



## Federal Budget – January 27, 2009

### BUDGET OVERVIEW

On January 27, 2009, Finance Minister Jim Flaherty delivered the 2009 federal budget (the “Budget”). The Budget is targeted to stimulate economic growth during the global recession. Since the last budget, the economic situation has deteriorated further and faster than anticipated. Consequently, the government is projecting a significant reduction in projected revenues, particularly in 2009-10 and 2010-11. As a result of the expected reduction in projected revenues and taking into account the budgeted spending and tax relief measures, the government is projecting deficits of \$1.1 billion in 2008-09, \$33.7 billion in 2009-10, and \$29.8 billion in 2010-11. The government expects to return to a small surplus by 2013-14.

The Budget proposes spending and tax measures to create jobs, provide skills training, strengthen the financial system, promote housing construction and renovation, and stimulate consumer spending. The government will take immediate action to begin one of the largest infrastructure projects in Canadian history, including the construction of roads, bridges, public transit, broadband internet access, schools and housing, in every region of the country.

The Budget also provides tax relief to small businesses, incentives for businesses to invest in new equipment, modest personal tax cuts, and incentives for homeowners. The Budget proposes the following significant tax changes:

- To increase the small business deduction limit eligible for the low corporate tax rate from \$400,000 to \$500,000, as of January 1, 2009.
- To extend the temporary increase in the capital cost allowance (“CCA”) rate to a 50% straight-line rate (subject to the half-year rule) for manufacturing and processing machinery and equipment acquired before 2012 (instead of before 2010).
- To increase the CCA rate for eligible new computer equipment and systems software acquired on or after January 27, 2009 and before February 1, 2011 to 100% (not subject to the half-year rule) from 55% (subject to the half-year rule).
- To provide incentives for individuals to make home renovations or to acquire their first home.

The highlights of the tax changes announced in the Budget are summarized below. In addition, our commentary discusses a recent controversial decision of the Supreme Court of Canada addressing the General Anti-Avoidance Rule and interest deductibility.

## **BUSINESS TAX MEASURES**

### **Increase in Small Business Deduction**

#### ***Federal Small Business Limit Increase***

The small business deduction reduces the basic federal corporate income tax rate to 11% for the first \$400,000 (the “small business limit”) of qualifying active business income of a Canadian-controlled private corporation (“CCPC”). A CCPC is currently subject to a 19% federal tax rate on income in excess of \$400,000.

The Budget proposes to increase the small business limit eligible for the 11% federal tax rate to \$500,000, effective January 1, 2009. The increase in the small business limit will be prorated for taxation years straddling the effective date.

The annual small business limit will continue to be shared among associated corporations, and will continue to be reduced on a straight-line basis for CCPCs having between \$10 million and \$15 million of taxable capital employed in Canada.

#### ***Investment Tax Credits (“ITCs”)***

Currently, qualifying CCPCs are eligible to claim an enhanced ITC rate of 35% on up to \$3 million of qualified scientific research and experimental development (“SR&ED”) expenditures annually. The \$3 million annual SR&ED expenditure limit must be shared by an associated group of corporations. The \$3 million SR&ED expenditure limit gets phased out where the taxable incomes for the preceding taxation year of an associated group of corporations was between \$400,000 and \$700,000, and is completely eliminated at \$700,000.

In conjunction with increasing the small business limit to \$500,000, the Budget proposes to increase the phase out range of the prior year taxable income to between \$500,000 and \$800,000. This change will apply where the previous taxation year ends after 2008. The expenditure limit will continue to be reduced where the prior year taxable capital of the associated group is in excess of \$10 million, and will be eliminated where the taxable capital is in excess of \$50 million.

#### ***Balance Due Date and Quarterly Instalments***

CCPCs having taxable income in the previous year that was less than the small business limit are required to pay any balance of corporate income tax owing at the end of the third month after the end of their taxation year, one month later than other corporations. In addition, certain CCPC’s that claim the small business deduction and have taxable income below the small business limit are eligible to pay corporate income tax in quarterly instalments instead of monthly instalments. The eligibility for the additional month to pay the balance of tax due and the ability to make the quarterly instalments will be determined with reference to the new higher small business limit.

## CCA Rate Changes

### *Temporary Enhanced CCA for Manufacturing & Processing (“M&P”) Equipment*

The enhanced 50% straight-line CCA rate for M&P equipment has been extended for equipment acquired in 2010 and 2011. The half-year rule, which limits the CCA claim in the year an asset is acquired to one-half of the normal CCA deduction, will apply to M&P equipment subject to the enhanced CCA rate.

### *Temporary Enhanced CCA for Computer Equipment and Systems Software*

The Budget proposes a temporary 100% CCA rate for eligible computers and systems software acquired after January 27, 2009 and before February 1, 2011. This 100% CCA rate will not be subject to the half-year rule, and accordingly, the full cost of eligible computers and systems software will be fully deductible in the year acquired.

For this purpose, eligible computers and systems software must satisfy the following conditions:

- Must be situated in Canada,
- Must be acquired by the taxpayer for use in a business carried on in Canada or for the purpose of earning income from property situated in Canada, or for lease to a taxpayer for an eligible use, and
- Must not have been used, or acquired for use, for any purpose before it is acquired by the taxpayer for use in Canada.

Computer equipment eligible for the 100% CCA rate will be subject to the tax shelter property rules, which prevent the CCA deductions from being used by investors to shelter other sources of income.

## International Taxation Measures

The 2007 budget proposed to restrict the deductibility of interest expense payable on debt incurred to finance the acquisition of shares of foreign affiliates. As a consequence of this budget proposal, draft section 18.2 was introduced to the Tax Act, effective for 2012 and subsequent taxation years, to deny a Canadian corporation a deduction for interest expense or other borrowing costs to finance a foreign affiliate, where a second interest deduction is also available in a foreign jurisdiction (a so-called “double dip”).

The Budget proposes to repeal draft section 18.2, and other consequential amendments to the Tax Act, after having considered the December 2008 report by the Advisory Panel on Canada’s System of International Taxation (the “Panel”). The Budget also confirms the government’s commitment to review the Panel’s recommendations on certain other international taxation measures, namely the

foreign affiliate proposals announced in February, 2004 and the non-resident trusts and foreign investment entities proposals announced in the 1999 budget, before proceeding to finalize the pertinent legislation.

### **Acquisition of Control Legislative Amendment**

Where control of a corporation has been acquired by a person or a group of persons, the Tax Act deems control of the corporation to have been acquired at the beginning of the day, rather than at the particular time of that day when the transaction occurred, unless a contrary election is filed. This rule could impact a corporation's status as a CCPC, since if the corporation's shares are being acquired by non-residents, public corporations or a combination thereof, the corporation will be deemed to have lost its CCPC status at the beginning of the day, rather than at the time of the day when the share sale closed. This could preclude, for example, the ability of an individual vendor to claim his/her lifetime \$750,000 enhanced capital gains deduction, because the requirement that the corporation be a CCPC at the time of the share sale would not be met.

The Budget proposes that the Tax Act be amended, in order to clarify that the deeming rule regarding the timing of an acquisition of control shall not affect the status of a corporation as a CCPC at the time of the closing for the share sale. This amendment will apply in respect of acquisitions of control that occur after 2005. Where, however, the acquisition of control occurred before January 28, 2009, the former statutory rule may be relied upon, provided that the taxpayer's relevant income tax return reflects the former rule.

### **Mandatory Electronic Filing**

The Budget proposes that Corporations which have annual gross revenues in excess of \$1 million for a taxation year will generally be required to file their income tax returns for the year in electronic format. The Canada Revenue Agency may provide exceptions to this rule for certain corporations where there would not be efficiencies through electronic filing, such as non-resident corporations. Furthermore, the number of any particular type of income tax information return (e.g. T4s and T5s) that can be filed by a taxpayer, before the taxpayer is required to be filed electronically, will be reduced to 50 from 500. These measures will apply in respect of corporate income tax returns for taxation years that end after 2009, and for information returns required to be filed after 2009.

In order to ensure compliance, a new penalty for filing a corporate income tax return in an incorrect format will be introduced. The penalty will not apply for returns required to be filed before 2011. The penalty for taxation years that end in 2011 will be set at \$250, increased to \$500 for taxation years that end in 2012 and to \$1,000 for taxation years that end after 2012.

## Penalties

Currently, penalties are imposed when taxpayers fail to comply with any duties and obligations imposed under the Tax Act, including the failure to file information returns when required. This penalty can be excessive in cases where a large number of similar returns are late-filed. For example, an employer who filed 500 T4 information returns one day late would be liable to a penalty of \$50,000.

The Budget proposes that a penalty will be reduced, so that taxpayers who fail to meet the electronic information return requirements, or who file information returns late, will not be unduly penalized. The penalties will be calculated on a declining scale, based on the number of any particular type of information return that is filed in the incorrect format, or that is filed late.

These penalties will apply to information returns required to be filed after 2009.

## **PERSONAL TAX MEASURES**

### Increase in Personal Amounts and Personal Income Tax Brackets

The Budget proposes to increase the 2009 basic personal amount, spousal and common-law partner amount, and eligible dependant amount from \$10,100 to \$10,320.

The Budget also proposes to increase the income threshold for the lowest two personal tax brackets, effective January 1, 2009. The current and proposed tax brackets are as follows:

<b>Pre-Budget Tax Brackets</b>	<b>Proposed Tax Brackets</b>	<b>Tax Rate</b>
\$ 0 to \$ 38,832	\$ 0 to \$ 40,726	15%
\$ 38,833 to \$ 77,664	\$ 40,727 to \$ 81,452	22%
\$ 77,665 to \$126,264	\$ 81,453 to \$126,264	26%
\$ 126,265 and over	\$ 126,265 and over	29%

The increased personal amounts and the tax brackets will be indexed for inflation in 2010 and subsequent years.

### Age Credit

The Budget proposes to increase the amount of the 2009 age credit, a tax credit available specifically for individuals aged 65 years or older, from \$5,408 to \$6,408, and the amount will be indexed thereafter. The net income level at which the age credit begins to be phased out remains unchanged at \$32,312.

### Home Renovation Tax Credit (“HRTC”)

The Budget proposes to introduce a temporary 15% non-refundable HRTC to individuals for *eligible expenditures* made in respect of *eligible dwellings*. The credit will apply to expenditures in excess of \$1,000, but not exceeding \$10,000, resulting in a maximum credit of \$1,350 (\$9,000 x 15%). The HRTC must be supported by receipts.

The HRTC may only be claimed in the 2009 taxation year. Expenditures for work performed, or goods acquired from January 28, 2009 to January 31, 2010 will be eligible for the 2009 HRTC, except for expenditures incurred under an agreement entered into before January 28, 2009.

Eligible expenditures for the HRTC will include those which are incurred in relation to a renovation or alteration of an eligible dwelling (including land that forms part of the eligible dwelling), which are of an enduring nature and are integral to the eligible dwelling. The following expenditures will not be eligible for the credit:

- The cost of routine repairs and maintenance normally performed on an annual or more frequent basis.
- Expenditures for appliances and audio-visual electronics.
- Financing costs associated with a renovation (e.g. mortgage interest costs).
- Alterations or other items (e.g. furniture or draperies), and other indirect expenditures for items that retain a value independent of the renovation (e.g. tools).

An eligible dwelling must be a principal residence, including a condominium or a unit of a co-operative housing corporation. In the latter case, the credit will be available for eligible expenditures incurred to renovate the unit, as well as the individual’s share of the cost of eligible expenditures incurred in respect of common areas.

Individuals who earn business or rental income from part of their principal residence will be allowed to claim the credit for the full amount of expenditures made in respect of the personal-use areas of the residence. For expenditures that benefit the housing unit as a whole (such as re-shingling a roof), the percentage used in allocating expenditures between business and personal use will apply in establishing the amount that qualifies for the credit.

The HRTC will not be reduced by any other tax credits or grants to which a taxpayer is entitled. For example, in the case of an individual who makes an eligible expenditure that also qualifies for the medical expense tax credit, the individual will be permitted to claim both credits in respect of that expenditure.

Expenditures will not be eligible if the related goods or services are provided by a person not dealing at arm's length with the individual, unless that person is registered for GST purposes.

Eligibility for the HRTC will be family-based. For this purpose, a family will generally be considered to consist of an individual, and where applicable, the individual's spouse or common-law partner, and their children who were, throughout 2009, under the age of 18 years. The credit may be claimed by any member of a family. Two or more families that share ownership of an eligible dwelling will each be eligible to their own credit.

### **Home Buyers' Plan ("HBP")**

The Budget proposes to increase the HBP withdrawal limit from \$20,000 to \$25,000. This increase will apply to the 2009 and subsequent calendar years, for withdrawals made after January 27, 2009. The HBP allows first-time home buyers to withdraw amounts from an RRSP to purchase or build a home without having to pay tax on the withdrawal, subject to the repayment of the withdrawal over a 15-year period.

### **First-Time Home Buyers' ("FTHB") Tax Credit**

The Budget proposes to introduce a new 15% non-refundable FTHB tax credit based on a maximum amount of \$5,000, resulting in total tax relief of \$750 for first-time home buyers who acquire a qualifying home after January 27, 2009. The aim of the FTHB tax credit is to provide tax relief to first-time home buyers for closing costs, but access to the FTHB tax credit is not conditional on the amount of closing costs paid by the individual, nor does it have to be supported by receipts.

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase, or in any of the four preceding calendar years. A qualifying home is one that the individual or individual's spouse or common-law partner intends to occupy as the principal place of residence, not later than one year after its acquisition.

Any unused portion of an individual's FTHB tax credit may be claimed by the individual's spouse or common-law partner. The maximum tax relief, however, for a particular home is limited to \$750, regardless of the number of owners of the home.

The Budget also proposes to permit the FTHB tax credit for an existing homeowner where the individual qualifies for the disability tax credit.

### **RRSP/RRIF Losses After Death**

The fair market value of investments held in an RRSP or RRIF at the time of an annuitant's death is generally included in the income of the deceased for the year of death, unless the deceased is survived by a spouse or a financially dependant child/grandchild. A subsequent increase in the value of the investments is generally included in the income of the beneficiaries of the plan upon distribution. Currently, however, there are no existing income tax provisions to recognize any decrease in the value of RRSP or RRIF investments that occurs after the annuitant's death, and before the distribution of the property to the beneficiaries.

The Budget proposes to allow, upon the final distribution of property from a deceased annuitant's RRSP or RRIF, the amount of post-death decreases in value of the RRSP or RRIF investments to be carried back and deducted against the deceased's RRSP/RRIF income inclusion. This measure will apply in respect of deceased annuitants' RRSPs or RRIFs, where the final distribution from the plan occurs after 2008.

### **Mineral Exploration Tax Credit ("METC")**

The METC is a benefit available to individuals who invest in flow-through shares. It is equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. The METC is currently scheduled to expire on March 31, 2009. The Budget proposes to extend eligibility for the METC by one year to March 31, 2010.

## **GOODS AND SERVICES TAX ("GST") MEASURE**

### **Simplification of the GST for the Direct Selling Industry**

The direct selling industry distributes goods to final consumers through a large number of contractors and sales representatives rather than through retail establishments. The Excise Tax Act currently allows direct sellers using the buy and resale method to use an Alternate Collection Method to account and report the GST. This method is not available to those in the direct selling industry using the commission based method.

The Budget proposes to allow direct sellers who employ the commission based method through a network of sellers to use a simplified GST accounting method, subject to certain conditions. Under this special method, commissions and bonuses paid and supplies provided to network sellers will not be subject to GST.

The Budget proposes that this special GST accounting method will be available for fiscal years of a network seller that begin after 2009.

## **OTHER MEASURES**

### **ecoEnergy Retrofit Program**

The existing program provides home and property owners with a grant of up to \$5,000 to offset the costs of making energy-efficiency improvements. Grants apply to a variety of measures that reduce energy consumption, from increasing insulation to upgrading a furnace. The Budget provides an additional \$300 million over two years to the program to support an estimated 200,000 additional home retrofits.

### **Canada Small Business Financing Program**

For loans made after March 31, 2009, the Budget proposes to increase the maximum eligible loan amount that a small business can access under the Canada Small Business Financing Program from \$250,000 to \$350,000, and to \$500,000 for purposes of acquiring real property. Under the program, the government guarantees 85% of loans made by eligible institutions to qualifying businesses.

## **OTHER ITEM OF INTEREST**

### **General Anti-Avoidance Rule (“GAAR”) Decision of the Supreme Court of Canada (“SCC”): Lipson v. The Queen**

#### ***Background***

On January 8, 2009, the SCC released its controversial decision in the latest GAAR case. Although there are certain aspects of the decision that are helpful to taxpayers, the SCC was divided in its approach to the application of the GAAR. The case confirms the direct tracing approach to interest deductibility and reaffirms that a taxpayer can rearrange his or her affairs so as to finance personal assets out of equity and income earning assets out of debt. In the earlier Singleton decision, the SCC affirmed that a taxpayer could deduct interest expense on borrowed funds used to replace tax-paid capital that he had withdrawn from his law practice partnership in order to purchase a home. The deductibility of the interest was determined based on the direct use of the borrowed funds, that is, to contribute capital to the partnership. The facts in Lipson took this strategy one step further, by allowing the taxpayer to access non-taxed equity for personal purposes (to purchase a home) and to use the attribution rule to shift the then deductible interest expense to the higher income spouse. In a four to three decision, the SCC allowed the interest expense deduction based on the direct tracing principle, but invoked the GAAR to prevent the deduction from being shifted from the wife to the husband.

The facts of this case are as follows: The taxpayer, Mr. Lipson, and his wife, entered into a purchase and sale agreement for a family home for \$750,000. In order to make their future interest expense tax-deductible, Mrs. Lipson borrowed from a bank to finance the purchase of shares of a private corporation from Mr. Lipson, at their fair market value of \$562,500. Mr. Lipson used the funds to purchase the home. The next day, Mr. and Mrs. Lipson obtained a mortgage for \$562,500, from the same bank which originated the share purchase loan. That same day, Mrs. Lipson used the funds received from the mortgage to repay the share purchase loan in its entirety.

For income tax purposes, the repercussions of the series of transactions undertaken by Mr. and Mrs. Lipson, were as follows:

- i) A capital gain did not arise when Mr. Lipson disposed of his shares, because it transpired between spouses, and therefore the disposition occurred at the tax cost of the shares.
- ii) The interest borrowed by Mrs. Lipson to acquire the shares of the private corporation was tax-deductible, because it was incurred to acquire property which was capable of providing Mrs. Lipson with future income.
- iii) The interest continued to be tax deductible, even when the share purchase loan was replaced by the mortgage.
- iv) The attribution rules applied to deem any future dividends received, or any capital gain/loss realized, by Mrs. Lipson from the shares, to be the income or capital gain/loss of Mr. Lipson. Similarly, the attribution rules also operated to attribute Mrs. Lipson's interest expense to Mr. Lipson.

During two of the three years in question, the interest expense incurred by Mrs. Lipson was greater than the dividends which she received from the private corporation. Accordingly, based on the attribution rules, Mr. Lipson reported the dividend income and interest expense on his tax return, the effect of which was to reduce his overall tax liability for each of the taxation years in question. The Minister of National Revenue (the "Minister") reassessed the taxpayer on the grounds that the GAAR applied, because the series of transactions undertaken by the Lipsons were tantamount to abusive tax avoidance. As a result, the Minister argued that Mr. Lipson was not permitted to deduct the interest expense for the years in question.

### *The SCC Decision*

In another case rendered by the SCC on the GAAR, namely *The Queen vs. Canada Trustco Mortgage Company*, the SCC had stated that the requirements for the application of the GAAR are that:

- i) There must be a tax benefit,
- ii) There must be an avoidance transaction i.e. a transaction that was not undertaken primarily for bona fide purposes, other than to obtain the tax benefit, and

- iii) The transaction(s) result(s) in a misuse of a provision of the Tax Act, or an abuse of the Tax Act read as a whole.

As the parties had already agreed that there was at least one avoidance transaction which resulted in a tax benefit, the only issue before the SCC to decide was whether the transactions resulted in a misuse or abuse, having regard to the provisions of the Tax Act that the taxpayers had relied on.

The Lipsons realized a partial victory at the SCC level. All of the SCC judges held that the series of transactions undertaken by the Lipsons to make their future interest cost tax-deductible was not abusive tax planning, thereby upholding a similar interest deductibility ruling in the Singleton decision previously rendered by the SCC. Where the dissension arose among the judges was whether the GAAR applied to reverse the tax benefit derived by Mr. Lipson by virtue of the Tax Act's attribution rules. In the majority's view, the GAAR did apply in such circumstances, because the purpose of the attribution rules was frustrated. By virtue of the steps undertaken by the taxpayer and his spouse, Mr. Lipson's income was reduced from what it would have been without the transfer of the shares to his wife. Consequently, the view of the majority of the SCC was that disallowing the interest deduction in computing the income of Mr. Lipson, and shifting the deduction back to Mrs. Lipson, was a reasonable outcome for each taxation year. Interestingly, the dividend income that was included in Mr. Lipson's income, by virtue of the attribution rules, remained taxable to Mr. Lipson, notwithstanding the SCC's reversal of the attributed interest expense deduction.

On the other hand, the view of the SCC judges in the minority was that the tax benefit realized by the Lipsons by virtue of the Tax Act's attribution rules was not abusive tax planning, and hence, the GAAR was inapplicable. The following reasons were given by the SCC judges in the minority:

- i) In the view of two of the SCC judges, if the Minister could not dispel that the tax plan to make the interest expense deductible was abusive tax avoidance, then it could not see why such a plan with a spousal twist would constitute abusive tax avoidance, either. In their view, Parliament had intended to make inter-spousal transfers attractive, by permitting such transfers to transpire at the transferor's tax cost. Accordingly, the Minister had failed to identify a specific policy which was shown to be frustrated by the taxpayers' plan.
- ii) In the view of one of the SCC judges, the SCC had previously stipulated in the Canada Trustco case that the GAAR was a provision of last resort. Consequently, if the Tax Act contains an anti-avoidance rule which precludes the use of an enabling rule to avoid or reduce tax, then the GAAR should not apply. Such is the case with the attribution rules, which include a specific anti-avoidance rule that provides that the attribution rules do not apply, where one of the main reasons for the transfer of property is to reduce the amount of tax that would be payable on the income derived from the property.

*Implications of the Lipson Decision*

The SCC's decision has been received by the tax community with mixed reviews. On the one hand, it is beneficial in that it reaffirms that interest will be tax-deductible, where the borrowing can be directly traced to an income earning purpose, without the possible application of the GAAR. On the other hand, the Lipson case highlights the difficulty of assessing whether a tax plan is in contravention of the object, spirit or purpose of a given provision of the Tax Act. Accordingly, based on the SCC's decision in Lipson, the GAAR will continue to cause uncertainty in respect of future income tax planning.

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To discuss the impact of the Budget on you and your business, please contact your advisor at Goldfarb, Shulman, Patel & Co. LLP.

## COMBINED FEDERAL AND ONTARIO CORPORATE TAX RATES

The following combined federal and Ontario tax rates apply to corporations subject to Ontario tax:

		2008	2009	2010	2011	2012
Small business rate on active income up to \$400,000 <sup>1</sup>	Federal	11.00%	11.00%	11.00%	11.00%	11.00%
	Ontario	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>
		16.50%	16.50%	16.50%	16.50%	16.50%
Small business rate on active income between \$400,000 and \$500,000 <sup>1</sup>	Federal	19.50%	11.00%	11.00%	11.00%	11.00%
	Ontario	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>	<u>5.50%</u>
		25.00%	16.50%	16.50%	16.50%	16.50%
General rate (active income not eligible for the small business rate)	Federal	19.50%	19.00%	18.00%	16.50%	15.00%
	Ontario	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
		33.50%	33.00%	32.00%	30.50%	29.00%
Manufacturing & processing rate (active income not eligible for the small business rate)	Federal	19.50%	19.00%	18.00%	16.50%	15.00%
	Ontario	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>
		31.50%	31.00%	30.00%	28.50%	27.00%
Investment income (other than dividend income from taxable Canadian corporations) <sup>2</sup>	Federal	34.67%	34.67%	34.67%	34.67%	34.67%
	Ontario	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
		48.67%	48.67%	48.67%	48.67%	48.67%

<sup>1</sup> These rates do not take into account the effect of the clawback of the Ontario small business deduction. The clawback applies where taxable income of the corporation and those corporations associated with it, falls between \$500,000 and \$1,500,000. The Ontario clawback rate is 4.25%.

In addition, the table does not take into account that some or all of a corporation's business limit for federal tax purposes is clawed back where the corporation, together with any associated corporations, had taxable capital, as computed using the former federal Large Corporation Tax rules, in excess of \$10 million in the preceding year.

The rates are presented on a calendar-year basis. Where a corporation's fiscal year straddles two calendar years, its corporate income tax rate will be pro-rated for the number of days in its fiscal year that falls into each calendar year.

<sup>2</sup> These rates apply to investment income earned by a CCPC, and include refundable dividend tax of 26.67%.