Budget 2022

Increasing access to the small business tax rate

Legislative Costing Note

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Canadian-Controlled Private Corporations (CCPCs) can benefit from a tax rate of 9 per cent on up to $500,000 of active business income compared to the general corporate tax rate of 15 per cent. Access to this preferential rate begins to be phased out when a CCPC's taxable capital employed in Canada exceeds $10 million and is fully phased out when taxable capital reaches $15 million.

Budget 2022 proposes to phase out access to the small business tax rate more gradually, with access to be fully phased out when taxable capital employed in Canada reaches $50 million, rather than at $15 million.

5-Year Cost

$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Total cost	8	153	157	161	163	642

Notes

· Estimates are presented on an accruals basis as would appear in the budget and public accounts.
· Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

Estimation and Projection Method

PBO's T2 corporate tax model and the 2018 T2 corporate tax database was used to cost this measure. The phase out rate on line 415 of the T2 schedule was reduced to increase the maximum level of taxable capital for CCPCs to remain eligible for the small business tax rate from $15 million to $50 million.

Some CCPCs did not calculate their taxable capital employed in Canada on Schedule 33 or 34 in 2018 given that their taxable capital likely exceeded $15 million and therefore they were ineligible for the small business tax rate. We used balance sheet data from Schedule 100 to estimate the taxable capital of these CCPCs. Schedule 100 data was adjusted to account for associated CCPCs and those with taxable capital employed outside of Canada.

The measure applies to corporate tax years beginning on or after April 7, 2022. We estimate that the future cost of this measure will grow at the rate of the corporate tax base. We estimate that 15,300 CCPCs will be affected by this tax measure.

Sources of Uncertainty

Actual taxable capital amounts may vary from PBO estimates if newly-eligible CCPCs have significantly different tax characteristics than large CCPCs currently eligible. The estimate is also sensitive to future corporate profits. We did not model a behaviour response but this measure will change the marginal effective tax rates of affected CCPCs and could influence their investment plans.

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Data Sources

Variable	Source
Lines 415 and 400	T2 Corporate Income Tax Return (2021 and later)
Lines 3499 and 3620	T2 Schedule 100
Line 690	T2 Schedule 33
Line 690	T2 Schedule 34
Before-tax corporate profits	PBO economic projection March 1, 2022

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