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Earning passive income can impact your business

If your business earns passive income above $50K, you might have to pay more tax.

Active business income is generally the main and incidental income that a corporation earns from a business source carried on in Canada.

Passive investment income generally consists of corporate earnings not directly related to those business sources, such as capital gains or dividends.

Since 2019, earning passive income can directly affect how much of your active business income qualifies for the federal small business tax rate.

This legislation affects incorporated businesses in all provinces and territories. You also likely can't avoid it by using a holding company.

If you earn passive income:

- up to $50K – $500K of your active business income can qualify
- over $50K – every $1 of passive income lowers that $500K by $5
- over $150K – none of your active business income can qualify

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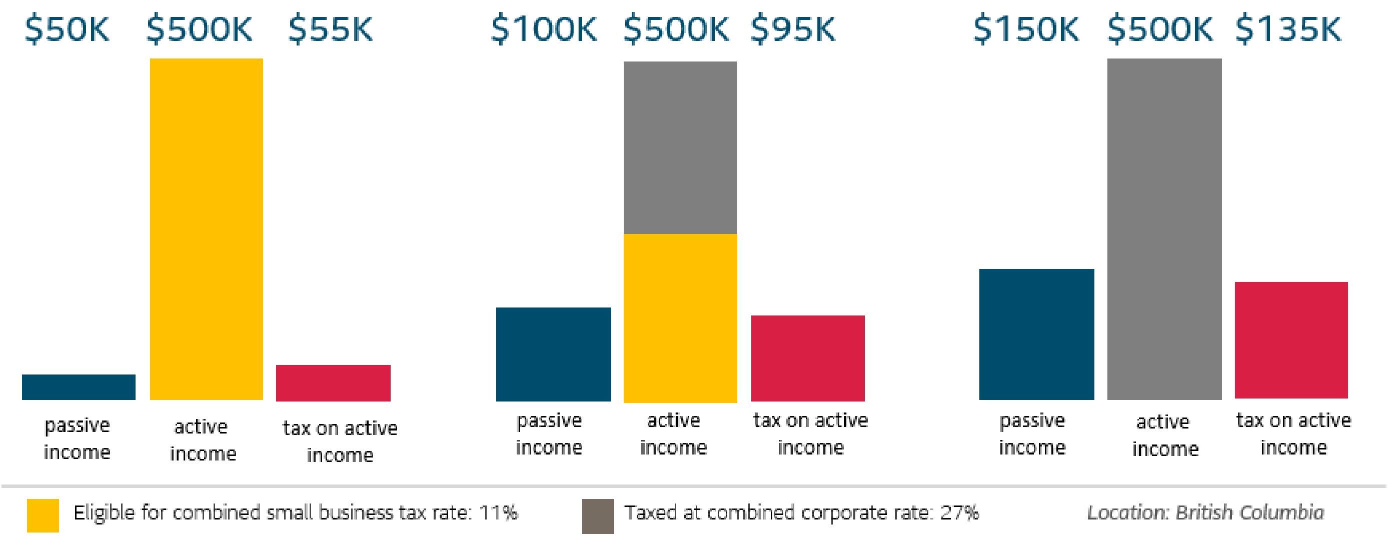
What does this mean for you?

Let's say a business in BC earns $500,000 of active business income. Look at how its passive investment income could affect its corporate tax:



You've got options.

Permanent life insurance can grow cash value that typically isn't taxable while it's within a policy. Cash value in a policy also won't affect your passive income. Permanent life insurance also helps protect business continuity and your shareholders. Take this opportunity to review your corporate insurance policies and make sure you're meeting all your business needs.

The following information is being presented with the understanding that it is intended for information purposes only. No one should act upon the examples/information without a thorough examination of the legal/tax situation with their own professional advisors, after the facts of the specific case are considered.

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