

Other Federal Corporate Tax Rates for 2020

(Prepared from information available as of June 17, 2020)

The rates shown in the table are in effect for a 12-month taxation year ended December 31, 2020. All rates that change must be pro-rated for taxation years that straddle the effective date, except as noted.

| | Rate | Corporations affected | Description | Special rules |
|--|-------------------|--|---|--|
| Income not earned in a province or territory | 25% | All corporations | Income tax for 2020 is calculated as follows: Basic federal rate 38% Less: General rate reduction <u>-13%</u> General federal rate <u>25%</u> Therefore, the federal rate is 25%, instead of 15%. | Corporate income not earned in a province or territory is neither: • eligible for the provincial abatement; nor • subject to provincial or territorial tax (exceptions apply). |
| Branch tax | 25% | Non-resident corporations, except: • transportation, communications and iron-ore mining companies; and • insurers (other than in special circumstances). | Applies to after-tax profits that are not invested in qualifying property in Canada. | The 25% rate may be reduced by the relevant tax treaty (generally to the withholding tax rate on dividends, which is usually 5%, 10% or 15%). Some treaties prohibit the imposition of branch tax or provide that the tax is payable only on earnings exceeding a threshold. |
| Part III.1 Tax on Excess Eligible Dividend Designations | 20% or 30% | Canadian-resident corporations | Applies if: • a CCPC has designated as eligible dividends during the year an amount that exceeds the corporation's general rate income pool (GRIP) at the end of the year; or • a non-CCPC pays an eligible dividend when it has a positive balance in its low rate income pool (LRIP). | A corporation subject to Part III.1 tax at the 20% rate (i.e., the excess designation was inadvertent) can elect, with shareholder concurrence, to treat all or part of the excess designation as a separate non-eligible dividend, in which case Part III.1 tax will not apply to the amount that is the subject of the election. |
| Refundable Part IV tax | 38½% ¹ | Private corporations and certain public corporations | Payable on taxable dividends received from certain Canadian corporations and foreign affiliates. | Refundable to the corporation through the refundable dividend tax on hand (RDTOH) mechanism, at a rate of 38½% (33½% for taxation years ending before 2016) of taxable dividends paid. ³ |
| Refundable Investment Tax | 10½% ² | Canadian-Controlled Private Corporations (CCPCs) | Increases the total federal rate that applies to investment income of a CCPC to 38.67% (34.67% for taxation years ending before 2016). Generally, 30½% (26½% for taxation years ending before 2016) of a CCPC's aggregate investment income is added to its non-eligible RDTOH (RDTOH for taxation years beginning before 2019). ³ | |
| Part VI Financial Institutions Capital Tax | 1.25% | Banks Trust and loan corporations Life insurance companies | Applies if capital employed in Canada is over \$1 billion. The threshold is shared by related corporations. | Reduced by the corporation's federal income tax liability. Any unused federal income tax liability can be applied to reduce Financial Institutions Capital Tax for the previous three years and the next seven. |

Notes:

1. Recent changes to the refundable Part IV tax follow:

| | Changes effective after December 31, 2015 | | |
|-------------------------------|---|-------|------------------|
| | From | To | Effective |
| Refundable Part IV tax | 33½% | 38½%* | January 1, 2016* |

* Applies to dividends received after 2015.

2. Recent changes to the refundable investment tax follow:

| | Changes effective after December 31, 2015 | | |
|----------------------------------|---|------|-----------------|
| | From | To | Effective |
| Refundable investment tax | 6½% | 10½% | January 1, 2016 |

3. For taxation years beginning after 2018:

- eligible dividends paid by a CCPC will produce a refund (at the 38½% rate) only to the extent of its "eligible RDTOH account," that will include (subject to transitional rules) Part IV tax paid on eligible dividends from non-connected corporations and on taxable dividends from connected corporations to the extent the dividend generated a refund from the connected corporation's eligible RDTOH account; and
- the refundable portion of the CCPC's other investment income, and the portion of Part IV tax on dividends from connected corporations that is not included in the eligible RDTOH account, is added to its "non-eligible RDTOH account," which is refunded to the extent of 38½% of non-eligible dividends paid by the CCPC (if this calculated amount exceeds the non-eligible RDTOH account, the excess can then recover any remaining eligible RDTOH account balance).