Tax and Revenue Administration (TRA)

Alberta Corporate Income Tax Act
Information Circular CT-17R7
Alberta Small Business Deduction

Last updated: July 2012

NOTE: This information circular is intended to explain legislation and provide specific information. Every effort has been made to ensure the contents are accurate. However, if a discrepancy should occur in interpretation between this information circular and governing legislation, the legislation takes precedence.

Alberta Small Business Deduction

This information circular explains the Alberta small business deduction in its application to 1998 and subsequent taxation years.

Please also see: Special Notice Vol. 5 No. 45, *Alberta Small Business Tax Rate Reduction* (April 14, 2016).

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Overview of the Deduction

1. Only corporations that are Canadian-controlled private corporations throughout the taxation year may claim the Alberta small business deduction. The deduction is a specified percentage of the qualifying amount. The percentages are listed in the rates table.

2. The Alberta Small Business Deduction is patterned on the federal small business deduction. For 1998 and subsequent taxation years, the only differences between the two programs are the deduction rate and the amount of income from an active business that qualifies for the deduction.

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Calculation of the Deduction

3. In general, the Alberta small business deduction is the small business deduction rate times the least of three amounts:

   a. the sum of

      i. the total of all amounts each of which is the corporation's income from an active business, other than a partnership, income carried on in Canada; and

      ii. the corporation's specified partnership income for the year;

      less

      iii. the total of all amounts each of which is the corporation's loss from an active business, other than a partnership, carried on in Canada;

      iv. the corporation's specified partnership loss for the year; and

      v. royalty tax deduction for the year.

   b. the sum of

      i. taxable income for the year,

      less

      ii. the grossed-up foreign tax credit amounts used in calculating the federal small business deduction, and

      iii. royalty tax deduction for the year.

   c. the corporation's small business threshold or allocated threshold amount.

The deduction available in a taxation year **cannot be greater than** the amount determined by multiplying the amount taxable in Alberta (as determined under section 19.1 of the *Alberta Corporate Tax Act* (the Act)) by the small business deduction rate (see subsection 22(2.01) of the Act).

4. For taxation years that straddle changes to either the Alberta small business threshold or the small business deduction rate, the calculation described in paragraph 3 above must be done separately for each part of the taxation year over which a different threshold or rate applies.

   For each part, the least of the three amounts described in paragraph 3 above is calculated, then the amount that is least is prorated by multiplying it by the proportion that the number of days in that part of the taxation year is of the total number of days in the taxation year.

   The prorated amount is then multiplied by the applicable small business deduction rate to obtain the Alberta Small Business Deduction for that part of the taxation year.

   The resulting amounts are added together to obtain the Alberta Small Business Deduction for the taxation year.

5. The least of the three amounts described in paragraph 3 above is subject to adjustment if the corporation has permanent establishments in Alberta and elsewhere, and allocates only a portion of its income to Alberta. Under these circumstances, the least of the three amounts is prorated by the Alberta Small Business Allocation Factor.

   If all of the corporation's permanent establishments are in Canada, the Alberta Small Business Allocation Factor will be the same as the Alberta Allocation Factor obtained from Schedule 2, the ratio that taxable income allocated to Alberta is of total taxable income.

   If the corporation has permanent establishments located outside Canada, the Alberta Allocation Factor must be adjusted to obtain the Alberta Small Business Allocation Factor. The Alberta Small Business Allocation Factor is then the ratio of taxable income allocated to Alberta over taxable income from all permanent establishments in Canada (income allocated to jurisdictions outside of Canada is not taken into account).

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Active Business Income

6. In most cases, the amount of income from an active business income used in the calculation of the Alberta small business deduction will be the same as that used in the calculation of the federal small business deduction. A difference may arise if, for instance, the corporation has claimed a different amount for a discretionary expense for Alberta versus federal purposes and that expense is a component of income from an active business.

7. The definition of "active business" in section 22(1)(a) of the Act means any business carried on by the corporation **other than** a "personal services business" or a "specified investment business", **and includes** an adventure or concern in the nature of trade.

8. A "personal services business" is one carried on by a corporation where an employee of the corporation performs services for another entity through the corporation and who, in the absence of the corporation, would reasonably be regarded as an employee or officer of the other entity for which the services are provided. A corporation does not carry on a personal services business if it has more than five full-time employees throughout the year or renders its services to an associated corporation.

9. A "specified investment business" is one whose principal purpose is to derive income from property (including interest, rents, dividends, and royalties). A specified investment business **does not include** the business of: a credit union, property leasing other than real property, or a corporation that employs more than five full-time employees in the business throughout the year. Also excluded from the definition of specified investment business is the business of a corporation that receives managerial or similar services from an associated corporation and that would otherwise reasonably require more than five full-time employees. This exclusion only applies to situations where the associated corporation provides the services in the course of carrying on an active business itself.

10. Income from an active business excludes income from a source in Canada that is property, unless that property pertains to, or is incidental to, an active business carried on by the corporation.

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Specified Partnership Income

11. Specified partnership income is from an active business carried on by a corporation through a partnership that is eligible for the Alberta small business deduction. It is included in the corporation's calculation of its Alberta small business deduction.

12. The rules for determining the specified partnership income of a corporation for purposes of calculating the Alberta small business deduction parallel the federal rules. The federal calculation, however, must be adjusted as described in paragraph 13 below to account for recent increases to the Alberta small business threshold.

13. If the corporation has specified partnership income and the fiscal period of the partnership ends after March 31, 2001, paragraph (b) of "A" in the definition of "specified partnership income" in subsection 125(7) of the federal *Income Tax Act* (the federal Act) is calculated as the sum of the amounts determined by the following formulas:

    K/L x P,

    K/L x Q,

    K/L x R,

    K/L x S,

    K/L x T,

    K/L x U, and

    K/L x V

    "K" and "L" have the meaning assigned to them in the definition of specified partnership income in subsection 125(7) of the federal Act, and

    "P" is the lesser of

    i. $200,000, and

    ii. the product obtained when $548 ($200,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the year that were before April 1, 2001,

    "Q" is the lesser of

    i. $300,000, and

    ii. the product obtained when $822 ($300,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the year that were after March 31, 2001 and before April 1, 2002,

    "R" is the lesser of

i. $350,000, and

ii. the product obtained when $959 ($350,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the year that were after March 31, 2002 and before April 1, 2003,

"S" is the lesser of

i. $400,000, and

ii. the product obtained when $1,096 ($400,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the year that were after March 31, 2003,

"T" is the lesser of

i. $430,000, and

ii. the product obtained when $1,175 ($430,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days, contained in a fiscal period of the partnership ending in the year, that were after March 31, 2007 and before April 1, 2008,

"U" is the lesser of

i. $460,000, and

ii. the product obtained when $1,261 ($460,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days, contained in a fiscal period of the partnership ending in the year, that were after March 31, 2008 and before April 1, 2009

and

"V" is the lesser of

i. $500,000, and

ii. the product obtained when $1,370 ($500,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days, contained in a fiscal period of the partnership ending in the year, that were after March 31, 2009.

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Small Business Threshold

14. The Alberta small business thresholds for a corporation **that is not associated with another corporation,** and the periods over which they are applicable, are set out in the table above.

15. The Alberta small business threshold is subject to downward adjustment for short taxation years and large corporations. Those adjustments are described below.

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Associated Corporations

16. If two or more Canadian-controlled private corporations are associated with each other in a taxation year because of rules contained in section 256 of the federal Act, those associated corporations must share the Alberta small business threshold. The associated corporations may allocate the small business threshold among themselves in any way they like by completing the Agreement Among Associated Corporations on Schedule 1.

17. For taxation years ending on or before December 4, 2002, associated corporations may choose to allocate the Alberta small business threshold either in the same manner as they allocate the federal business limit or differently. For taxation years ending after December 4, 2002, corporations must allocate the Alberta small business threshold by using the same percentages as those used to allocate the federal business limit.

18. Once the Alberta small business threshold has been allocated among associated corporations, the amount allocated to each corporation is subject to downward adjustment for short taxation years and large corporations. Those adjustments are described in paragraph 19 and paragraph 20 below.

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Short Taxation Years and Large Corporations

19. If the corporation's taxation year is less than 51 weeks, the applicable Alberta small business threshold for non-associated corporations or the allocated amount for associated corporations must be prorated. The small business threshold or the allocated amount is prorated by multiplying it by the number of days in the corporation's taxation year divided by 365. The amount obtained from the proration is then used in the calculation in paragraph 3 above.

20. The Alberta small business deduction is gradually phased out for larger Canadian-controlled private corporations. A corporation's Alberta small business threshold or the allocated amount is reduced or eliminated if it or any corporations associated with it paid the Large Corporations Tax under Part I.3 of the federal Act. The **reduction** of the corporation 's small business threshold or the allocated amount is determined by using the following formula:

$$A \times \frac{B}{11,250}$$

where:

"A" is the small business threshold, or the allocated amount of threshold, otherwise determined, adjusted if necessary for a short taxation year; and

"B" is the total large corporations tax to a maximum of $11,250, calculated before proration for short taxation years and before the credit for federal corporate surtax, that would be payable:

a. where the corporation **is not associated** with any other corporations in the taxation year, by the corporation in its preceding taxation year; **or**

b. where the corporation **is associated** with other corporations in the taxation year, by the corporation and all associated corporations (whether or not Canadian-controlled private corporations) for their latest taxation years ending in the preceding calendar year.

The amount remaining after reduction is then used in the calculation in paragraph 3 above.

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