82%	34.05%	2.02%	20.55%	-0.40%

Corporate Rates - 2020

General	26.50%
M & P	26.50%
ABI to Fed SBD	13.00%
Investment	50.17%
Personal Services Business (6)	44.50%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible or non-eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

APPENDIX (Continued)

Integration in Nunavut

December 31, 2020

	Active Business Income		SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3,10)	No SBD (2)		Eligible	Non-Eligible	Eligible	Non-Eligible
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(120.00)	(270.00)	(506.67)	(383.33)	(383.33)	(450.00)	(450.00)
Dividend Refund	-	-	306.67	383.33	383.33	-	-
Available for Dividend	880.00	730.00	800.00	1,000.00	1,000.00	550.00	550.00
Personal Tax (highest rate)	(332.55)	(241.96)	(302.32)	(330.80)	(377.90)	(181.94)	(207.85)
Net After Tax Cash	547.45	488.05	497.68	669.20	622.10	368.06	342.16
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(445.00)	(445.00)	(445.00)	(330.80)	(377.90)	(445.00)	(445.00)
Net After Tax Cash	555.00	555.00	555.00	669.20	622.10	555.00	555.00
Deferral	325.00	175.00	(61.67)	(52.53)	(5.43)	(5.00)	(5.00)
Deferral as a percentage	32.50%	17.50%	-6.17%	-5.25%	-0.54%	-0.50%	-0.50%
Savings (Cost)	(7.55)	(66.96)	(57.32)	-	-	(186.94)	(212.85)
Savings (Cost) as a percentage	-0.76%	-6.70%	-5.73%	0.00%	0.00%	-18.69%	-21.28%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
	Ordinary Income	Capital Gains	Canadian Dividends		SBD		No SBD	
			Eligible (9)	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $46,277	19.00%	9.50%	-2.11%	8.46%	7.00%	-0.44%	-8.00%	-6.57%
over $46,277 up to $48,535	22.00%	11.00%	2.03%	11.91%	10.00%	-0.48%	-5.00%	-6.58%
over $48,535 up to $92,555	27.50%	13.75%	9.62%	18.24%	15.50%	-0.55%	0.50%	-6.61%
over $92,555 up to $97,069	29.50%	14.75%	12.38%	20.54%	17.50%	-0.58%	2.50%	-6.62%
over $97,069 up to $150,473	35.00%	17.50%	19.97%	26.86%	23.00%	-0.64%	8.00%	-6.65%
over $150,473 up to $214,368	40.72%	20.36%	27.86%	33.44%	28.72%	-0.71%	13.72%	-6.67%
over $214,368	44.50%	22.25%	33.08%	37.79%	32.50%	-0.76%	17.50%	-6.70%

Corporate Rates - 2020

General	27.00%
M & P	27.00%
ABI to Fed SBD	12.00%
Investment	50.67%
Personal Services Business (6)	45.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible or non-eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

10 Nunavut's small business tax rate decreased to 3.0% (from 4.0%), effective July 1, 2019.

APPENDIX (Continued)

Integration in Yukon
December 31, 2020

	Active Business Income				SIBI (4)	Dividends (4)		Personal Services Business Income (6)	
	SBD (3,10)		No SBD			Eligible	Non-Eligible	Eligible	Non-Eligible
	M & P	Non-M & P	M & P (2)	Non-M & P					
Income in Corporation	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Corporate Tax	(105.00)	(110.00)	(175.00)	(270.00)	(506.67)	(383.33)	(383.33)	(450.00)	(450.00)
Dividend Refund	-	-	-	-	306.67	383.33	383.33	-	-
Available for Dividend	895.00	890.00	825.00	730.00	800.00	1,000.00	1,000.00	550.00	550.00
Personal Tax (highest rate)	(377.42)	(375.31)	(252.57)	(212.51)	(337.36)	(289.30)	(421.70)	(159.12)	(231.94)
Net After Tax Cash	517.58	514.69	572.43	517.49	462.64	710.70	578.30	390.89	318.07
Income Earned Directly	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Personal Tax (highest rate)	(480.00)	(480.00)	(480.00)	(480.00)	(480.00)	(289.30)	(421.70)	(480.00)	(480.00)
Net After Tax Cash	520.00	520.00	520.00	520.00	520.00	710.70	578.30	520.00	520.00
Deferral	375.00	370.00	305.00	210.00	(26.67)	(94.03)	38.37	30.00	30.00
Deferral as a percentage	37.50%	37.00%	30.50%	21.00%	-2.67%	-9.40%	3.84%	3.00%	3.00%
Savings (Cost)	(2.42)	(5.31)	52.43	(2.51)	(57.36)	-	-	(129.12)	(201.94)
Savings (Cost) as a percentage	-0.24%	-0.53%	5.24%	-0.25%	-5.74%	0.00%	0.00%	-12.91%	-20.19%

Brackets (7,8) 2020 Taxable Income	Personal Tax Rates				Integration - Active Business Income			
			Canadian Dividends		SBD		No SBD	
	Ordinary Income	Capital Gains	Eligible (9)	Non-Eligible	Deferral %	Savings (Cost) %	Deferral %	Savings (Cost) %
first $48,535	21.40%	10.70%	-7.78%	11.58%	10.40%	0.09%	-5.60%	-0.11%
over $48,535 up to $97,069	29.50%	14.75%	3.40%	20.90%	18.50%	-0.10%	2.50%	-0.16%
over $97,069 up to $150,473	36.90%	18.45%	13.61%	29.41%	25.90%	-0.27%	9.90%	-0.19%
over $150,473 up to $214,368	42.11%	21.06%	20.79%	35.39%	31.11%	-0.39%	15.11%	-0.21%
over $214,368 up to $500,000	45.80%	22.90%	25.89%	39.64%	34.80%	-0.48%	18.80%	-0.24%
over $500,000	48.00%	24.00%	28.93%	42.17%	37.00%	-0.53%	21.00%	-0.25%

Corporate Rates - 2020

General	27.00%
M & P	17.50%
ABI to SBD	11.00%
ABI to SBD w/ Prov M&P	10.50%
Investment	50.67%
Personal Services Business (6)	45.00%

Notes

1 All tax rates incorporate all announced rate changes to July 31, 2020, and assume a December 31, 2020 corporate year-end and top personal rates (unless otherwise specified). All rates assume a full fiscal year. All rates are rounded to the nearest 1/100 of 1%.

2 Where after-tax income exceeds GRIP generated, the distribution is considered a mix of eligible and non-eligible dividends. The personal tax rate would then be a blend of those two rates. The GRIP addition is 72%.

3 Corporations with adjusted aggregate investment income (passive income) in excess of $50,000, or taxable capital in excess of $10 million, may have their SBD limit reduced or eliminated.

4 Eligible dividends to recover RDTOH would generally be paid as this results in a net tax recovery. Non-eligible dividends would not be paid solely to recover RDTOH. Note that the payment of eligible dividends cannot recover non-eligible RDTOH.

5 In making salary/dividend decisions, other costs of salaries must also be considered (eg. CPP premiums). These are not incorporated above.

6 Personal services business income is included in the GRIP computation, so eligible dividends can be paid. However, if the company believed the income was normal active income, often non-eligible dividends are distributed. Unless CRA permits a late designation, the result may be PSB rates on the corporate income and non-eligible dividend rates to the shareholder.

7 This chart summarizes each of the tax brackets and the resulting integration deferrals and savings or costs. The personal tax rates have been provided courtesy of Taxtips.ca.

8 At net income levels over $150,473 and up to $214,368, the erosion of the proposed enhanced basic personal exemption is included in the rates. This increases the rate by approximately 0.22% on ordinary income, 0.11% on capital gains, 0.30% on eligible dividends and 0.25% on non-eligible dividends.

9 The negative tax rate on eligible dividends assumes the dividend tax credit can offset federal and/or provincial taxes payable on other income.

10 Yukon also has a small business M & P credit which reduces the small business tax rate by 0.5%. Effective January 1, 2021, this M & P credit will reduce to 0%. In addition, effective January 1, 2021, the Yukon government is reducing the small business corporate tax rate to 0% (from 2%).