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TAX NOTE

October 23, 2020

Alberta Tax Rates Update

The Alberta income tax integration tables for 2020 and 2021 are now available. Please reach out to us at ff@felesky.com to obtain a copy. These tables include changes introduced by the Government of Alberta on October 20, 2020 in Bill 35, which we expect will pass the Legislature and receive Royal Assent in the coming days.

As previously announced, Bill 35 accelerates the reduction of Alberta's corporate income tax rate to 8% effective July 1, 2020 (prorated for a corporation's taxation year). The combined small business rate in Alberta remains constant at 11%, consisting of a 2% Alberta rate and a 9% federal rate.

Bill 35 also provides for a reduction to the provincial eligible dividend tax credit in 2021 as a corollary to the reduction of the general corporate income tax rate. The resulting **effective personal income tax rate for eligible dividends therefore increases from 31.71% in 2020 to 34.31% in 2021. The increase to eligible dividend tax rates in 2021 means accelerating income in 2020 may be desirable.** Potential future tax increases are a concern for many taxpayers, who may already be considering income acceleration. The increase to dividend tax rates also increases the attractiveness of extracting corporate funds at capital gains rates in lieu of a conventional dividend.

On a fully distributed basis, the combined tax cost of earning general rate business income in a corporation and paying dividends to shareholders, versus earning the income personally or paying a bonus from a corporation, increases slightly to 1.82% since the increased eligible dividend rate more than offsets the corporate income tax rate reduction. There were no changes to the non-eligible dividend tax credit so the effective personal income tax rate on non-eligible dividends remains at 42.30% for top bracket taxpayers from 2020 onwards. On a fully distributed basis, the combined tax cost of small business rate income in a corporation remains approximately 0.65%.

For most investment income earned by a Canadian-controlled private corporation ("CCPC"), the combination of Alberta's corporate income tax rate reduction and the unchanged non-eligible dividends rate results in reduced under-integration of investment income. Nonetheless, the cost of earning investment income in a CCPC is still higher than earning the income personally. For taxpayers in the top bracket, the under-integration of tax rates on investment income is 3.54% in 2021.

Please do not hesitate to contact any Felesky Flynn lawyer for further information on the Alberta tax rate changes or to discuss tax and estate planning options.

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