

The following summarizes the corporate income tax rate changes and other changes for 2017. Please feel free to forward this to any of your colleagues who may find it of interest.

Should you have any questions relating to how the following will affect your business, yourself, and your family, and what can be done to take advantage of these changes, or any other aspect of personal or corporate income taxation please contact one of the members of our tax group at info@ddwca.com or (250) 220-7311.

Corporate Income Tax Rates

Corporate Tax Rate Changes

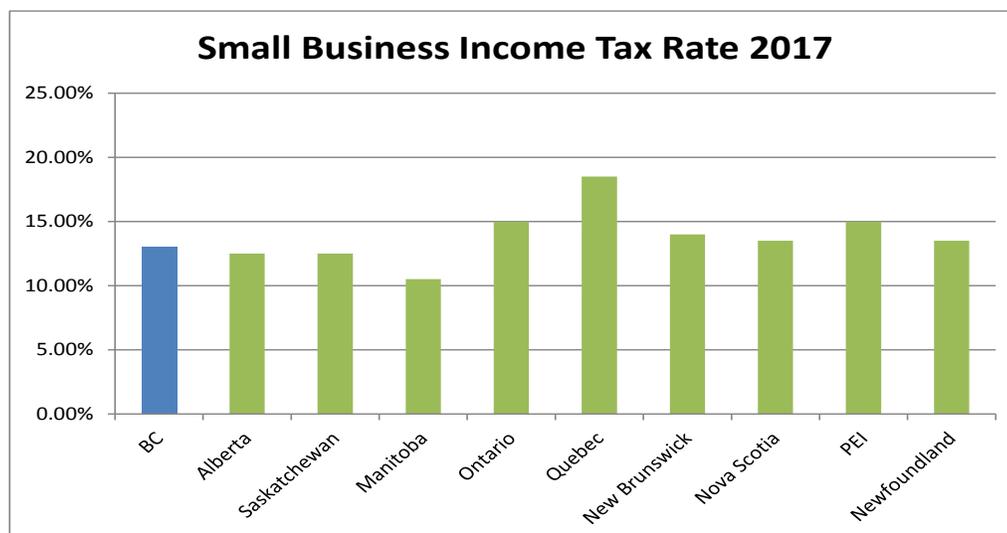
The following table summarizes the combined federal and BC income tax rates for corporations.

	2017 (%)	2016 (%)	2015 (%)
Small business income rate	13.00	13.00	13.50
General business income rate	26.00	26.00	26.00
Investment income rate	49.67	49.67	45.97
Personal services business income	44.00	44.00	39.00

The small business rate is available for Canadian controlled private corporations on active business income up to \$500,000. The investment income rate applies to investment income earned other than dividends received from Canadian corporations and capital gains. The capital gains tax rate is applied at one-half the rate on the table and dividends are subject to Part IV tax rate of 38 1/3%.

Small Business Rate Between Provinces

The following table summarizes the small business tax rate between provinces.



Salary and Dividend Comparison

There is no one size fits all approach on whether salary, dividend, or combination of both is most efficient method for remuneration for owners. A few items one would consider are:

1. Both the current and future cash needs of the owner
2. Canada Pension Plan (CPP) contributions
3. Registered Retirement Savings Plans (RRSP) contributions
4. Ability to use wages for Scientific Research and Experimental Development tax credit
5. The marginal income tax rate of owner, and if the ability to income splits exist, their family members.

Income Splitting Using Dividends

Due to the low marginal tax rates and tax credits available on the lower income bracket, if an individual (other than a minor) receives dividend income and no other income that individual may pay no personal income tax.

The following table summarizes the amount of dividends and an estimate of personal income taxes owing had the same dividend be earned by a taxpayer in the top and lowest tax brackets.

	Ineligible Dividend	Eligible Dividends
Amount of dividend	\$20,732	\$50,122
Incremental taxes in top tax bracket	\$8,419	\$15,688
Incremental income taxes in lowest tax bracket	\$0	\$0

Tax tip: Given the ability to potentially save taxes through income splitting, an analysis should be undertaken to identify opportunities where income splitting may be achieved. Often this will be done through introduction of adult children as shareholders or use of a family trust.

Tax Deferral

The following table summarizes the benefit of taxing active business income in the company. The left hand column shows the income being paid as a salary, thus resulting in no net income in the company. The right hand column shows the income being taxed in the company and then distributed by a dividend.

The distribution of the dividend may be deferred for as long as the funds are retained in the company. This provides a significant and potentially indefinite tax deferral.

	Paid as Salary	Paid as Dividends
Income Earned	\$100,000	\$100,000
Corporate taxes	\$0	\$13,000
Personal Taxes	\$47,700	\$35,333
Total Taxes	\$47,700	\$48,333
Taxes deferred	\$0	\$34,700

Taxing the income earned in the company and then paying dividends to shareholders creates the ability to defer \$34,700 of taxes for each \$100,000 earned. However, the total tax cost once distributed is \$633 greater than had salary been paid out.

Lifetime Capital Gains Exemption (LCGE)

Each individual is entitled to the LCGE which is an exemption on capital gains of certain qualified property including Qualified Small Business Corporation (QSBC) shares. The amount for 2016 is \$824,176, and will be adjusted for inflation for 2017.

The tax savings from using the lifetime capital gains exemption, assuming the taxpayer is at the top marginal tax bracket, is \$196,566.

Tax tip: In order to utilize the LCGE, the company must be a QSBC and meet certain tests for a 24 month period prior to sale. Planning should be undertaken to ensure companies maintain their eligibility.

Given the significant savings for this exemption, planning can also be considered for multiplication of the LCGE to extend to family members who are not currently shareholders.