

Personal Services Businesses

If you set up a corporation to provide your employment services, the Income Tax Act will put severe restrictions on the corporation.

These rules, called the **personal services business** rules, apply only where your corporation provides your services to a third party, and, if you did not have your company, you would **reasonably** be regarded as an **employee** of the third party. (See Employee or Self Employed)

For this purpose, “your corporation” would be any corporation in which you, or a family member, own 10% or more of the shares of any class.

Where a corporation carries on a personal services business, the following restrictions apply:

- The corporation **cannot claim the small business deduction**. All of the corporation’s business income will be taxed at the top corporate rate (typically about 38% plus provincial taxes) rather than the “small business” rate (about 18% including provincial tax in BC) .
- The corporation **cannot deduct any expenses other than salary** and benefits actually paid to you as the “incorporated employee”.
- No deductions for the amount paid to other employees of the corporation (which could otherwise be income-splitting with your spouse or children).
- **No deductions for business expenses** (after all, as an employee you would not be able to claim such deductions).

*The “personal services business” rules do not apply if your corporation has **six or more** full-time employees.*

Compliments of



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