

Federal and Alberta Tax Integration Tables for 2017 to 2020, Reflecting Changes Proposed by Alberta Bill 3 and Bill 10

Non-Eligible Dividends (small business rate income, Dec 31 year-end) - effective tax rates (ETR)

	2017		2018		2019		2020		Combined
	Federal	Alberta	Federal	Alberta	Federal	Alberta	Federal	Alberta	
Corporate income	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	
Corporate tax rate	10.5%	2.0%	10.0%	2.0%	9.0%	2.0%	9.0%	2.0%	
Corporate tax	\$ 10.50	\$ 2.00	\$ 10.00	\$ 2.00	\$ 9.00	\$ 2.00	\$ 9.00	\$ 2.00	
<i>Funds available for distribution</i>		\$ 87.50		\$ 88.00		\$ 89.00		\$ 89.00	
Dividend amount	\$ 87.50	\$ 87.50	\$ 88.00	\$ 88.00	\$ 89.00	\$ 89.00	\$ 89.00	\$ 89.00	
Gross-up rate	17%	17%	16%	16%	15%	15%	15%	15%	
Gross-up	\$ 14.88	\$ 14.88	\$ 14.08	\$ 14.08	\$ 13.35	\$ 13.35	\$ 13.35	\$ 13.35	
Taxable dividend	\$ 102.38	\$ 102.38	\$ 102.08	\$ 102.08	\$ 102.35	\$ 102.35	\$ 102.35	\$ 102.35	
Personal tax rate	33%	15%	33%	15%	33%	15%	33%	15%	
Personal tax before dividend tax credit	\$ 33.78	\$ 15.36	\$ 33.69	\$ 15.31	\$ 33.78	\$ 15.35	\$ 33.78	\$ 15.35	
Dividend credit rate	21/29	54/359	8/11	69/440	9/13	149/890	9/13	149/890	
Dividend tax credit	\$ (10.77)	\$ (2.24)	\$ (10.24)	\$ (2.21)	\$ (9.24)	\$ (2.24)	\$ (9.24)	\$ (2.24)	
Personal tax	\$ 23.01	\$ 13.12	\$ 23.45	\$ 13.10	\$ 24.53	\$ 13.12	\$ 24.53	\$ 13.12	
Personal ETR on dividend	26.30%	14.99%	26.64%	14.89%	27.57%	14.74%	27.57%	14.74%	42.30%
ETR on \$100 of corporate income	33.51%	15.12%	33.45%	15.10%	33.53%	15.12%	33.53%	15.12%	48.65%

Notes:

- As can be seen from the combined 'ETR on \$100 of corporate income', the integrated tax rate for corporate income entitled to small business tax rate is slightly higher than the top personal marginal tax rate of 48% for all the years. For example, in 2019, the integrated ETR of 48.65% means that there is a 0.65% penalty for earning such income corporately versus personally. The Alberta tax changes do not change this.
- The reduction of federal small business tax rates provide additional opportunity for tax deferral (by delaying dividend payments), but does not reduce overall integrated tax results (between 48.55% to 48.65%).
- Reduction in the gross-up rate from 17% (2017) to 16% (2018) and finally to 15% (2019), necessitated corresponding increases in Alberta dividend tax credit rates in order to maintain roughly the same Alberta integrated tax rate (between 15.10% to 15.12%).

Non-Eligible Dividends (investment income, assuming full 'refundable dividend tax on hand' or RDTOH refund, Dec 31 year-end) - ETR

	2017		2018		2019		2020		Combined
	Federal	Alberta	Federal	Alberta	Federal	Alberta	Federal	Alberta	
Corporate income	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	
Corporate tax rate	8.0%	12.0%	8.0%	12.0%	8.0%	11.5%	8.0%	10.0%	
Corporate tax	\$ 8.00	\$ 12.00	\$ 8.00	\$ 12.00	\$ 8.00	\$ 11.50	\$ 8.00	\$ 10.00	
<i>Funds available for distribution</i>		\$ 80.00		\$ 80.00		\$ 80.50		\$ 82.00	
Dividend amount	\$ 80.00	\$ 80.00	\$ 80.00	\$ 80.00	\$ 80.50	\$ 80.50	\$ 82.00	\$ 82.00	
Gross-up rate	17%	17%	16%	16%	15%	15%	15%	15%	
Gross-up	\$ 13.60	\$ 13.60	\$ 12.80	\$ 12.80	\$ 12.08	\$ 12.08	\$ 12.30	\$ 12.30	
Taxable dividend	\$ 93.60	\$ 93.60	\$ 92.80	\$ 92.80	\$ 92.58	\$ 92.58	\$ 94.30	\$ 94.30	
Personal tax rate	33%	15%	33%	15%	33%	15%	33%	15%	
Personal tax before dividend tax credit	\$ 30.89	\$ 14.04	\$ 30.62	\$ 13.92	\$ 30.55	\$ 13.89	\$ 31.12	\$ 14.15	
Dividend credit rate	21/29	54/359	8/11	69/440	9/13	149/890	9/13	149/890	
Dividend tax credit	\$ (9.85)	\$ (2.05)	\$ (9.31)	\$ (2.01)	\$ (8.36)	\$ (2.02)	\$ (8.52)	\$ (2.06)	
Personal tax	\$ 21.04	\$ 11.99	\$ 21.31	\$ 11.91	\$ 22.19	\$ 11.86	\$ 22.60	\$ 12.09	
Personal ETR on dividend	26.30%	14.99%	26.64%	14.89%	27.57%	14.74%	27.57%	14.74%	42.30%
ETR on \$100 of corporate income	29.04%	23.99%	29.31%	23.91%	30.19%	23.36%	30.60%	22.09%	52.69%

Notes:

As can be seen from the combined 'ETR on \$100 of corporate income', the integrated tax rate for corporate investment income significantly higher than the top personal marginal tax rate of 48% for all years. The reason is that while the federal and provincial combined corporate tax rate (after the RDTOH is fully recovered) is lower compared to the combined general corporate tax rate, it is still substantially higher than the combined rate on small business income. However, gross-up and dividend tax credit mechanism for non-eligible dividends is the same regardless of whether the underlying income has been subject to the small business tax rate or the investment tax rate. As a result, there is a significant disadvantage (or under-integration) in earning investment income in a Canadian-controlled private corporation. For example, in 2019, the integrated ETR of 53.55% means that there is a whopping 5.55% penalty for earning such income corporately versus personally. To make matters worse, there is close to no tax deferral with corporate investment income due to the refundable dividend tax regime (not illustrated here). The silver lining here is that the corporate tax rate reduction introduced by Alberta will reduce this penalty: in 2020, the penalty for investing corporately is reduced to 4.69%. By 2022 (not illustrated here), the penalty shrinks to a still-formidable 3.54%. Therefore, if effective tax rate is the sole motivating factor and there is no other factors to consider (e.g. funds are already in the corporate system to start with, liability protection offered by corporations), it is generally better to make investments personally rather than in a Canadian-controlled private corporation.

Eligible Dividends (general corporate rate income, Dec 31 year-end) - ETR

	2017		2018		2019		2020		Combined
	Federal	Alberta	Federal	Alberta	Federal	Alberta	Federal	Alberta	
Corporate income	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	
Corporate tax rate	15.0%	12.0%	15.0%	12.0%	15.0%	11.5%	15.0%	10.0%	
Corporate tax	\$ 15.00	\$ 12.00	\$ 15.00	\$ 12.00	\$ 15.00	\$ 11.50	\$ 15.00	\$ 10.00	
<i>Funds available for distribution</i>		\$ 73.00		\$ 73.00		\$ 73.50		\$ 75.00	
Dividend amount	\$ 73.00	\$ 73.00	\$ 73.00	\$ 73.00	\$ 73.50	\$ 73.50	\$ 75.00	\$ 75.00	
Gross-up rate	38%	38%	38%	38%	38%	38%	38%	38%	
Gross-up	\$ 27.74	\$ 27.74	\$ 27.74	\$ 27.74	\$ 27.93	\$ 27.93	\$ 28.50	\$ 28.50	
Taxable dividend	\$ 100.74	\$ 100.74	\$ 100.74	\$ 100.74	\$ 101.43	\$ 101.43	\$ 103.50	\$ 103.50	
Personal tax rate	33%	15%	33%	15%	33%	15%	33%	15%	
Personal tax before dividend tax credit	\$ 33.24	\$ 15.11	\$ 33.24	\$ 15.11	\$ 33.47	\$ 15.21	\$ 34.16	\$ 15.53	
Dividend credit rate	6/11	69/190	6/11	69/190	6/11	69/190	6/11	69/190	
Dividend tax credit	\$ (15.13)	\$ (10.07)	\$ (15.13)	\$ (10.07)	\$ (15.23)	\$ (10.14)	\$ (15.55)	\$ (10.35)	
Personal tax	\$ 18.11	\$ 5.04	\$ 18.11	\$ 5.04	\$ 18.24	\$ 5.07	\$ 18.61	\$ 5.18	
Personal ETR on dividend	24.81%	6.90%	24.81%	6.90%	24.81%	6.90%	24.81%	6.90%	31.71%
ETR on \$100 of corporate income	33.11%	17.04%	33.11%	17.04%	33.24%	16.57%	33.61%	15.18%	48.78%

Notes:

As can be seen from the combined 'ETR on \$100 of corporate income', the integrated tax rate for corporate income entitled to general corporate tax rate is modestly higher than the top personal marginal tax rate of 48%, particularly for years prior to 2020. For example, in 2017 and 2018, the integrated ETR of 50.15% means that there is a 2.15% penalty for earning such income corporately versus personally. The Alberta tax changes significantly narrows this penalty in 2019 and 2020, due to Alberta reducing the corporate tax rates but maintaining the dividend tax credit rate constant. The result is that in 2019, the integrated tax rate for general corporate rate income falls below 50% to 49.81%, and in 2020 it falls to 48.78% (only 0.78% penalty over earning the income personally). Although not displayed here, further Alberta corporate tax rate reductions in 2021 and 2022 will ultimately reduce the integrated tax rate to 47.4%, which is below the personal tax rate and is a rarity amongst the Canadian provinces and territories.