## Tax Rates and Integration

November 16, 2021

CADESKY TAX

## **Overview**

What we used to do:

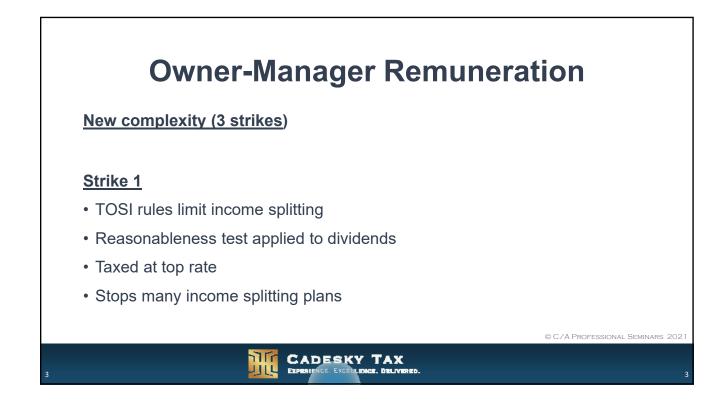
- 1. Income split with family members to reduce personal tax, keep at lower marginal rates;
- 2. Defer personal tax by keeping income in corporate group;
- 3. Bonus to get salary for RRSP contribution;

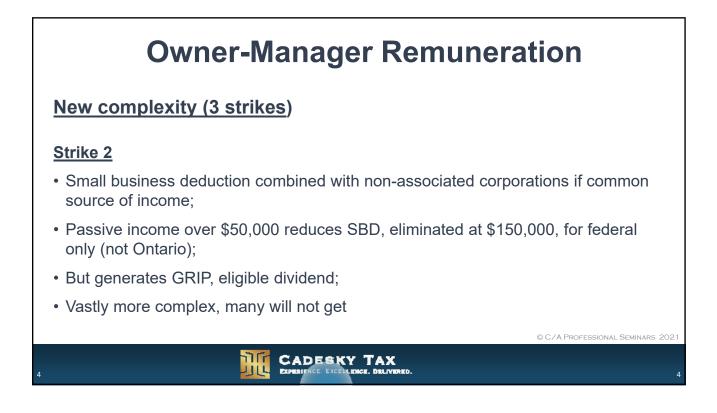
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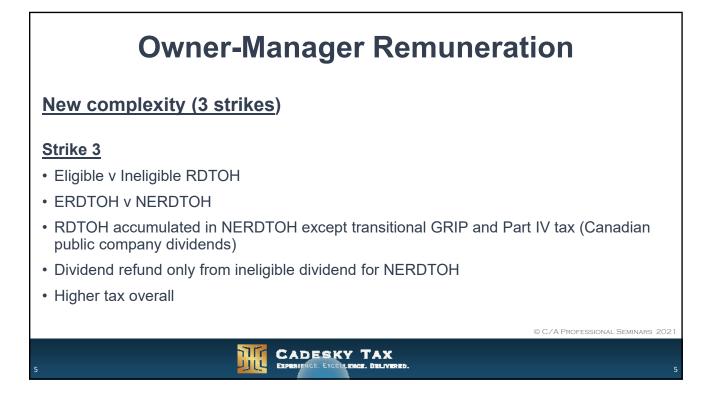
- 4. Multiply small business deduction among unrelated (non-associated) people (e.g. PC's in professional firm, management company)
- 5. Pay dividends to realize RDTOH since dividend refund about same as personal tax.
- 6. Small business deduction (SBD) not too complex

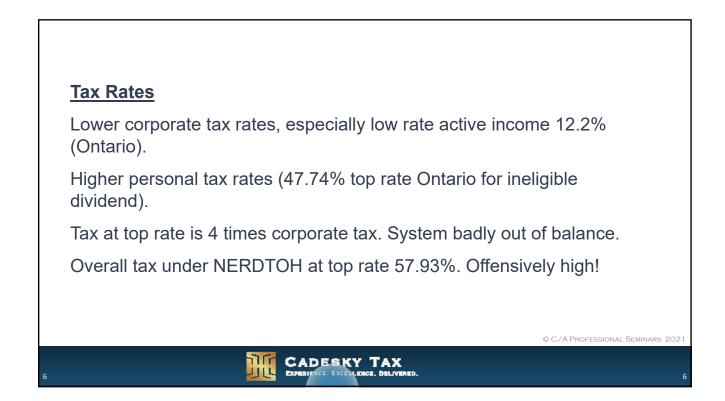
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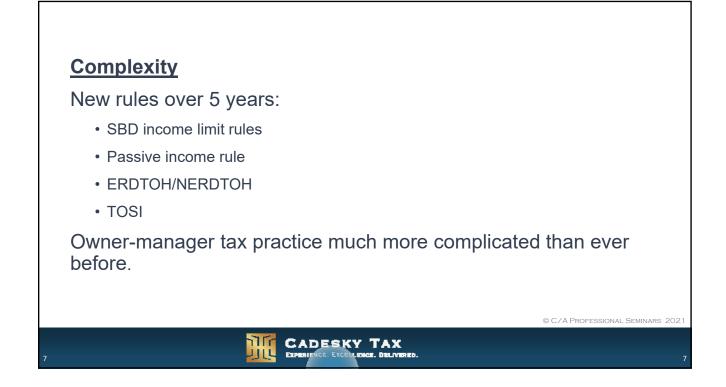
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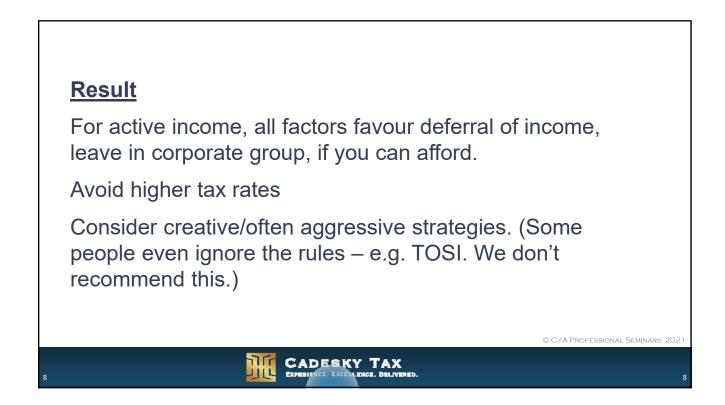












			ax R	ales
(Taxable Income above \$220,000)	Ordinary Income & Interest	Capital Gains	Canadia Eligible	n Dividends Non-Eligible
Federal only	33.00%	16.50%	24.81%	27.57%
Alberta	48.00%	24.00%	31.71%	42.31%
British Columbia	53.50%	26.75%	36.54%	48.89%
Manitoba	50.40%	25.20%	37.79%	46.67%
New Brunswick	53.30%	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%

2020	Personal	Rates	(Ontario)
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Personal Taxable Income		Other Income	Capital Gains	Eligible	Non- Eligible	
Lower	Upper		Gains			
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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	<u>Tax</u>	Tax Rate	x Update es – Combi	ned
<u>Ontar</u> Corpo	<b>io</b> prate income	e tax rato	es for 2020	
			CC	РС
	General (non-M&P)	M&P	Active Business Income	
			(to \$500,000)	Investment Income
Ontario	11.50%	10.00%	(to \$500,000) 3.20%	Investment Income 11.50%
Ontario Federal	11.50% 15.00%	10.00% 15.00%	• • • •	

orporate Income (say)	\$100	\$	100	\$100
Corporate tax				
_ess Dividend refund =	(	) (	)	(
Net corporate tax	(		)	(
Dividend				
Personal tax:				
Eligible dividend	(	) (	)	(
Non-eligible dividend	(	) (	)	(
Net				
Tax overall		<u> </u>		
Tax on salary of \$100				

	Active SBD	Passive
Corporate Income (say)	\$ 100	\$ 100
Corporate tax	\$ 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
Personal tax:		
Non-eligible dividend	87.80	\$ 80.50
Тах	<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>

Integration Examples					
	Active High Rate	Capital Gain			
Corporate Income (say)	\$ 100	\$ 100			
Corporate tax	\$ 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			
Тах	<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 <sup>1</sup>			
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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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