FEDERAL TAXES PAYABLE CALCULATION

Here is an overview of the federal tax calculation, below we will explain the components in detail:

	CCPC Active Business Income Eligible up to $500K	CCPC Aggregate Investment Income (AII)	General Rate for all other income
Basic	**38%**	**38%**	**38%**
Provincial Abatement	(10)	(10)	(10)
Small Business Deduction	(17)		
Manufacturing & Processing (M&P) Deduction **or** General Rate Reduction			(13)
Additional Refundable Tax		6.67	
Total Federal Part I Tax	**11%**	**34.67%**	**15%**
Refundable Part I Tax		(26.67)	
Federal Part I Tax after Dividend Refund	**11%**	**8%**	**15%**

Step 1: Base Amount

- The base amount of Part I tax is always 38% of Taxable Income ; it is the rate applied before any further deductions

Step 2: Provincial Abatement

- **Provincial Abatement** = 10% * Taxable Income earned in a Canadian Province/Territory

- This 10% deduction is meant to leave room for the provincial tax rates
- A corporation earns income from a Canadian province if it has a **Permanent Establishment** in that Province
- **Permanent Establishment one of the following**
  a) Fixed place of business (office, branch, factory, warehouse); or
  b) If the corporation carried on business in a province through an agent or an employee; and
     - that employee or agent had the authority to bind the corporation into a contract; or

        - that employee or agent held **inventory owned by the corporation** and filled orders regularly from that inventory

Step 3: Small Business Deduction (SBD) - Only for CCPC's

- **The SBD is available only to corporations that are CCPC's throughout the taxation year (cannot be a part year CCPC)**

Formula

17% * the lesser of

a) Active Business Income (ABI) earned in Canada
b) Taxable Income
c) $500,000 annual limit less amount of shared by associated corporations

Note that the $500,000 annual business limit must be shared among associated corporations

Large CCPC's (Taxable Capital Employed In Canada > $10 Million)

- To ensure that large CCPC's do not get the Small Business Deduction, the annual limit of $500,000 is grinded down by a formula:

    - Annual Business Limit is reduced by the following formula:
        - 500,000 * B/$11,250
        - Where B= (Taxable Capital Employed In Canada in Previous Year - $10 Million) * 0.225%
    - Therefore, per this formula, anytime previous year's taxable capital employed in Canada is more than $10 million, the small business deduction will start to grind down
    - A corporation with **TCEC of 15 Million or more will get NO SBD**
    - Therefore if previous year's taxable capital employed in Canada is $11 million; the small business deduction limit will be $400,000

Taxable Capital Employed in Canada = Liabilities + Shareholders' Equity less debt and equity investments in other corporations.

Please see our active business income notes to see the definition.

Step 4: Additional Refundable Tax (ART) – Only applies to CCPC's

Formula

6 2/3% * the lesser of:

a) Aggregate Investment Income (AII)
b) Taxable Income – Amount Eligible for the SBD

Aggregate Investment Income (AII) include:

- Interest
- Foreign Dividends (not dividends from Canadian resident corporations)
- Rent
- Royalties
- Net Taxable Capital Gains **less** Net Capital Loss carryover deducted during the year

Step 5: Manufacturing and Processing (M&P) Deduction

Formula

13% * the lesser of

a) M&P Profits – Amount eligible for the SBD
b) Taxable Income – Amount Eligible for the SBD – Aggregate Investment Income (AII)

Benefits of M&P Deduction

- Because the general rate reduction = M&P deduction; there is no added benefit of M&P deduction
- Some Provinces provide better tax rates on M&P income; therefore, you may be able to save money at the provincial level
    - In Ontario Corporations get an additional 1.5% reduction on provincial tax rates on M&P Income

Step 6: General Rate Reduction

Formula

General Rate Reduction equals to:

= 13% * (Taxable Income – Amount Eligible for SBD – Aggregate Investment Income – Amount Eligible for M&P deduction)