

## Small Business Limit

The small business deduction currently reduces the federal corporate income tax rate applied to the first \$400,000 of qualifying active business income of a Canadian-controlled private corporation (CCPC) to 11 per cent. The small business deduction is phased out on a straight-line basis for CCPCs having between \$10 million and \$15 million of taxable capital employed in Canada.

In order to provide additional tax relief to small businesses, Budget 2009 proposes that the annual amount of active business income eligible for the reduced tax rate—generally referred to as the “small business limit”—be increased as of January 1, 2009 to \$500,000.

The increase to the small business limit will be pro-rated for corporations with taxation years that do not coincide with the calendar year. In addition, there will continue to be a requirement to allocate the small business limit among associated corporations, and access to the small business deduction will continue to be reduced on a straight-line basis for CCPCs having between \$10 million and \$15 million of taxable capital employed in Canada.

CCPCs are also eligible to earn investment tax credits at an enhanced rate of 35 per cent on up to \$3 million of scientific research and experimental development (SR&ED) expenditures annually. This \$3-million expenditure limit is reduced as a CCPC's taxable income for the previous year increases from \$400,000 to \$700,000 and taxable capital of the previous year increases from \$10 million to \$50 million. Tax credits earned at the higher 35-per-cent rate on current expenditures are fully refundable, and 40 per cent of tax credits earned at the higher 35-per-cent rate on capital expenditures is refundable.

Consistent with the proposal to increase the small business limit, the \$3-million expenditure limit for SR&ED will begin to be reduced at the proposed small business limit of \$500,000 and will be fully eliminated where taxable income in the previous year is \$800,000 or more. This change will apply where the previous taxation year ends after 2008. The reduction of the expenditure limit based upon taxable capital will not be changed.

CCPCs that claim the small business deduction are permitted to pay any balance of corporate income tax owing at the end of the third month after the end of their taxation year—one month later than other corporations—provided their taxable income in the previous year is less than the small business limit for that year. In addition, certain CCPCs that claim the small business deduction and have taxable income not exceeding \$400,000 are eligible to pay corporate income tax in quarterly instalments instead of monthly instalments.

As a consequence of increasing the small business limit to \$500,000, some CCPCs with taxable income above \$400,000, but below the proposed new limit, will have an additional month in which to pay any balance of tax owing. As well, CCPCs with taxable income not exceeding \$500,000 for their 2009 and subsequent taxation years may be eligible for quarterly instalments of corporate income tax.