



## Conclusion:

- For every province/territory outlined above:
  - There is no tax deferral available by earning investment income through a corporation\*
  - There is a tax cost associated with earning investment income (except Canadian eligible dividends) through a corporation

## Notes:

- Tax rates in effect as of January 1, 2025 and do not reflect changes resulting from federal or provincial announcements after this date.
- Corporate tax rates apply to Canadian-controlled private corporations (CCPCs). The net corporate tax liability is lowered once the after-tax profits are distributed to the shareholder and the corporation is refunded some or all of its corporate tax, through a refundable tax mechanism designed to provide integration and discourage the use of corporation as a tax deferred vehicle.
- Part I tax is applicable to interest, foreign income and taxable capital gains and is subject to a 30.67% refundable tax. The combined corporate and personal taxes take into account the refundable taxes applicable to the investment income.
- Canadian dividends are subject to Part IV tax. Part IV tax is fully refundable once the after-tax profits are distributed to the shareholder, subject to a new ordering rule in 2019 requiring refundable taxes from the "Non-eligible RDTOH" being paid first. As a result of this perfect integration, there is no difference between earning Canadian eligible dividends personally, or earning Canadian eligible dividends through a corporation and distributing out the after-tax profits to the individual shareholder.
- Personal tax rates are assumed to be top marginal tax rates. The tax deferral/prepayment and tax savings/(cost) conclusions will differ if the individual is not in the top marginal tax bracket.
- The 2018 Federal Budget introduced rules that will reduce a corporation's ability to claim the small business deduction if the corporation, and any associated corporation's combined "adjusted" aggregate investment income exceeds \$50,000, for tax years beginning in 2019.
- The 2024 Federal Budget announced an increase in the capital gains inclusion rate, effective June 25, 2024, from one half to two thirds for corporations, and trusts, and from one half to two thirds on the portion of capital gains realized in the year that exceed \$250,000 for individuals, graduated rate estates (GREs) and qualified disability trusts (QDTs). A Notice of Ways and Means Motion (NWMM) to introduce this change was tabled on June 10, 2024. On January 31, 2025, the federal government announced that the effective date for these proposed changes will be deferred from June 25, 2024 to January 1, 2026

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

## Earning active business income (ABI) in a corporation

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

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

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

### Integration 2025

(current as of January 1, 2025)

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	PEI	Newfoundland	Yukon	NWT	Nunavut
<b>Income Earned By Individual</b>													
Business Income (\$)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Top Marginal Tax Rate (%)	53.5%	48.0%	47.5%	50.4%	53.5%	53.3%	52.5%	54.0%	52.0%	54.8%	48.0%	47.0%	44.5%
Personal Income Taxes (\$)	535	480	475	504	535	533	525	540	520	548	480	470	445
<b>Net Income to Shareholder (\$)</b>	<b>465</b>	<b>520</b>	<b>525</b>	<b>496</b>	<b>465</b>	<b>467</b>	<b>475</b>	<b>460</b>	<b>480</b>	<b>452</b>	<b>520</b>	<b>530</b>	<b>555</b>
<b>Income Earned By Corporation</b>													
Active Business Income (\$)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Small Business Corporate Tax Rate (%)	11.0%	11.0%	10.5%	9.0%	12.2%	12.2%	11.5%	11.5%	10.0%	11.5%	9.0%	11.0%	12.0%
Corporate Tax (\$)	110	110	105	90	122	122	115	115	100	115	90	110	120
After-tax profit available to shareholder (\$)	890	890	895	910	878	878	885	885	900	885	910	890	880
Top Non-eligible Dividend Marginal Tax Rate (%)	48.9%	42.3%	40.9%	46.7%	47.7%	48.7%	46.8%	48.3%	47.9%	49.0%	44.0%	36.8%	37.8%
Personal Tax on Non-eligible Dividend (\$)	435	377	366	425	419	428	415	427	431	433	401	328	333
<b>Net Income to Shareholder (\$)</b>	<b>455</b>	<b>513</b>	<b>529</b>	<b>485</b>	<b>459</b>	<b>450</b>	<b>470</b>	<b>458</b>	<b>469</b>	<b>452</b>	<b>509</b>	<b>562</b>	<b>547</b>
<b>Summary</b>													
Tax Deferral / (Prepayment)	42.5%	37.0%	37.0%	41.4%	41.3%	41.1%	41.0%	42.5%	42.0%	43.3%	39.0%	36.0%	32.5%
<b>Tax Savings / (Cost) (%)</b>	<b>-1.0%</b>	<b>-0.7%</b>	<b>0.4%</b>	<b>-1.1%</b>	<b>-0.6%</b>	<b>-1.7%</b>	<b>-0.5%</b>	<b>-0.2%</b>	<b>-1.1%</b>	<b>0.0%</b>	<b>-1.1%</b>	<b>3.3%</b>	<b>-0.8%</b>

**Conclusion:**

- For every province/territory outlined above,
- There is a significant tax deferral by earning ABI through a corporation
- There is no material tax savings by earning ABI through a corporation

**Notes:**

- Tax rates in effect as of January 1, 2025 and do not reflect changes resulting from federal or provincial/territory announcements after this date.
- Corporate tax rate reflects the small business deduction of \$500,000. Saskatchewan provides a provincial small business deduction of \$600,000, therefore different tax rates will apply between \$500,000 to \$600,000 of small business income and the tax deferral (prepayment) and tax savings (cost) will differ from above.
- After-tax profits are distributed by way of a non-eligible dividend and the shareholder is assumed to be in the top marginal tax bracket for their respective province.
- The 2018 Federal Budget introduced rules that will reduce a corporation's ability to claim the small business deduction if the corporation, and any associated corporation's combined "adjusted" aggregate investment income exceeds \$50,000 for tax years beginning in 2019.
- The individual shareholder of an active business that qualifies as a qualified small business corporation can access the lifetime capital gains exemption which exempts \$1,250,000 of capital gains from taxation when the shares are sold.



**For more information, please visit [mackenzieinvestments.com/taxandestate](https://mackenzieinvestments.com/taxandestate)**

This should not be construed as legal, tax or accounting advice. This material has been prepared for information purposes only. The tax information provided in this document is general in nature and each client should consult with their own tax advisor, accountant and lawyer before pursuing any strategy described herein as each client's individual circumstances are unique. We have endeavored to ensure the accuracy of the information provided at the time that it was written, however, should the information in this document be incorrect or incomplete or should the law or its interpretation change after the date of this document, the advice provided may be incorrect or inappropriate. There should be no expectation that the information will be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise. We are not responsible for errors contained in this document or to anyone who relies on the information contained in this document. Please consult your own legal and tax advisor.