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Personal Services Business

What is a Personal Services Business?

A personal services business is a business that a corporation carries on to provide services to another entity that an officer or employee of that entity would usually perform. Instead, an individual performs the services on behalf of the corporation. That individual is called an **incorporated employee**.

Any income the corporation derives from providing the services is considered income from a personal services business, as long as **both** of the following conditions are met:

- The incorporated employee who is performing the services or any person related to them is a **specified shareholder** of the corporation.
- The incorporated employee would, if it were not for the existence of the corporation, would be considered an employee of the entity receiving the services.

However, if the corporation employs **more** than five full-time employees throughout the year or provides the services to an associated corporation, the income is not considered to be from a personal services business. Therefore, the income is eligible for the Small Business Deduction.

What are the Tax Implications?

Personal Service Businesses are **not** entitled to income tax deductions available to other corporations such as the small business deduction and the general rate reduction. The full federal and provincial tax rates will be applicable on **all** taxable income for your corporation. For 2018, the combined federal and provincial tax rate is 33%.

How do I report this income?

Amounts paid by one business for services provided by another business are not subject to legislative payroll deductions. However, if you pay salary and/or wages to yourself from your corporation, or to another employee of your corporation, these amounts will be subject to withholding of income tax, CPP, and, in some cases, EI. At year-end, your corporation will have to report the income paid to employees and the deductions on T4 slips (Statement of Remuneration Paid).

All amounts paid to your corporation must be reported on a T4A slip – Statement of Pension, Retirement, Annuity and Other Income. You will be responsible for completing a T2 Corporate Income Tax Return for the Personal Services Business in addition to a T1 Personal Income Tax and Benefit Return as an individual.

Required Forms: T4A slip – Statement of Pension, Retirement, Annuity and Other Income.
T2 Corporate Income Tax Return
T4 slips (Statement of Remuneration Paid).