

Schedule 1

If income earned through professional corporation:

Income		\$	225,000
Corporate tax - 18.62%			<u>(41,895)</u>
Net retained by the corporation	(A)		183,105
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)		<u>(57,385)</u>
Net after tax cash available to individual shareholder(s)	(C)	\$	<u>125,720</u>

If income earned personally:

Income		\$	225,000
Personal tax - 46.41%			<u>(104,423)</u>
Net after tax cash available to individual shareholder(s)	(D)	\$	<u>120,577</u>

Tax savings of earning income through corporation (C-D) \$ 5,143

Tax savings as a percentage of income 2.29%

Tax deferral until dividend is paid to the shareholder(s) (A-D) \$ 62,528

Tax deferral as a percentage of income 27.79%

Assumptions

- 1) The corporation is eligible for the full federal and Ontario small business deduction limit.
- 2) The corporation's annual payroll (including those of its associated corporations) does not exceed \$400,000 and, therefore, employer's health tax ("EHT") does not apply.
- 3) The corporation's year-end is December 31st. If this is not the case, the tax rates and the small business limit must be prorated.
- 4) The individual is taxed at the highest personal marginal tax rate for an Ontario resident. For calendar year 2003, the tax rate would be 46.41%.