Earning investment income in a corporation

For a variety of reasons, Canadians sometimes hold their portfolio investments in a corporation. The investment income earned from such portfolio investments is subject to two layers of taxation: taxation of the income at the corporate level and the subsequent personal taxation upon distribution of the corporation's after-tax income as a dividend to the shareholder.

The Canadian income tax system is designed so theoretically the total corporate and personal income tax incurred when investing in a corporation should be roughly the same as if an individual investor had earned the income directly. This tax principle is known as integration. In practice however, perfect integration often does not occur given the different provincial and territorial personal and corporate tax rates, and tax savings or costs result.

The following table illustrates:

1. The tax deferral/(prepayment) when earning investment income through a corporation, as measured by the difference between the corporate and top personal tax rates on the investment income, and

2. The net tax savings (cost) associated with earning investment income through a corporation and distributing corporate after-tax income as a dividend to the shareholder, compared to earning investment income personally.

Newfoundland & Labrador[1]	Other Investment Income	Capital Gains	Canadian Eligible Dividends	Canadian Non-Eligible Dividends	
Top personal tax rate[2]	54.80%	27.40%	46.20%	48.96%	A
Corporate tax rate[3]	53.67%	26.83%	38.33%	38.33%	B
Corporate/personal tax combined[4]	61.65%	30.82%	46.20%	48.96%	C
Tax deferral/ (prepayment)	1.13%	0.57%	7.87%	10.62%	A-B
Net tax savings/ (cost)	(6.85%)	(3.42%)	0.00%	0.00%	A-C

Observations

- There is a tax deferral available by earning investment income (particularly Canadian dividends) in a corporation, if there is no immediate intention to distribute the after-tax income as a dividend to an individual shareholder.
- There is a tax cost associated with earning investment income (except Canadian dividends) in a corporation, if the intention is to immediately distribute the after-tax income as a dividend to an individual shareholder.

1. The table reflects tax rates in effect and federal or provincial/territorial changes announced up to August 2026.
2. The tax deferral/prepayment and tax savings/costs shown in the table are based on personal tax at the top marginal rate. Results will differ, possibly significantly, if the individual's income is not in the top marginal tax bracket.
3. The corporate tax rates are for Canadian-controlled private corporations (CCPCs). A portion of this corporate tax is refunded to the corporation when a taxable dividend is paid to the shareholder. This refundable tax mechanism aims to minimize the tax deferral that would otherwise be available from investing in a corporation while preserving integration on distribution of corporate funds to the shareholder.
4. This combined rate assumes full recovery of refundable tax on distribution.

Earning active business income (ABI) in a corporation

Earning business or professional income through a corporation involves two layers of taxation too, but there are now two primary means to compensate the individual owner/professional – salary and/or dividends.

In the instance salary is paid, there is a deduction to the corporation and the salary is reported as taxable income at the personal level. In the instance dividends are paid, first, the net income is taxed inside the corporation, then, the after-tax income is taxed again at the personal level when distributed as a dividend to the individual shareholder.

Because corporate tax rates on ABI are generally significantly lower than personal tax rates, the after-tax income can be retained in the corporation, generating a tax deferral benefit.

The following table illustrates:

1. The tax deferral to earning business or professional income through a corporation, as measured by the difference between the corporate and personal tax rates on ABI, and
2. The net tax savings/(cost) associated with earning business or professional income through a corporation and distributing the corporate after-tax income as an eligible or non-eligible dividend, compared to earning the business or professional income personally.

Income earned by the individual – NL[5]			
Business income	1,000		I
Top personal tax rate	54.80%		
Personal income taxes	548		
Net Income to shareholder	452		A
Income earned by the corporation – NL	**ABI qualifying for the Small Business Deduction[6]**	**ABI at the General Tax Rate**	
Active business income	1,000	1,000	
Corporate tax rate	11.50%	30.00%	
After-tax profit available to distribute	885	700	B
Top personal tax rate on dividend	*Non-eligible 48.96%*	*Eligible 46.20%*	
Personal tax on dividend	433	323	
Net income to shareholder	452	377	C
Summary			
Tax deferral/ (prepayment)	43.30%	24.80%	(B-A)/I
Tax savings/ (cost)	(0.03%)	(7.54%)	(C-A)/I

Observations

- There is significant tax deferral available by earning ABI through a corporation.
- There is no tax cost to earning ABI which qualifies for the SBD rate through a corporation, if after-tax profits are distributed to an individual shareholder as a dividend. Tax costs significantly increase when ABI is taxed at the general rate and distributed to an individual shareholder as a dividend.

5. The table reflects tax rates in effect and federal or provincial/territorial changes announced up to August 2026.
6. The corporate tax rate applicable to ABI qualifying for the Small Business Deduction can only be applied to income up to the "business limit" for a taxation year. The "business limit" must be shared amongst CCPCs that are "associated" for income tax purposes. The available "business limit" for an associated group can be reduced in certain circumstances, including where certain investment income within the associated group exceeds $50,000. A description of these rules is beyond the scope of this reference card.

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