Under the majority of scenarios, the Government of Canada collects equal or more tax from someone who owns a corporation that makes $250,000 vs. a salaried employee that makes $50,000.

- Easy numbers to run and the possible scenarios are provided below based on the criteria noted by the government in public communications, suggesting someone making $50,000 will pay less tax than someone who owns a corporation that makes $250,000. Time for a closer look. . . .

- If an individual earns a salary of $50,000 he/she will have taxes payable of approximately $10,000. This is a 20% tax rate. That is baseline.

- If a company has taxable income of $250,000 there are a few scenarios which illustrate taxes. The following three scenarios assume three variations as to how the "shareholder(s)" take out those funds. For analysis, other variables such as other income, deductions or other factors are not included as they could impact either a corporate or a salaried employee income earner.

Scenario #1 – A single shareholder (business owner) who takes out salary of $50,000 personally, the same as the employee, and leaves the rest of the revenue in the company.

EMPLOYEE TAX:

- Personal Income Taxes	=	$10,000
	TOTAL =	**$10,000 (20% of $50,000)**

SOLE BUSINESS OWNER:

- Corporate Tax	=	$26,000
- Personal Income Tax	=	$10,000
	TOTAL =	**$36,000 (20% of $50K + 13% of $200,000)**

NOTE: Keep in mind that the money remaining in the company ($200K minus tax of $26,000 = $174,000) **is not accessible to the individual** until it is paid out as a dividend in the future. Tax

on the $174,000 dividend in the next year (not including the above $50,000 salary to the shareholder) would be $41,600 (unlike Scenario #2 & #3 – see below).

Scenario #2 – Single shareholder (sole proprietor of a business) who takes out salary of $50,000 personally, the same as the employee, and leaves the rest of the revenue in the company until the next year when it is taken as a dividend.

EMPLOYEE TAX:

- Personal Income Taxes	=	$10,000
TOTAL =		**$10,000 (20% of $50,000)**

SOLE BUSINESS OWNER:

- Personal Taxes	=	$10,000
- Corporate Tax:	=	$26,000
- Tax on the $174,000 Dividend	=	$41,600* (*paid the following year)
TOTAL =		**$77,600 (31% of $250,000)**.

Scenario #3 – Same as above, but assumed the dividend noted above is split between two spouses.

EMPLOYEE TAX:

- Personal Income Taxes	=	$10,000
TOTAL =		**$10,000 (20% of $50,000)**

SOLE BUSINESS OWNER:

- Personal Taxes	=	$10,000
- Corporate Tax:	=	$26,000
- Tax on the $174,000 Dividend (Split with spouse @ $87,000 each)	=	$23,000 (*2 x $11,500 each)
TOTAL	**=**	**$59,000 (23.6% of $250,000)**.

ASSUMPTIONS: Assumed they have no other income so they get the low tax rates on this dividend. Typically, the above “salary spouse” would continue to earn a salary; families have dual incomes and other potential income streams, so this scenario is the low end of possibility

in this case. They could spread out this dividend over several years, to further reduce the tax, but that choice acts more as a pension (the spread-dividend would go into funding retirement assuming the company made profit each year).

Scenario #4 – Assuming the entire $250,000 is taxed in the company, and then the entire after-tax amount is paid out as a dividend to one spouse.

SOLE BUSINESS OWNER:

- Corporate Tax (On $250,000 @ 13%): = $32,500
- Personal Taxes
  (Dividend of remaining $217,500): = $59,500

TOTAL = **$92,000 (36.8% of $250,000**)

Scenario #5 – Assuming the entire $250,000 is taxed in the company, and then the entire after-tax amount is paid out as a dividend split between two spouses.

SOLE BUSINESS OWNER:

- Corporate Tax (On $250,000 @ 13%): = $32,500
- Personal Taxes
  (Dividend of remaining $217,500): = $36,800 ($18,400 for each spouse)

TOTAL = **$69,300 (27.7% of $250,000**)

IMPORTANT NOTES:

(1) If the business owner/s had adult children (18+) owning in through a trust, they could pay out to them and further reduce tax, but this is an isolated situation and not indicative of the majority of businesses.

(2) Typically, after-corporate tax profits in a company can accumulate (*i.e.,* pension) year to year and wouldn't be taken out in one year, but rather grown to pay for retirement. This, in effect, is a typical business owner's self-built and maintained-pension for retirement.

(3) It is critical to note that most companies incorporated by small business owners DO NOT make $250,000 of taxable income. Most make significantly less, and make enough to live and set aside modest funds for a retirement one day.

CONCLUSION: Under any of these scenarios, the total tax paid by the corporation and the person who owns it, is equal to or greater than what the employee pays. The main difference is when those taxes are paid.

The analysis provided here was developed by tax experts working in conjunction with the Kelowna Chamber of Commerce. This information is meant as an example and should only be represented in that capacity as there are too many variables to allow an analysis for all possible scenarios.

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