



KD PROFESSIONAL SERVICES CORP.

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Saving For Corporate and Personal Taxes

At KD, one of our goals is to ensure that our clients know as much as possible about the interaction between their corporate tax, personal tax, and personal finances. All three of these areas are interrelated and must be considered together when thinking about saving to meet your tax obligations.

How you receive money from a corporation (salary vs. dividends) will determine who pays the tax, and how much tax will be paid. While the overall difference is not usually huge, a difference of a few hundred dollars each year adds up.

How Much Do I Save For Taxes?

In an effort to help you **ESTIMATE** how much money must be put aside for taxes, we have provided the charts on the next page to show the different tax percentages that should be saved by corporations. We have also provided another chart as a guideline on how much personal tax needs to be saved under different income levels and scenarios.

It is very important to remember that GST/HST/PST **MUST** be set aside to remit to the government, and Income taxes **should** also be taken into consideration before the shareholder takes money for personal spending purposes. Spending money that should be set aside for taxes is the quickest way to end up in financial trouble.

Installments

Installment payments should be considered to be the same as saving for your taxes. If you are making installments either personally or corporately then the amount you need to set aside for taxes can be reduced by the amount of the installment payments that you have submitted to the government.

Corporate Taxes (Income Tax & GST)

Income Tax is payable on the corporations net income (revenue – expenses). For the purposes of this analysis all shareholder withdraws should be treated as a corporate expense (**except for GST purposes**).

GST of 5% must be remitted to the CRA. To calculate the GST payable you take revenue – expenses and multiply by .05 to determine an approximation of the GST that will be payable. Keep in mind not all expenses have GST so the ones that do not have GST should be removed from this calculation. Some examples of non-GST expenses are: salary, insurance, bank fees, interest, amortization (depreciation).

Disclaimer

KD is providing this information in an attempt to help clients avoid situations where taxes are due but no funds exist to make the payments. We cannot cover all circumstances and situations, so we have presented the attached scenarios as a very basic guideline. These guidelines are NOT meant to provide exact tax calculations. If you require more extensive calculations we recommend that you make an appointment with us and that you have specific financial information available so that more precise calculations can be provided.

For example if you have income from rental properties, investments or other employment , in addition to income from your corporation the tax estimates below may not reflect your unique situation.

Corporate Taxes			Personal Taxes	
<u>Net Income</u>	<u>Small Business Corporate Tax</u>	<u>Non- Active or Passive Income Corporate Tax</u>	<u>Amount of Personal Income Received</u>	<u>% to Save of Funds Withdrawn</u>
0-500K	11%	38%	0 -20,000	14%
500K +	26%	38%	20,000 - 30,000	20%
			30,000 - 40,000	23%
			40,000 - 60,000	27%
			60,000 - 100,000	30%
			100,000 - 150,000	32%
			150,000 - 200,000	34%
			200,000 and Up	36%
<p>Tax Installments paid to the CRA reduce the amount that you must have saved towards your taxes.</p>			<p>Savings should be left in corporate bank account</p>	
<p>GST</p> <p>5% of Net Income should be saved for GST payable to the CRA</p> <p>GST Installments paid to the CRA reduce the amount that you must have saved towards your taxes.</p>			<p>Taxes MUST be taken off of amount withdrawn to calculate funds available for personal spending</p>	

<u>Examples:</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Corporate Revenue (before GST)	100,000	200,000	300,000	800,000
<u>Corporate Expenses</u>				
Operating Expenses	20,000	30,000	40,000	100,000
Corporate Profit	80,000	170,000	260,000	700,000
Shareholder withdraws	80,000	120,000	200,000	400,000
Net Corporate Income	-	50,000	60,000	300,000
<u>Tax Amounts to Save</u>				
Corporate Tax (11%)	-	5,500	6,600	33,000
GST *	4,000	8,500	13,000	35,000
Personal	24,000	38,400	68,000	136,000
TOTAL Tax to Save	28,000	52,400	87,600	204,000
Money Available to spend by Shareholder	56,000	81,600	132,000	264,000
* Shareholder withdraws DO NOT affect GST (Do not reduce GST payable)				