

Small business deduction for campgrounds

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Most campground businesses (hereafter, campgrounds) are currently classified as specified investment businesses as their principal purpose is to derive rental income from property. Consequently, the current tax treatment of rental income, which is considered investment income, subjects them to a tax rate up to 38 2/3 percent (of which 30 2/3 percent is refundable when the corporation distributes other than eligible dividends) and precludes them from claiming the small business deduction (SBD). Bill C-410 proposes to amend the *Income Tax Act* by excluding a campground business from the definition of a specified investment business.

The Parliamentary Budget Officer (PBO) estimates that the measure will lower corporate income tax revenues by \$28 million from 2024-25 to 2028-29. The measure is assumed to take effect on April 1, 2025.

5-Year Cost

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Total cost	-	7	7	7	7	28

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

The incremental cost of the measure was defined as the difference in federal taxes paid by campgrounds on active business income (the new tax treatment) and rental income (the current tax treatment).

Under the current tax treatment, 2022-23 T2 corporation tax data were used to measure the baseline amount of federal taxes paid by campgrounds who do not claim the small business deduction and are classified as a Canadian-controlled private corporation (CCPC).

Under the new tax treatment, PBO estimated active business income (ABI) as a share of taxable income based on observed proportions for campgrounds claiming the SBD between 2020-21 and 2022-23 in corporation tax data. The remaining amount of taxable income was considered as other investment income. PBO obtained the new amount of federal taxes payable by multiplying each component of taxable income by their respective rate, that is the small business rate (9 percent) on the first \$500,000 of estimated ABI, the general rate (15 percent) on estimated ABI in excess of \$500,000 and the investment rate (38 2/3 percent) on the remainder of taxable income.

The change in federal taxes paid was projected using PBO's corporate income tax (CIT) revenue projections starting in 2023-24.

Sources of Uncertainty

Unforeseen changes to the economic and fiscal climate, as well as the use of statistical methods, imply that all projections used have inherent uncertainty. PBO assumed that the measure would not have an impact over the costing horizon (2024-25 to 2028-29) on the dividend refund a campground could receive. As mentioned above, investment income of a CCPC is subject to a refundable tax of 30 2/3 percent (as well as a non-refundable tax of 8 percent) which is accumulating in a fictional account called the non-eligible refundable dividend tax on hand (NERDTOH). Whenever the CCPC distributes non-eligible dividends, it can receive a dividend refund of 38 1/3 cent per dollar of dividend distributed until the NERDTOH account is depleted. Assuming the dividend distributions remain at historical levels, most campgrounds impacted by the proposal would not have exhausted their NERDTOH balance within the next five years, and hence could continue to receive dividend refunds. As the NERDTOH accounts become depleted, the cost of the measure would become lower. If substantially all assets of a campground are now considered to be used in an active business, a capital gain realized on the sale of its shares could potentially qualify for the lifetime capital gains exemption, which could reduce federal personal income tax revenue. A behavioural response is not expected.

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Data Sources

Corporation status, North American Industry Classification System, Taxable income, Active business income, Investment income, Small business deduction, Non-eligible refundable dividend tax on hand, Federal tax payable

T2 Schedule 200 administrative data, Statistics Canada

Corporate income tax revenue projections

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