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REFERENCE GUIDE

WEALTH PLANNING GROUP

INCORPORATING YOUR BUSINESS

Introduction

If you are carrying on a business through a sole proprietorship or a partnership, it may at some point be appropriate to use a corporation to carry on the business. Many tax and non-tax considerations are involved in deciding whether or not to incorporate.

Not all of the issues discussed below would necessarily be relevant or decisive in any given situation. There may be unique factors in your own circumstances that could make incorporation appropriate or inappropriate. While it is not possible to describe all possible factors in this guide, a review of some of the main advantages and disadvantages of incorporation is a good starting point.

This reference guide provides information in the following areas:

Advantages of incorporation

- Limited liability and asset protection.
- Deferring tax, using the small business deduction.
- Accessing the capital gains exemption.
- Estate planning and income splitting.

Disadvantages of incorporation

- Legal and accounting costs.
- Trapped losses.
- Tax costs of removing assets from a corporation.
- Potential for integration failure.
- Double taxation at death.

Advantages of incorporation

LIMITED LIABILITY AND ASSET PROTECTION

If the sole proprietor of a business is held liable in a lawsuit, his or her personal assets are at risk of being seized or encumbered by the plaintiff to pay for the damages. Reducing this personal exposure to liability for wrongs or debts of the business is one reason a proprietor might consider incorporating.

At law, a corporation is considered to be an entity separate and distinct from the person(s) who may be its shareholder(s) or operator(s). Generally, a shareholder may invest in the business of a corporation knowing that his or her personal risk is limited to the amount invested. If a corporation becomes involved in liability for its dealings, the shareholder's personal assets, such as his or her home and personal investments, generally cannot be resorted to by the plaintiff to enforce the debt. Similarly, if a shareholder becomes involved in liability for personal dealings, the corporation's assets are not exposed.

Once a business is incorporated, a second corporation is frequently used to provide further asset protection to the corporation carrying on the business. A holding company (Holdco) may be used to hold valuable assets such as land and buildings separate from the corporation that operates the business (Opco). Opco is usually more likely than Holdco to become involved in liability.

However, there are certain exceptions to the strict separation of the roles of corporation and shareholder. In certain circumstances an individual may be held personally liable for the actions of the corporation. For example, environmental protection laws generally provide that shareholders, directors and possibly other employees of a corporation may be held personally liable for the corporation's environmental wrongs. A sole proprietor should discuss the limited liability and asset protection benefits with their legal advisors prior to incorporating their business.

DEFERRING TAX, USING THE SMALL BUSINESS DEDUCTION

One significant tax advantage of incorporating a business is the ability to defer a substantial portion of the tax on the income of the business. This tax deferral is often the main reason someone considers incorporation.

How the deferral works

Tax deferral is achieved by having the corporation retain some of the business income, where it is taxed at significantly lower rates than if it were earned personally.

Using a corporation to defer tax is similar to using an RRSP to defer tax. Tax on income contributed to an RRSP is deferred until funds are withdrawn. With a corporation, a portion of the tax on active business income retained in the corporation is deferred until the corporation

pays out (or is deemed to pay out) the retained earnings as a dividend or the shareholder disposes of (or is deemed to dispose of) his or her shares.

Currently, the maximum amount of tax that can be deferred each year by incorporating a business in Canada can be up to $214,000 (the amount of tax deferred depends on the province in which you live). The key to the deferral strategy is the small business deduction (SBD) which reduces the tax rate on the first $500,000 of active business income retained in a Canadian controlled private corporation (CCPC). The tax deferred is based on the difference between the rate you are currently paying on your business income, and the rate that the corporation would pay.

For example, assuming the highest marginal tax rate for individuals is approximately 50% and the corporation pays approximately 12% tax on the first $500,000 of active business income, there would be a tax deferral of 38%. Therefore, the maximum annual tax deferral is approximately $190,000 ($500,000 x 38%) in this example.

Please see Appendix A of this guide for your province's rates and maximum deferral amount.

Where retained earnings are not paid out as dividends, or where shares are not disposed of, the longest that the tax can be deferred is until the death of the shareholder of the corporation. Tax could potentially be deferred until the death of a surviving spouse who inherits the shares from the original shareholder. At death, an individual is deemed to dispose of all of his or her capital property (which would include the shares of a corporation), unless the property is transferred to a spouse (or a spousal trust in certain circumstances). The deemed disposition at death will trigger all capital gains accruing on the shares.

Dealing with active business income in excess of the SBD limit

Where a corporation has business income in excess of its SBD limit, it is subject to a higher general rate of tax than the SBD rate but still lower than the highest marginal personal tax rate. For example, a corporation may incur approximately 28% tax on active business income beyond its SBD limit.

Accordingly, options for dealing with income in excess of the SBD limit include the following:

- pay such excess as salaries or bonuses, which are treated as expenses of the corporation. Salaries and bonuses must be reasonable in relation to the value of the services performed by the recipient.
- retain and tax the excess income within the corporation to take advantage of a smaller corporate tax deferral, 22% in the example above being the highest personal tax rate of 50% less the general corporate tax rate of 28%. This could allow the corporation to later pay eligible dividends[1] to the shareholders.

[1] Eligible dividends are subject to a lower personal tax rate than ordinary non-eligible dividends.

The decision on what to do with active business income beyond the SBD limit should be determined on an annual basis with consultation from your professional advisors, considering your overall current and future circumstances and needs.

Determining whether you will benefit from the deferral

Basically, from a tax perspective you should consider incorporating a business if you are currently earning income from that business that is in excess of the funds necessary to support your lifestyle, you are currently maximizing your personal RRSP contributions, and there is enough time after incorporation before retirement to make the deferral worthwhile. It will be necessary to estimate your annual personal lifestyle expenditures including annual RRSP contributions, estimate your annual income from your business, and determine your desired retirement date.

Incorporating your business will generally only provide a tax deferral benefit where the business generates enough income so that all of the following apply:

- The income generated by the business is more than enough to meet your after-tax lifestyle expenses (including any family expenses).

  If the business generates only enough (or less than enough) income to meet your lifestyle expenses, there will be pressure to use the corporation's retained earnings. Using corporate property for personal purposes will attract tax personally, making incorporation less advantageous. However, using retained earnings to acquire business assets, such as equipment or real estate used in the business, makes incorporation advantageous. A corporation will have more after-tax dollars to acquire business assets.

- The income generated by the business is also more than enough to allow you to make the maximum RRSP contributions to the shareholder's and shareholder's spouse's plan.

  Generally, RRSPs provide a greater tax deferral than corporations do. RRSP contributions are fully deductible and therefore are not taxed (as opposed to being taxed at a lower rate as with corporations). The investment income earned inside an RRSP is not taxed until withdrawn, whereas investment income earned in a corporation is fully taxed. Therefore, using a corporation to defer tax is only advantageous if you are maximizing RRSP contributions.

- The income generated by the business is also enough to permit the corporation to retain sufficient earnings to make the costs of incorporation worthwhile.

  The costs of incorporating will include initial and ongoing professional fees.

- The use of the income retained in the corporation for personal purposes can be deferred for a sufficient period of time to make incorporation worthwhile.

  The shorter the time that tax is deferred or postponed, the smaller the deferral benefit will be. Therefore, if retained earnings will be distributed, or the shares of the corporation are

disposed of (or deemed to be disposed of), within a relatively short period of time (perhaps less than five years), the deferral benefit of incorporation may not be worthwhile.

Limits on access to the SBD deferral

A corporation's access to the SBD could be less than $500,000 if the following circumstances apply:

- Associated Corporations

  Where two or more CCPCs are associated under the Income Tax Act, the ability to access the SBD will be affected. The associated corporations must agree to allocate the $500,000 SBD limit between them. If they fail to do so, they risk losing the deduction or having the Minister of National Revenue make the allocation for them. Generally speaking, two corporations are associated if they are directly or indirectly controlled by the same person or related group of persons. The associated corporation rules are complex, and association may arise in several other ways; therefore, one should consult their tax advisors to determine whether their corporations are associated.

- Excessive Adjusted Aggregate Investment Income

  New rules govern the taxation of passive investment income earned in a private corporation for tax years that begin after 2018. When in the previous year a corporation, and any associated corporations, earned in excess of $50,000 of adjusted aggregate investment income (AAII), the SBD limit will be reduced at a rate of $5 for every $1 of excess AAII, and will be fully eliminated once AAII reaches $150,000.

- Where a corporation (or associated group) has a certain amount of active business income, it should endeavor to keep its AAII at or below the threshold that will allow it to use the appropriate amount SBD, if possible.

- Excessive Taxable Capital

  Once the taxable capital of a corporation (or an associated group) reaches $10,000,000, the SBD limit begins to be reduced at a rate of 10% of the taxable capital in excess of $10,000,000 and is fully eliminated once taxable capital reaches $15,000,000.

- Specified Corporate Income

  Generally, when a corporation earns active business income from the provision of property or services to an unassociated private corporation (Privateco), and the corporation (or one of its shareholders) is not at arm's length with Privateco (or one of Privateco's shareholders), then the income the corporation earns from the Privateco is not eligible for the SBD rate, except to the extent the Privateco assigns some of its SBD limit to the corporation. There are additional technical rules that expand or provide some exceptions to this general concept.

Accordingly, if your unincorporated business generates income from another private corporation (especially one where a relative is a shareholder), then the specified corporate income rules should be examined to determine whether they could impact your business' access to the SBD if you were to incorporate.

- Specified Partnership Income

  When a corporation earns active business income as a partner in a partnership, the entirety of its share of the partnership income may not necessarily eligible for the SBD rate. This could be an issue if the partnership's total active business income in the year is greater than $500,000, in which case only a fraction of a corporate partner's partnership income allocation is eligible for the SBD.

  These rules can also be extended to income that a corporation earns apart from a partnership allocation (even if it is not actually a partner), such as when it provides services or property to a partnership and the corporation (or one of its shareholders) is a member of the partnership or does not deal at arm's length with a member of the partnership. As a result, the income earned from this partnership as a deemed designated member of the partnership may not be eligible for the SBD rate except to the extent an actual corporate partner assigns some of its prorated SBD eligible partnership income to it.

  Accordingly, if your unincorporated business earns income from partnership (especially a partnership where you or a relative holds an interest), the specified partnership income rules should be examined to determine whether they could impact your business' access to the SBD if you were to incorporate.

ACCESSING THE CAPITAL GAINS EXEMPTION

Canadian tax legislation provides a $913,630 (indexed) capital gains exemption on the disposition of shares of a qualified small business corporation (QSBC). In the right circumstances this can be a great benefit of incorporation. The capital gains exemption for QSBC shares is available only to individuals who are resident in Canada throughout the year. It is reduced to the extent that capital gains exemptions were claimed in previous taxation years[2]. The amount of the exemption that may be claimed may also be reduced by any net capital losses claimed by the individual for the year, any allowable business investment losses claimed by the individual and the individual's cumulative net investment loss at the end of the year.

When is the capital gains exemption useful?

It should be noted that generally, the capital gains exemption only provides an advantage if the shares of the corporation are sold to an unrelated person, or at death when a deemed disposition occurs. In considering whether or not the capital gains exemption will be an advantage of

[2] The capital gains exemption available upon the disposition of QSBC shares may be reduced to the extent that the individual has previously used the general exemption of $100,000, which was repealed in 1994, or any capital gains exemption related to QSBC shares or certain qualified farm or fishing property.

incorporation, it will help to consider whether or not you will be able to sell shares, rather than assets, of your business to an unrelated person.

In some cases, taxpayers consider crystallizing the capital gains inherent in their QSBC shares through certain reorganizations in which capital gains are triggered but sheltered from tax using the capital gains exemption. The result is shares with high adjusted cost base (ACB) to reduce tax on a future sale or at death when a deemed disposition occurs. Taxpayers should consider this planning in situations where the shares of the corporation might not qualify as QSBC shares in the future. As noted, the capital gains exemption generally only provides a tax advantage if you can sell your QSBC shares (rather than assets of your business) to an unrelated person, or at death when the deemed disposition occurs.

QSBC share

In order to qualify for the capital gains exemption, an individual must dispose of a share of a QSBC. There are a number of stringent tests that a corporation would have to satisfy before its shares could qualify as QSBC shares. One of the tests requires that at the determination time (i.e. the time you dispose of the shares), the shares must be shares of a small business corporation (SBC). A CCPC is an SBC where 90% of the fair market value of its assets are used in an active business carried on primarily in Canada. Another test is that for a period of 24 months before the determination time, the shares must meet a similar test, with a 50% active asset threshold applying.

Where the shares of a corporation do not qualify as QSBC shares because the corporation owns excess non-eligible assets, various strategies may permit the purification of a corporation by removing the non-eligible assets from the corporation.

ESTATE PLANNING AND INCOME SPLITTING

Incorporating your business may help to facilitate your estate and succession planning and may create income-splitting opportunities. Usually a business would initially be incorporated for reasons other than estate planning, such as accessing the SBD, or for protection of personal assets from creditors of the business. Later, when the business is mature and has appreciated in value, a corporate structure involving a freeze (often called an estate freeze) is commonly considered. However, it is possible to incorporate a business initially with a freeze structure in place, if appropriate.

A freeze structure may:

- allow you to defer and minimize capital gains taxes upon a sale of your business or at death,
- assist in facilitating the succession of your business to other family members such as children, and
- allow you to split income with lower-tax-rate family members through dividend payments.

To implement a freeze of your interest in a corporation, you would exchange your current common shares for a new class of preference shares having a redemption value equal to the value of the exchanged shares. Your family members or a family trust would subscribe for new growth shares. Additional information on this topic can be found in our reference guide on estate freezes.

Using a family trust

A family trust is often used as part of a freeze. Children and other family members, including future grandchildren, are usually the beneficiaries of such a trust. Rather than issuing the new growth shares directly to the family members, the new shares are issued to the family trust. A family trust would be appropriate if you wish to maintain control over the new growth shares, and if you wish to defer the decision as to which family members will receive the shares and in what proportions. Additional information on this topic can be found in our reference guide on family trusts.

Minimizing and deferring capital gains taxes

A freeze fixes the value of your interest in the corporation at its current value, allowing future growth in value in the corporation to accrue to your family trust (and eventually to your family members) instead. If you have accumulated enough wealth to maintain your lifestyle for the rest of your life, freezing may be desirable, as it can limit the capital gains taxes you will realize personally upon a sale of the business, or at death when a deemed sale occurs. It may be possible to defer the realization of capital gains on the new growth shares for many years after your death - until your family members later dispose of their shares.

If you are not sure whether you will require some of the future growth of the corporation to fund your lifestyle expenses, it is possible to structure the freeze so that some or all of the new growth shares can be transferred to you, in addition to or instead of the other family members. This requires careful planning to ensure that certain income attribution rules are not offended.

Income splitting

To accomplish income splitting, dividends could be paid on the new shares from future earnings of the corporation. Those dividends could be received by the other family members (either as direct shareholders or indirectly through the family trust). If the family members are in lower tax brackets, this could save income tax.

Tax on split income

The tax on split income (TOSI) rules provide that, unless one of the limited exceptions applies, dividends (and certain other amounts) received by family members from private corporations are subject to the highest marginal tax rate eliminating the benefit of income splitting. A broad overview of these rules can be found in the tax on split income reference guide.

The TOSI should be considered in planning your share structure if you have any interest in income splitting with others, allowing other family members to work for your incorporated business, your business earns income from another family members' business, or if you will not be the sole shareholder of your business.

Attribution rules

Several kinds of attribution rules may apply to an estate freeze if it is not implemented correctly. If the attribution rules apply, income or capital gains from the shares issued to the family trust might be attributed back to you, preventing income splitting, and possibly negating the opportunity to minimize capital gains tax. However, these kinds of attribution rules may be avoided where the reorganization of the corporation and the family trust are implemented properly.

Another kind of attribution rule that can apply in the context of a freeze is corporate attribution. If applicable, corporate attribution deems the person who implemented the freeze to receive a taxable income inclusion at the prescribed rate of interest where certain family members, such as a spouse or minor-aged relatives, are beneficiaries of your freeze; therefore, defeating the intended income splitting objective and creating punitive double taxation. Avoiding corporate attribution will involve a careful consideration of whom to include as beneficiaries of the freeze or family trust or drafting the family trust with special provisions that make corporate attribution inapplicable. Another way to avoid corporate attribution is to carefully maintain the corporation's status as a small business corporation (discussed above). You should discuss the attribution rules with your professional advisors prior to implementing an estate freeze.

Disadvantages of incorporation

LEGAL AND ACCOUNTING COSTS

The costs of incorporating and maintaining a corporation are modest in relation to the potential tax benefits. However, you will need to obtain an estimate of the initial and ongoing cost of incorporation from your legal and accounting professionals. A corporation requires more attention and entails more complexity, since personal and corporate property and expenses must be kept strictly separate. There will be legal costs for drafting and preparing minutes and resolutions, as well as accounting costs for preparation of financial statements and corporate tax returns. Unless a meaningful amount of tax is deferred or eliminated, the added expense and complexity of a corporation is not worthwhile to most individuals.

TRAPPED LOSSES

If a business is not profitable, it may accumulate losses. If the business is already incorporated, these losses may be trapped in the corporation. Since a corporation is a separate legal entity, the losses of a corporation are not available to the individual shareholders or to other corporations to deduct against their own income. Accessing or using corporate losses can be difficult. For example, it may be necessary to inject income into the corporation, find other ways of creating income in the corporation, or reduce the expenses of the corporation by incurring the expenses

personally. Other corporate loss utilization strategies may be complex and may be subject to certain anti-avoidance rules.

Where start-up losses are expected, it may be preferable to operate the business as a proprietorship or through a partnership for a period time so that losses may be accessed personally and used to offset income from other sources.

TAX COSTS OF REMOVING ASSETS FROM A CORPORATION

Canadian tax laws generally allow assets to be transferred to a corporation on a tax-deferred basis. However, removing assets from a corporation can result in tax to the corporation and/or the individual receiving the assets. This is a potential tax problem that is common to almost all corporations.

Consequences to the corporation

When assets are transferred out of a corporation to an individual, the assets are normally considered to have been disposed of by the corporation for fair market value proceeds. In the case of capital property, capital gains may result in the corporation and be subject to tax. If the capital property is depreciable property, any inherent recapture of capital cost allowance in the property would be realized as taxable income of the corporation.

Therefore, in making any distribution out of a corporation, you will need to determine which corporate assets are used for that purpose. Ideally, liquid assets would be used. If it is necessary to liquidate any of the corporate assets to make the distribution, this would trigger any unrealized gains or losses in those assets. Assets can be distributed by the corporation in kind but this would be a disposition of the assets and thus trigger any unrealized gains.

Where a corporation has an asset the value of which is lower than its cost, the corporation might also realize a capital loss on a transfer to an individual. A capital loss may be seen as useful since the corporation may be able use it to offset taxable capital gains. However, in certain circumstances such as, for example, where the individual controls the corporation, certain stop loss rules may apply. These rules may result in the capital loss being suspended. In that case, the corporation would not be able to claim the loss on its tax return until the individual has actually disposed of the asset. Certain planning may be available to avoid the application of such stop loss rules.

Consequences to the individual

Generally, any transfer of assets or value from a corporation to an individual shareholder will be treated as a dividend to the shareholder, which may be subject to tax in the shareholder's hands. (Different rules apply if the shareholder is itself a corporation.)

Opportunities to extract corporate funds

Careful planning using the available tax rules can help avoid unnecessary tax costs when assets are eventually transferred out of a corporation. Such planning commonly involves concepts such as the following:

- Making use of the corporation's capital dividend account (CDA), which, when available, allows the payment of tax-free dividends to a shareholder. The CDA of a corporation is generally increased by amounts such as the tax-free portion of capital gains, and tax-exempt life insurance proceeds received by the corporation;

- Accessing any outstanding shareholder loan, which is another tax-free source of corporate funds;

- Making use of the corporation's refundable dividend tax on hand (RDTOH) accounts. RDTOH is created when a corporation earns income such as investment or property income (as opposed to active business income). A corporation must pay a certain amount of refundable tax to the government. Certain amounts of this tax are refunded to the corporation when it pays taxable dividends. Where RDTOH is available, the overall tax cost of paying dividends or redeeming shares is reduced;

- Making use of the adjusted cost base (ACB) of the shares of a corporation. The ACB of shares is essentially what the shareholder paid for the shares if they were purchased from someone else. The ACB of shares can in some circumstances be increased through certain reorganizations and by the use of tax exemptions like the QSBC capital gains exemption. High ACB may allow funds to be extracted from a corporation on a tax-free basis. This generally requires reorganization involving the use of a new holding corporation. Certain anti-stripping rules, which may result in immediate unintended tax, must be carefully considered before implementing such a transaction; and

- Making use of the paid-up-capital (PUC) of the shares of a corporation. PUC is essentially the amount of money a shareholder paid to subscribe for his or her shares, subject to certain adjustments. PUC may generally be paid back to the shareholder as a tax-free return of capital. Additionally, higher PUC normally results in a lower deemed taxable dividend upon the redemption of shares.

POTENTIAL FOR INTEGRATION FAILURE

When income is earned by a corporation and subsequently paid to its shareholders in the form of dividends, taxation applies at the corporate level and also at the shareholder level.

The tax rules provide complex tax integration mechanisms to ensure that income earned by a corporation and paid to its shareholders in the form of a dividend is ideally taxed at a similar overall rate as the same income earned directly by a shareholder.

In reality, integration is rarely perfect and as a result earning income through a corporation can result in an:

- ultimate tax savings (under-integration) or
- ultimate additional tax cost (over-integration or integration failure).

In the case of earning active business income, while occasionally there is an ultimate tax savings typically an integration failure occurs. The rate of over/under-integration usually differs for income subject to the SBD rate versus the general active business rate.

When earning investment income through a corporation, be aware of the following:

- to prevent a large initial tax deferral from occurring the corporation is subject to some additional refundable corporate income taxes. These refundable taxes add to the corporation's RDTOH accounts.
- there is generally a more pronounced integration failure[3] compared to such income had it been earned personally.

The degree of over/under-integration varies by province and changes as personal or corporate tax rates/rules change.

DOUBLE TAXATION AT DEATH

On the death of the shareholder of a corporation, there may be the potential for double taxation. The value of the shares of the corporation represents the value of the underlying corporate assets. At death, the shares are generally deemed to have been sold for proceeds equal to their fair market value.[4] If the value of the shares is greater than their cost for tax purposes, this appreciation in value will be realized and taxed as a capital gain.

A second level of tax may result when the corporation disposes of the underlying corporate assets and/or when the corporation is wound up. When the corporation disposes of its assets or winds up, it may realize capital gains or recapture capital cost allowance on the underlying corporate assets. Thus, the same value that was taxed in the hands of the shareholder at death is again taxed, this time in the corporation. This is another potential tax problem that is common to almost all corporations.

With careful tax and estate planning, double taxation can be mitigated or in some cases completely avoided. Such planning may be implemented during the shareholder's life, for

[3] However, Canadian portfolio dividends tend to integrate perfectly.
[4] If the shares are transferred at death to a spouse or a qualifying spousal trust, this deemed disposition may be deferred until the spouse disposes of the shares or dies. This discussion assumes there is no transfer to a spouse or spousal trust at death.

example, when a corporation is being wound up. The executors of a deceased shareholder frequently need to implement such planning after the death of the shareholder. The planning required may be complex.

Conclusion

A corporation may provide significant tax benefits for you if your business generates enough income to create a significant tax deferral using the small business deduction. A corporation may also create opportunities to reduce your family's tax burden by splitting income with low-rate family members, subject to TOSI considerations. Many other facts and circumstances, including potential costs and complexity, will need to be considered by you and your financial, tax and legal advisors to determine whether a corporation is right for you.

For more information, we encourage you to speak to your advisor or visit us at assante.com

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APPENDIX A: MAXIMUM DEFERRAL BY PROVINCE IN 2022 USING SMALL BUSINESS DEDUCTION

Province	Provincial SBD Limit [5]	Highest Rate on an Individual's Income	Rate on Active Business Income up to $500,000	Maximum Deferral Using a Corporation
British Columbia	$500,000	53.5%	11.0%	$212,500
Alberta	$500,000	48.0%	11.0%	$185,000
Saskatchewan	$600,000	47.5%	9.5%	$190,000
Manitoba	$500,000	50.4%	9.0%	$207,000
Ontario	$500,000	53.5%	12.2%	$206,500
Quebec[6]	$500,000	53.3%	12.2%	$205,500
New Brunswick	$500,000	53.3%	11.5%	$209,000
Nova Scotia	$500,000	54.0%	11.5%	$212,500
Prince Edward Island	$500,000	51.4%	10.0%	$207,000
Newfoundland and Labrador	$500,000	54.8%	12.0%	$214,000
Northwest Territories	$500,000	47.0%	11.0%	$180,000
Nunavut	$500,000	44.5%	12.0%	$162,500
Yukon	$500,000	48.0%	9.0%	$195,000

[5] In provinces where the provincial SBD limit is above the $500,000 federal SBD limit, the maximum tax deferral illustrated assumes corporate income only up to the federal limit.

[6] In Quebec, if the business is not a primary sector, a manufacturing sector or does not employ sufficient employee-hours, Quebec's provincial SBD rate will not apply.