

Tax Rates and Integration

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Overview

What we used to do:

1. Income split with family members to reduce personal tax, keep at lower marginal rates;
2. Defer personal tax by keeping income in corporate group;
3. Bonus to get salary for RRSP contribution;
4. Multiply small business deduction among unrelated (non-associated) people (e.g. PC's in professional firm, management company)
5. Pay dividends to realize RDTOH since dividend refund about same as personal tax.
6. Small business deduction (SBD) not too complex

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Owner-Manager Remuneration

New complexity (3 strikes)

Strike 1

- TOSI rules limit income splitting
- Reasonableness test applied to dividends
- Taxed at top rate
- Stops many income splitting plans

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Owner-Manager Remuneration

New complexity (3 strikes)

Strike 2

- Small business deduction combined with non-associated corporations if common source of income;
- Passive income over \$50,000 reduces SBD, eliminated at \$150,000, for federal only (not Ontario);
- But generates GRIP, eligible dividend;
- Vastly more complex, many will not get

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Owner-Manager Remuneration

New complexity (3 strikes)

Strike 3

- Eligible v Ineligible RDTOH
- ERDTOH v NERDTOH
- RDTOH accumulated in NERDTOH except transitional GRIP and Part IV tax (Canadian public company dividends)
- Dividend refund only from ineligible dividend for NERDTOH
- Higher tax overall

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Tax Rates

Lower corporate tax rates, especially low rate active income 12.2% (Ontario).

Higher personal tax rates (47.74% top rate Ontario for ineligible dividend).

Tax at top rate is 4 times corporate tax. System badly out of balance.

Overall tax under NERDTOH at top rate 57.93%. Offensively high!

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Complexity

New rules over 5 years:

- SBD income limit rules
- Passive income rule
- ERDTH/NERDTH
- TOSI

Owner-manager tax practice much more complicated than ever before.

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Result

For active income, all factors favour deferral of income, leave in corporate group, if you can afford.

Avoid higher tax rates

Consider creative/often aggressive strategies. (Some people even ignore the rules – e.g. TOSI. We don't recommend this.)

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Tax Update

Top 2020 Personal Tax Rates

(Taxable Income above \$220,000)	Ordinary Income & Interest	Capital Gains	Canadian Dividends	
			Eligible	Non-Eligible
Federal only	33.00%	16.50%	24.81%	27.57%
Alberta	48.00%	24.00%	31.71%	42.31%
British Columbia	53.50%	26.75%	36.54%	48.89%
Manitoba	50.40%	25.20%	37.79%	46.67%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Newfoundland and Labrador	51.30%	25.65%	42.62%	44.59%
Northwest Territories	47.05%	23.53%	28.33%	36.82%
Nova Scotia	54.00%	27.00%	41.58%	48.27%
Nunavut	44.50%	22.25%	33.08%	37.79%
Ontario	53.53%	26.76%	39.34%	47.74%
Prince Edward Island	51.37%	25.69%	34.23%	45.23%
Quebec	53.31%	26.65%	40.10%	47.14%
Saskatchewan	47.50%	23.75%	29.64%	40.37%
Yukon	48.00%	24.00%	28.92%	42.17%

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2020 Personal Rates (Ontario)

Personal Taxable Income		Other Income	Capital Gains	Eligible	Non-Eligible
Lower	Upper				
0	44,740	20.05%	10.03%	0%	9.24%
44,741	48,535	24.15%	12.08%	0%	13.95%
48,536	78,783	29.65%	14.83%	6.39%	20.28%
78,784	89,482	31.48%	15.74%	8.92%	22.38%
89,483	92,825	33.89%	16.95%	12.24%	25.16%
92,826	97,069	37.91%	18.95%	17.79%	29.78%
97,070	150,000	43.41%	21.70%	25.38%	36.10%
150,001	150,473	44.97%	22.48%	27.53%	37.90%
150,474	214,368	48.19%	24.09%	31.67%	41.60%
214,369	220,000	51.97%	25.98%	37.19%	45.95%
220,001	∞	53.53%	26.76%	39.34%	47.74%

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Tax Update Tax Rates – Combined

Ontario

Corporate income tax rates for 2020

	General (non-M&P)	M&P	CCPC	
			Active Business Income (to \$500,000)	Investment Income
Ontario	11.50%	10.00%	3.20%	11.50%
Federal	15.00%	15.00%	9.00%	38.67%
Combined	26.50%	25.00%	12.20%	50.17%

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Integration Worksheet

Corporate Income (say)	\$100	\$100	\$100
Corporate tax			
Less Dividend refund =	()	()	()
Net corporate tax	()	()	()
Dividend			
Personal tax:			
Eligible dividend	()	()	()
Non-eligible dividend	()	()	()
Net	_____	_____	_____
Tax overall	_____.	_____.	_____.
Tax on salary of \$100	_____.	_____.	_____.

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Integration Examples

	Active SBD	Passive
<u>Corporate Income (say)</u>	\$ 100	\$ 100
<u>Corporate tax</u>	\$ 12.2	\$ 50.17
Less Dividend refund =	(n/a)	(\$ 30.67)
Net corporate tax	<u>(\$ 12.2)</u>	<u>(\$ 19.50)</u>
Dividend	\$ 87.80	\$ 80.50
<u>Personal tax:</u>		
Non-eligible dividend	87.80	\$ 80.50
Tax	<u>(\$ 41.91)</u>	<u>(\$ 38.43)</u>
Net	<u>\$ 45.89</u>	<u>\$ 42.07</u>
Tax overall	<u>\$ 54.11</u>	<u>\$ 57.93</u>
Tax on salary of \$100	<u>\$ 53.53</u>	<u>\$ 53.53</u>

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Integration Examples

	Active High Rate	Capital Gain
<u>Corporate Income (say)</u>	\$ 100	\$ 100
<u>Corporate tax</u>	\$ 26.50	\$ 25.08
Less Dividend refund =	(n/a)	<u>(\$ 15.34)</u>
Net corporate tax	<u>(\$ 26.50)</u>	\$ 9.75
Dividend	73.50	90.25
Eligible Dividend	\$ 73.50	
Non-eligible dividend		\$ 40.25
Tax	<u>(\$ 28.91)</u>	<u>(\$ 19.22)</u>
Net	\$ 44.59	\$ 71.03
Tax overall	\$ 55.41	\$ 28.97
Tax on salary of \$100/\$50	\$ 53.53	\$ 26.76 ¹

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Conclusions

Large tax deferral for ABI, especially if SBD rate

Minimal overall cost to dividends v salary on ABI

On passive income, 8% added cost to dividend on withdrawal, minimal deferral if funds left in corporation

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