

## SPECIFIED INVESTMENT BUSINESS (SIB) AND PERSONAL SERVICE BUSINESS (PSB)

- Small Canadian Controlled Private Corporations (CCPC's) are eligible for the Small Business Deduction
  - Where the first 500K in active business income gets taxed at a combined rate of 15%
- Small business deduction is based on active business income earned in Canada
- Specified Investment Business Income and Personal Service Business Income are not considered active business income unless they are earned from an associated corporation
- Therefore, SIB and PSB earned from non-associated corporations are not eligible for the small business deduction

### Specified Investment Business (SIB) Income:

- **SIB Income = Property income and taxable capital** gains earned by a corporation
- SIB Income is **considered Active Business Income** when the following is met:
  - The corporation employs more than 5 full time employees throughout the year; or
  - The SIB Income was earned from providing services to an associated corporation
- This means that a corporation that is in the business of earning property income (like rent) cannot be eligible for the small business deduction unless they employ more than 5 full time employees
- This rule was put in by CRA to discourage individuals to incorporate a corporation to earn property income and capital gains and pay the low small business rate (15% combined)

### Personal Service Business (PSB) Income:

- **PSB Income = employment income** earned through a corporation (an incorporated employee)
- The more detailed definition of Personal Service Business:
  - An individual who performs the services on behalf of the corporation (the incorporated employee); or a person related to the incorporated employee owns more than 10% of the voting shares of the corporation earning the employment income
- PSB Income is **considered active business income** when:
  - The corporation employs more than 5 full time employees throughout the year; or
  - The PSB Income was earned from providing services to an associated corporation
- This rule was put in by CRA to discourage individuals to incorporate and earn their employment income through a corporation and pay the small business tax rates (15%)