

1) How much tax can be deferred by earning business income using a corporation, and is there a tax savings or cost when eventually distributed to shareholders?

EARNING active / business income		AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Sole proprietor											
Business income		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Personal top rate Tax due	A	48.0% (480)	53.5% (535)	50.4% (504)	52.5% (525)	54.8% (548)	54.0% (540)	53.5% (535)	52.0% (520)	53.3% (533)	47.5% (475)
Net to shareholder		520	465	496	475	452	460	465	480	467	525
Corporation – Small business rate											
Business income		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Corporate tax rate Tax due	B	11.0% (110)	11.0% (110)	9.0% (90)	11.5% (115)	11.5% (115)	10.5% (105)	12.2% (122)	10.0% (100)	12.2% (122)	10.0% (100)
Available for dividend		890	890	910	885	885	895	878	900	878	900
Personal rate – Non-eligible Tax due	C	42.3% (377)	48.9% (435)	46.7% (425)	46.8% (414)	49.0% (433)	50.0% (447)	47.7% (419)	47.9% (431)	48.7% (428)	41.3% (372)
Combined corporate-personal Net cash	D	48.7% 513	54.5% 455	51.5% 485	52.9% 471	54.8% 452	55.2% 448	54.1% 459	53.1% 469	55.0% 450	47.2% 528
Integration – Small business rate											
Tax deferral / (prepayment)	E = A-B	37.0%	42.5%	41.4%	41.0%	43.3%	43.5%	41.3%	42.0%	41.1%	37.5%
Tax savings / (cost)	F = A-D	(0.7%)	(1.0%)	(1.1%)	(0.4%)	(0.0%)	(1.2%)	(0.6%)	(1.1%)	(1.7%)	0.3%
Integration – General rate, summary results											
Corporate tax rate Personal rate – Eligible	G H	23.0% 34.3%	27.0% 36.5%	27.0% 37.8%	29.0% 32.4%	30.0% 46.2%	29.0% 41.6%	26.5% 39.3%	30.0% 36.5%	26.5% 40.1%	27.0% 29.6%
Combined corporate-personal rate	I	49.4%	53.7%	54.6%	52.0%	62.3%	58.5%	55.4%	55.6%	56.0%	48.6%
Tax deferral / (prepayment)	J = G-A	25.0%	26.5%	23.4%	23.5%	24.8%	25.0%	27.0%	22.0%	26.8%	20.5%
Tax savings / (cost)	K = I-A	(1.4%)	(0.2%)	(4.2%)	0.5%	(7.5%)	(4.5%)	(1.9%)	(3.6%)	(2.7%)	(1.1%)

2) For a shareholder-employee of a business corporation, what is the comparative tax savings or cost of drawing salary versus taking an ineligible dividend?

SALARY / DIVIDEND mix for a shareholder-employee		AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Corporation											
Gross income	A	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Salary deduction		1,000	0	1,000	0	1,000	0	1,000	0	1,000	0
Net income		0	1,000	0	1,000	0	1,000	0	1,000	0	1,000
Corporate tax due – Small business rate		0	(110)	0	(110)	0	(115)	0	(122)	0	(100)
Retained earnings available for dividend	B	0	890	0	890	0	885	0	878	0	900
Personal											
Receipt is A if salary or B if dividend	C = A or B	\$1,000	\$890	\$1,000	\$890	\$1,000	\$910	\$1,000	\$885	\$1,000	\$885
Grossed-up amount – Non-eligible rate	15%	n/a	1,024	n/a	1,024	n/a	1,047	n/a	1,018	n/a	1,018
Personal top rate Tax due	D	(480)	(491)	(535)	(548)	(504)	(527)	(525)	(534)	(548)	(558)
Combined dividend credit – Non-eligible rate	E	n/a	115	n/a	112	n/a	103	n/a	120	n/a	124
Personal tax due	F = D+E	(480)	(377)	(535)	(435)	(504)	(425)	(525)	(414)	(548)	(433)
After-tax personal cash	G = C-F	520	513	465	455	496	485	475	471	452	452
		(0.7%)	(1.0%)	(1.1%)	(0.4%)	(0.0%)	(1.2%)	(0.6%)	(1.1%)	(1.7%)	0.3%
After-tax cash – Income levels below top bracket											
Showing net cash at select income levels, out of initial \$1,000 corporate income. Shows difference due to income tax, not including payroll deductions or other tax benefits. A negative figure means more net personal cash via salary over dividend.	Personal bracket	\$100,000	\$695 \$693	\$718 \$714	\$621 \$616	\$655 \$654	\$637 \$640	\$620 \$612	\$685 \$681	\$629 \$623	\$639 \$624
	Personal bracket	\$150,000	\$640 \$636	\$593 \$586	\$566 \$559	\$580 \$577	\$582 \$584	\$565 \$556	\$550 \$545	\$550 \$541	\$525 \$509
	Personal bracket	\$200,000	\$577 \$572	\$539 \$531	\$533 \$524	\$512 \$508	\$529 \$530	\$497 \$486	\$517 \$512	\$517 \$507	\$498 \$482
	Personal bracket	\$250,000	\$567 \$562	\$539 \$531	\$533 \$524	\$512 \$508	\$509 \$510	\$497 \$486	\$502 \$496	\$517 \$507	\$498 \$482

3) How large a dividend may be received by shareholder before personal tax is due?

TAX-FREE Canadian dividend income	AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Eligible dividends (from general rate income)	\$80,755	\$80,755	\$39,981	\$80,755	\$29,389	\$35,140	\$80,755	\$57,402	\$59,895	\$80,755
Non-eligible dividends (from small business rate income)	\$27,233	\$18,737	\$14,795	\$16,795	\$15,389	\$12,511	\$27,639	\$15,111	\$21,807	\$23,316

Estimate for concept illustration only, applying just dividend credit and basic personal credit, and assuming TOSI does not apply. Dividends are paid from retained earnings, which is net of corporate income tax paid.

4) If funds are placed in a corporation to earn passive/investment income, will tax be deferred or pre-paid, and will the ultimate personal result be a tax savings or cost?

INVESTING for passive / portfolio income		AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Interest											
Top personal	A	48.0%	53.5%	50.4%	52.5%	54.8%	54.0%	53.5%	52.0%	53.3%	47.5%
Corporate Combined corporate-personal	B C	46.7% 51.5%	50.7% 59.0%	50.7% 57.3%	52.7% 59.1%	53.7% 61.6%	52.7% 61.5%	50.2% 57.9%	53.7% 60.8%	50.2% 58.7%	50.7% 53.1%
Tax deferral / (prepayment)	D = A-B	1.3%	2.8%	(0.3%)	(0.2%)	1.1%	1.3%	3.4%	(1.7%)	3.1%	(3.2%)
Tax savings / (cost)	E = A-C	(3.5%)	(5.5%)	(6.9%)	(6.6%)	(6.8%)	(7.5%)	(4.4%)	(8.8%)	(5.4%)	(5.6%)
Capital gains											
Top personal	F	24.0%	26.8%	25.2%	26.3%	27.4%	27.0%	26.8%	26.0%	26.7%	23.8%
Corporate Combined corporate-personal	G H	23.3% 25.8%	25.3% 29.6%	25.3% 28.7%	26.3% 29.6%	26.8% 30.8%	26.3% 30.8%	25.1% 29.0%	26.8% 30.4%	25.1% 29.4%	25.3% 26.5%
Tax deferral / (prepayment)	I = F-G	0.7%	1.4%	(0.1%)	(0.1%)	0.6%	0.7%	1.7%	(0.8%)	1.6%	(1.6%)
Tax savings / (cost)	J = F-H	(1.8%)	(2.8%)	(3.5%)	(3.3%)	(3.4%)	(3.8%)	(2.2%)	(4.4%)	(2.7%)	(2.8%)
Canadian eligible dividends											
Top personal	K	34.3%	36.5%	37.8%	32.4%	46.2%	41.6%	39.3%	36.5%	40.1%	29.6%
Corporate Combined corporate-personal	L M	38.3% 34.3%	38.3% 36.5%	38.3% 37.8%	38.3% 32.4%	38.3% 46.2%	38.3% 41.6%	38.3% 39.3%	38.3% 36.5%	38.3% 40.1%	38.3% 29.6%
Tax deferral / (prepayment)	N = K-L	(4.0%)	(1.8%)	(0.5%)	(5.9%)	7.9%	3.2%	1.0%	(1.8%)	1.8%	(8.7%)
Tax savings / (cost)	O = K-M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Foreign non-business income											
Top personal	P	48.0%	53.5%	50.4%	52.5%	54.8%	54.0%	53.5%	52.0%	53.3%	47.5%
Corporate Combined corporate-personal	Q R	46.7% 58.4%	50.7% 65.2%	50.7% 63.7%	52.7% 64.9%	53.7% 66.8%	52.7% 66.9%	50.2% 64.1%	53.7% 66.1%	50.2% 64.8%	50.7% 60.1%
Tax deferral / (prepayment)	S = P-Q	1.3%	2.8%	(0.3%)	(0.2%)	1.1%	1.3%	3.4%	(1.7%)	3.1%	(3.2%)
Tax savings / (cost)	T = P-R	(10.4%)	(11.7%)	(13.3%)	(12.4%)	(12.0%)	(12.9%)	(10.6%)	(14.1%)	(11.5%)	(12.6%)

5) Will a shareholder have a net tax savings or cost by investing retained earnings then paying returns as a dividend, versus paying a dividend then investing personally?

RE-INVESTING business profit in a passive portfolio		AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Invest in corporation then dividend to shareholder											
Investment principal in corporation	A	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Investment return – <i>Illustrating with interest at ...</i>	1%	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Net personal cash after tax, after dividend	B	51.5% 4.85	59.0% 4.10	57.3% 4.27	59.1% 4.09	61.6% 3.84	61.5% 3.85	57.9% 4.21	60.8% 3.92	58.7% 4.13	53.1% 4.69
Dividend to shareholder to invest personally											
Investment principal after non-eligible dividend		42.3% 577	48.9% 511	46.7% 533	46.8% 532	49.0% 510	50.0% 500	47.7% 523	47.9% 521	48.7% 513	41.3% 587
Investment return	1%	5.77	5.11	5.33	5.32	5.10	5.00	5.23	5.21	5.13	5.87
Net personal cash after tax	C	48.0% 3.00	53.5% 2.38	50.4% 2.64	52.5% 2.53	54.8% 2.31	54.0% 2.30	53.5% 2.43	52.0% 2.50	53.3% 2.40	47.5% 3.08
Tax savings / (cost) – Illustrating 1% return											
Interest	Absolute gain D = (B-C)/A Relative gain E = (B-C)/C	0.2%	62%	0.2%	72%	0.2%	61%	0.2%	62%	0.2%	67%
Capital gains	summary	0.3%	69%	0.3%	88%	0.3%	79%	0.3%	80%	0.3%	87%
Canadian eligible dividends	summary	0.3%	73%	0.3%	96%	0.3%	88%	0.3%	88%	0.3%	96%
Foreign non-business income	summary	0.1%	39%	0.1%	46%	0.1%	37%	0.1%	39%	0.1%	44%

Dollar amounts are proportional to rate of return (e.g., 2% results in twice the dollar difference as 1%), but percentage difference is constant regardless of rate of return.

6) What are some key concepts in tax-managing income and distributions from a corporation, and harvesting the value of a corporation on sale or shareholder death?

Small business rate / small business deduction (SBD)	Tax on split income (TOSI)	Lifetime capital gains exemption (LCGE)	Corporate-owned life insurance
SBD applies to the first \$500,000 of active business income (ABI) of a Canadian-controlled private corporation (CCPC), being that it is not controlled by a non-resident, a public corporation, or combination of them. The provincial threshold in PE and SK is \$600,000, and \$700,000 in NS.	TOSI may impose top bracket tax on dividends/payments to family members. Exceptions include certain adult children ('excluded business' age 18+, 'excluded shares' age 25+), payments to spouse/common law partner when founder is 65+, and amounts up to a 'safe harbour capital return'.	LCGE up to \$1,275,000 (2026, indexed annually) applies on disposition of qualifying small business corporation (QSBC) shares of a CCPC. To qualify, 90% of corporate assets at disposition date must be used to earn ABI, with 50% average used to earn ABI over preceding 24 months.	Life insurance premiums are not deductible, but may be paid out of retained earnings. On death of a life insured, proceeds are received tax-free by the corporation as either policyholder or beneficiary, some or all of which may be paid as a tax-free dividend, depending on circumstances.

General technical notes and disclaimer

Tax rates are effective as of publication date, January 1, 2026. The individual/shareholder and corporation are resident in the same province. The corporation is a CCPC with a calendar taxation year. Corporate passive income rates include recovery of all associated refundable taxes (which may, in some provinces for some income types, require a supplement of other corporate cash to obtain full refund), and the combined corporate-personal tax rates include recovery of the appropriate amount of refundable tax. The RE-INVESTING section #5 assumes the corporation pays dividends in the same year the investment income is earned.

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