

GOLDFARB, SHULMAN, PATEL & CO. LLP

GENERAL INCOME TAX MEMORANDUM - FEBRUARY 19, 2003

BONUS OUT OR LEAVE ACTIVE BUSINESS INCOME IN A CCPC - 2002 AND 2003

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2004 and beyond - to be updated in the future

ASSUMPTIONS

- 1) The corporation is eligible for the full small business deduction limit for federal and Ontario.
- 2) The corporation's annual payroll (including those of its associated corporation) exceeds \$400,000 and, therefore, employer's health tax ("EHT") applies.
- 3) The corporation's year-end is December 31st. If this is not the case, the tax rates and the various bands of income will be required to be prorated.
- 4) The individual is taxed at the highest personal marginal tax rate for an Ontario resident. For calendar year 2002 and 2003, the tax rate would be 46.41%.
- 5) Other tax issues have not been considered for purposes of these calculations, for example, maximizing RRSP contribution levels.
- 6) The corporation does not incur any expenditures that qualify for the scientific research and experimental development credits.
- 7) The salary or bonus is paid to an individual shareholder who is active in the business and/or is reasonable based on the services performed.

INTEGRATION 2002

Taxable income up to \$ 200,000

Table 1

	Regular Active Business Income	M&P Income
If earned through corporation:		
Income	\$ 200,000	\$ 200,000
Corporate tax - 19.12%	<u>(38,240)</u>	<u>(38,240)</u>
Net retained by the corporation	(A) 161,760	161,760
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B) <u>(50,696)</u>	<u>(50,696)</u>
Net after tax cash available to individual shareholder(s)	(C) <u>\$ 111,064</u>	<u>\$ 111,064</u>
If salaried out:		
Income	\$ 200,000	\$ 200,000
EHT (1.95% of salary amount)	<u>(3,826)</u>	<u>(3,826)</u>
Salary amount	196,174	196,174
Personal tax - 46.41%	<u>(91,044)</u>	<u>(91,044)</u>
Net after tax cash available to individual shareholder(s)	(D) <u>\$ 105,130</u>	<u>\$ 105,130</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D) <u>\$ 5,935</u>	<u>\$ 5,935</u>
Tax benefit (cost) as a percentage of income	<u>2.97%</u>	<u>2.97%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D) <u>\$ 56,630</u>	<u>\$ 56,630</u>
Tax deferral as a percentage of income	<u>28.32%</u>	<u>28.32%</u>

INTEGRATION 2002

Taxable income from \$ 200,001 to \$ 280,000

Table 2

		Regular Active Business Income	M&P Income
		<u>Income</u>	<u>M&P Income</u>
If earned through corporation:			
Income		\$ 80,000	\$ 80,000
Corporate tax - 28.12%		<u>(22,496)</u>	<u>(22,496)</u>
Net retained by the corporation	(A)	57,504	57,504
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(18,022)</u>	<u>(18,022)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 39,482</u>	<u>\$ 39,482</u>
If salaried out:			
Income		\$ 80,000	\$ 80,000
EHT (1.95% of salary amount)		<u>(1,530)</u>	<u>(1,530)</u>
Salary amount		78,470	78,470
Personal tax - 46.41%		<u>(36,418)</u>	<u>(36,418)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 42,052</u>	<u>\$ 42,052</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (2,570)</u>	<u>\$ (2,570)</u>
Tax benefit (cost) as a percentage of income		<u>-3.21%</u>	<u>-3.21%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 15,452</u>	<u>\$ 15,452</u>
Tax deferral as a percentage of income		<u>19.32%</u>	<u>19.32%</u>

INTEGRATION 2002

Taxable income from \$ 280,001 to \$ 300,000

Table 3

		Regular Active Business Income	M&P Income
		<u>Income</u>	<u>M&P Income</u>
If earned through corporation:			
Income		\$ 20,000	\$ 20,000
Corporate tax ¹ - 38.95% (36.45% for M&P)		<u>(7,790)</u>	<u>(7,290)</u>
Net retained by the corporation	(A)	12,210	12,710
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(3,827)</u>	<u>(3,983)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 8,383</u>	<u>\$ 8,727</u>
If salaried out:			
Income		\$ 20,000	\$ 20,000
EHT (1.95% of salary amount)		<u>(383)</u>	<u>(383)</u>
Salary amount		19,617	19,617
Personal tax - 46.41%		<u>(9,104)</u>	<u>(9,104)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 10,513</u>	<u>\$ 10,513</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (2,130)</u>	<u>\$ (1,786)</u>
Tax benefit (cost) as a percentage of income		<u><u>-10.65%</u></u>	<u><u>-8.93%</u></u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 1,697</u>	<u>\$ 2,197</u>
Tax deferral as a percentage of income		<u><u>8.49%</u></u>	<u><u>10.99%</u></u>

¹ Includes Ontario surtax of 4.33% (3.33% for M&P) which claws back Ontario small business tax rate savings on income under \$280,000.

INTEGRATION 2002

Taxable income from \$ 300,001 to \$ 700,000

Table 4

		Regular Active Business Income	M&P Income
		<u>Income</u>	<u>M&P Income</u>
If earned through corporation:			
Income		\$ 400,000	\$ 400,000
Corporate tax ¹ - 42.95% (36.45% for M&P)		<u>(171,800)</u>	<u>(145,800)</u>
Net retained by the corporation	(A)	228,200	254,200
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(71,518)</u>	<u>(79,666)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 156,682</u>	<u>\$ 174,534</u>
If salaried out:			
Income		\$ 400,000	\$ 400,000
EHT (1.95% of salary amount)		<u>(7,652)</u>	<u>(7,652)</u>
Salary amount		392,348	392,348
Personal tax - 46.41%		<u>(182,089)</u>	<u>(182,089)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 210,259</u>	<u>\$ 210,259</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (53,577)</u>	<u>\$ (35,726)</u>
Tax benefit (cost) as a percentage of income		<u><u>-13.39%</u></u>	<u><u>-8.93%</u></u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 17,941</u>	<u>\$ 43,941</u>
Tax deferral as a percentage of income		<u><u>4.49%</u></u>	<u><u>10.99%</u></u>

¹ Includes Ontario surtax of 4.33% (3.33% for M&P) which claws back the Ontario small business tax rate savings on income under \$280,000.

INTEGRATION 2002

Taxable income over \$ 700,000

Table 5

		Regular Active Business Income	M&P Income
		<u> </u>	<u> </u>
If earned through corporation:			
Income		\$ 100,000	\$ 100,000
Corporate tax - 38.62% (33.12% for M&P)		<u>(38,620)</u>	<u>(33,120)</u>
Net retained by the corporation	(A)	61,380	66,880
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(19,236)</u>	<u>(20,960)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 42,144</u>	<u>\$ 45,920</u>
If salaried out:			
Income		\$ 100,000	\$ 100,000
EHT (1.95% of salary amount)		<u>(1,913)</u>	<u>(1,913)</u>
Salary amount		98,087	98,087
Personal tax - 46.41%		<u>(45,522)</u>	<u>(45,522)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 52,565</u>	<u>\$ 52,565</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (10,421)</u>	<u>\$ (6,645)</u>
Tax benefit (cost) as a percentage of income		<u><u>-10.42%</u></u>	<u><u>-6.65%</u></u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 8,815</u>	<u>\$ 14,315</u>
Tax deferral as a percentage of income		<u><u>8.82%</u></u>	<u><u>14.32%</u></u>

INTEGRATION 2003

Taxable income up to \$ 225,000

Table 6

		Regular Active Business Income	M&P Income
		<u> </u>	<u> </u>
If earned through corporation:			
Income		\$ 225,000	\$ 225,000
Corporate tax - 18.62%		<u>(41,895)</u>	<u>(41,895)</u>
Net retained by the corporation	(A)	183,105	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>	<u>(57,385)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 125,720</u>	<u>\$ 125,720</u>
If salaried out:			
Income		\$ 225,000	\$ 225,000
EHT (1.95% of salary amount)		<u>(4,304)</u>	<u>(4,304)</u>
Salary amount		220,696	220,696
Personal tax - 46.41%		<u>(102,425)</u>	<u>(102,425)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 118,271</u>	<u>\$ 118,271</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ 7,449</u>	<u>\$ 7,449</u>
Tax benefit (cost) as a percentage of income		<u>3.31%</u>	<u>3.31%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 64,834</u>	<u>\$ 64,834</u>
Tax deferral as a percentage of income		<u>28.82%</u>	<u>28.82%</u>

INTEGRATION 2003

Taxable income from \$ 225,001 to \$ 300,000

Table 7

		Regular Active Business Income	M&P Income
		<u> </u>	<u> </u>
If earned through corporation:			
Income		\$ 75,000	\$ 75,000
Corporate tax - 27.62%		<u>(20,715)</u>	<u>(20,715)</u>
Net retained by the corporation	(A)	54,285	54,285
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(17,013)</u>	<u>(17,013)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 37,272</u>	<u>\$ 37,272</u>
If salaried out:			
Income		\$ 75,000	\$ 75,000
EHT (1.95% of salary amount)		<u>(1,435)</u>	<u>(1,435)</u>
Salary amount		73,565	73,565
Personal tax - 46.41%		<u>(34,142)</u>	<u>(34,142)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 39,424</u>	<u>\$ 39,424</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (2,152)</u>	<u>\$ (2,152)</u>
Tax benefit (cost) as a percentage of income		<u>-2.87%</u>	<u>-2.87%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 14,861</u>	<u>\$ 14,861</u>
Tax deferral as a percentage of income		<u>19.82%</u>	<u>19.82%</u>

INTEGRATION 2003

Taxable income from \$ 300,001 to \$ 320,000

Table 8

		Regular Active Business Income	M&P Income
		<u> </u>	<u> </u>
If earned through corporation:			
Income		\$ 20,000	\$ 20,000
Corporate tax - 29.62% (27.62% for M&P)		<u>(5,924)</u>	<u>(5,524)</u>
Net retained by the corporation	(A)	14,076	14,476
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(4,411)</u>	<u>(4,537)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 9,665</u>	<u>\$ 9,939</u>
If salaried out:			
Income		\$ 20,000	\$ 20,000
EHT (1.95% of salary amount)		<u>(383)</u>	<u>(383)</u>
Salary amount		19,617	19,617
Personal tax - 46.41%		<u>(9,104)</u>	<u>(9,104)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 10,513</u>	<u>\$ 10,513</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (848)</u>	<u>\$ (574)</u>
Tax benefit (cost) as a percentage of income		<u>-4.24%</u>	<u>-2.87%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 3,563</u>	<u>\$ 3,963</u>
Tax deferral as a percentage of income		<u>17.82%</u>	<u>19.82%</u>

INTEGRATION 2003

Taxable income from \$ 320,001 to \$ 800,000

Table 9

		Regular Active Business Income	M&P Income
		<u>Income</u>	<u>M&P Income</u>
If earned through corporation:			
Income		\$ 480,000	\$ 480,000
Corporate tax ¹ - 41.29% (36.79% for M&P)		<u>(198,192)</u>	<u>(176,592)</u>
Net retained by the corporation	(A)	281,808	303,408
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(88,319)</u>	<u>(95,088)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 193,489</u>	<u>\$ 208,320</u>
If salaried out:			
Income		\$ 480,000	\$ 480,000
EHT (1.95% of salary amount)		<u>(9,182)</u>	<u>(9,182)</u>
Salary amount		470,818	470,818
Personal tax - 46.41%		<u>(218,506)</u>	<u>(218,506)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 252,311</u>	<u>\$ 252,311</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (58,822)</u>	<u>\$ (43,991)</u>
Tax benefit (cost) as a percentage of income		<u>-12.25%</u>	<u>-9.16%</u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 29,497</u>	<u>\$ 51,097</u>
Tax deferral as a percentage of income		<u>6.15%</u>	<u>10.65%</u>

¹ Includes Ontario surtax of 4.67% (3.67% for M&P) which claws back the Ontario small business tax rate savings on income under \$320,000.

INTEGRATION 2003

Taxable income over \$ 800,000

Table 10

		Regular Active Business Income	M&P Income
		<u> </u>	<u> </u>
If earned through corporation:			
Income		\$ 100,000	\$ 100,000
Corporate tax - 36.62% (33.12% for M&P)		<u>(36,620)</u>	<u>(33,120)</u>
Net retained by the corporation	(A)	63,380	66,880
Personal tax cost when the corporation pays out dividend to the shareholders(s) - ignores time value of money (31.34% of A)	(B)	<u>(19,863)</u>	<u>(20,960)</u>
Net after tax cash available to individual shareholder(s)	(C)	<u>\$ 43,517</u>	<u>\$ 45,920</u>
If salaried out:			
Income		\$ 100,000	\$ 100,000
EHT (1.95% of salary amount)		<u>(1,913)</u>	<u>(1,913)</u>
Salary amount		98,087	98,087
Personal tax - 46.41%		<u>(45,522)</u>	<u>(45,522)</u>
Net after tax cash available to individual shareholder(s)	(D)	<u>\$ 52,565</u>	<u>\$ 52,565</u>
Ultimate tax benefit (cost) of earning income through corporation	(C-D)	<u>\$ (9,048)</u>	<u>\$ (6,645)</u>
Tax benefit (cost) as a percentage of income		<u><u>-9.05%</u></u>	<u><u>-6.65%</u></u>
Tax deferral until dividend is paid to the shareholder(s)	(A-D)	<u>\$ 10,815</u>	<u>\$ 14,315</u>
Tax deferral as a percentage of income		<u><u>10.82%</u></u>	<u><u>14.32%</u></u>