RRSPs: A smart choice for business owners

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If you operate your business through a corporation, you have two main options for deferring taxes when investing your business profits. You can leave excess funds in your corporation for investing or you can withdraw funds and invest in a Registered Retirement Savings Plan (RRSP). For many business owners, withdrawing excess funds and investing in an RRSP may be the better choice.

When investing excess business profits, you must first choose whether to invest excess funds in your corporation or withdraw funds and invest personally. If you choose to withdraw funds, you also need to decide whether to invest in a registered or non-registered account. Our previous reports, Bye-bye Bonus[1] and The Compensation Conundrum,[2] compared corporate investing to personal investing in non-registered accounts and our report, TFSAs for Business Owners,[3] compared corporate investing to personal investing in a Tax Free Savings Account (TFSA), which offers tax-free savings. In this report, we'll compare corporate investing to investing in your RRSP, both of which offer a deferral of personal tax.

Unlike investing in a non-registered account or a TFSA, to invest in an RRSP you must have sufficient RRSP contribution room. Your 2022 RRSP contribution room is calculated as 18% of income earned in 2021, to a maximum of $29,210.[4] While salary that you receive from your corporation as an employee qualifies as earned income that creates RRSP room, dividends that you receive as a shareholder do not. As a result, if you want to invest in an RRSP, then you must pay sufficient salary so that you have the earned income necessary to generate RRSP contribution room. Alternatively, if you want to leave the funds in your corporation for investment, then you will generally take the money out later in the form of dividends.

If you choose to distribute corporate income as salary, you will pay personal tax on the salary income. Alternatively, if dividend compensation is chosen, the company pays corporate tax when income is earned and you pay personal tax when proceeds are distributed to you as a dividend.

In an ideal world, corporate and personal tax rates would be perfectly integrated, so that the total tax paid by a corporation and its shareholders would equal the tax paid by an individual, given the same amount of income.[5]

In reality, as a result of changes to tax rates over time, there is a very small tax cost[6] for business income in the majority of provinces and territories in 2022. This means that the combined tax paid by the corporation and shareholder will generally be marginally higher if business income is distributed as dividends rather than salary.

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1 The report "Bye-bye bonus" is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/jg-dividends-bonus-en.pdf.

2 The report "The compensation conundrum" is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/conundrum-en.pdf.

3 The report "TFSAs for business owners" is available online at cibc.com/ca/pdf/small-business/tfsas-for-business-owners-en.pdf.

4 Your 2022 RRSP deduction is limited to 18% of income earned in 2021, to a maximum of $29,210, less any pension adjustment plus any previous unused RRSP contribution room and any pension adjustment reversal.

5 For a more detailed discussion of corporate integration, see the report "Bye-bye Bonus", op. cit.

6 The tax savings (or tax cost) refers to the decrease (or increase) in tax that is payable if the company pays dividends, rather than paying salary.

For SBD Income, which is active business income that is eligible for the small business deduction (SBD)[7], there is a nominal tax savings (or tax cost) in all provinces and territories in 2022, as shown in Figure 1. This means that combined corporate and personal taxes would only be slightly lower (or higher) if dividends are paid rather than salary. For example, there is a 0.65% tax cost with dividends in Alberta. If your corporation were to earn $100,000 of small business income, the combined corporate and personal taxes would be only $650 (0.65% x $100,000) higher if the $100,000 were distributed as dividends, rather than salary.

For General Income, which includes active business income that is not eligible for the SBD, Figure 1 shows there is a tax cost that ranges from 0.27% to 7.54% in all provinces and territories, except for New Brunswick where there is tax savings of 0.51%. Consequently, paying dividends rather than salary will result in higher overall taxes in all provinces and territories other than New Brunswick.

Figure 1 – Tax savings (cost) and tax deferral on SBD Income and General Income in 2022

Province or territory	SBD Income: Tax savings (tax cost)	SBD Income: Tax deferral	General Income: Tax savings (tax cost)	General Income: Tax deferral
AB	(0.65%)	37.00%	(1.82%)	25.00%
BC	(1.01%)	42.50%	(0.30%)	26.50%
MB	(1.07%)	41.40%	(4.27%)	23.40%
NB	(0.46%)	41.80%	0.51%	24.30%
NL	(0.28%)	42.80%	(7.54%)	24.80%
NS	(0.23%)	42.50%	(4.52%)	25.00%
NT	3.28%	36.05%	(0.40%)	20.55%
NU	(0.75%)	32.50%	(6.69%)	17.50%
ON	(0.59%)	41.33%	(2.01%)	27.03%
PE	(0.97%)	41.37%	(3.24%)	20.37%
QC	(1.65%)	41.10%	(2.80%)	26.80%
SK	0.02%	38.50%	(1.26%)	20.50%
YT	(1.08%)	39.00%	(0.27%)	21.00%

Source: Tax Templates Inc,

There is, however, a significant tax deferral[8] for both SBD Income and General Income in all provinces and territories in 2022. Figure 1 shows that the tax deferral ranges from 32.50% to 42.80% on SBD Income and ranges from 17.50% to 27.03% on General Income. The amount of deferred tax can be used for additional investments in your corporation until corporate after-tax income is distributed to you as dividends in a later year.

For example, in Alberta there is a 37.00% tax deferral on SBD Income in 2022, so corporate taxes would be $37,000 (37% times $100,000) lower than personal tax that you would pay on the same amount of salary in the current year. This means that your corporation would have $37,000 (the amount of the tax deferral) more for corporate investments than you would have for personal, non-registered investments.

RRSPs also provide the ability to invest funds prior to paying personal tax and, therefore, defer tax until withdrawal. The amount of deferred tax can be used for additional investments in your RRSP until funds are distributed to you in a later year.

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7 The small business deduction is available to Canadian-controlled private corporations (CCPCs) that earn active business income subject to the annual small business limit, which in 2022 is $500,000 federally and in all provinces and territories other than Saskatchewan where it is $600,000.

8 The tax deferral (or tax prepayment) refers to the tax that is deferred to a future year (or paid in advance) if the company pays dividends in the future, rather than paying salary in the current year.

Since both RRSPs and corporate investing offer tax deferral, the question is: would you be better off receiving salary and investing for the future in an RRSP, or investing inside your company and receiving dividends in a later year instead?

An example

Generally, practicing members of most professions, such as law, medicine, engineering, architecture or accounting, can choose to incorporate. Under such an arrangement, the professional is an employee of the professional corporation that, itself, carries on the business of the professional practice. Restrictions on the corporation's business and its shareholders are imposed by the professional regulatory body.

Sera, who lives and works in Ontario, conducts her practice through a professional corporation that earns $190,000 of SBD Income.[9] In the past, the corporation has distributed all income to Sera as salary and, after maximizing her RRSP contribution and paying personal tax, Sera has spent all remaining funds on personal expenses. Investments earn a 5% rate of return. Sera is considering the following two options for distribution of SBD Income from her corporation.

- **Salary / RRSP**: Distribute all SBD Income as salary in 2022. Use salary make an RRSP contribution of $29,200 in 2022 and pay personal taxes, then use all remaining funds for personal expenses. In the future, withdraw from an RRSP or Registered Retirement Income Fund (RRIF) to fund retirement spending.
- **Corporate investing / dividends**: Distribute enough SBD Income as salary[10] in 2022 to pay for personal expenses and leave the remaining after-tax SBD Income in the corporation for investment. In the future, distribute remaining after-tax business income plus after-tax investment income as dividends to fund retirement spending.

Figure 2 – Amount available for investment in 2022 with salary / RRSP or corporate investing / dividends[11]

Description	Salary / RRSP	Corporate investing / dividends
SBD Income in corporation	190,000	200,000
Salary to shareholder	(190,000)	(160,800)
Taxable income in corporation	0	29,200
Corporate tax at 12.2%	0	(3,600)
Amount invested in corporation	**0**	**25,600**
Salary / dividend received by shareholder	190,000	160,800
Personal tax	(50,400) [12]	(50,400)
Personal expenses	(110,400)	(110,400)
Amount invested in RRSP	**29,200**	**0**

Figure 2 shows that, with salary / RRSP there is $29,200 available for initial investment in Sera's RRSP, while with corporate investing / dividends there is $25,600 available for initial investment in Sera's corporation; thus, there is $3,600 more to invest in an RRSP than in the corporation because the corporation had to pay tax of $3,600 on the amount that was not distributed as salary for Sarah's expenses.

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9 Certain business structures, including professional corporations where there is a partnership involved, may not have access to the small business deduction. Access to the small business deduction may also be limited if Adjusted Aggregate Investment Income exceeded $50,000 in the previous year, as described in the section titled "Income Splitting".

10 Due to the tax cost

11 All numbers in calculations for the examples are rounded to the nearest $100.

12 Taxable income is calculated as salary ($190,000) minus the RRSP contribution ($29,200), which is $160,800. Personal tax would be about $50,400 using 2022 graduated personal tax rates, assuming only the basic personal amount and RRSP deduction are claimed. Payroll taxes and other credits (such as the Canada employment amount) have not been considered and may impact the analysis.

Let's look now at how Sera's RRSP fares in comparison to corporate investing when earning interest, dividends, annually-realized capital gains or deferred capital gains.

In Figure 3, the first row of numbers shows the total amount that is available to be distributed from the RRSP or corporation[13] to Sera after 30 years of investing at 5%. The second row of numbers shows the amount of personal tax payable by Sera. While RRSP income and interest are taxed at full rates, personal tax rates are lower for eligible dividends and capital gains. The last row shows the after-tax amount available to Sera.

Figure 3 – Example of amount of after-tax investment income to shareholder after 30 years with RRSP vs. corporate investing

Description	RRSP: All types of income	Corporate investing: Interest	Corporate investing: Eligible dividends	Corporate investing: Annual capital gains	Corporate investing: Deferred capital gains
Amount available from RRSP or corporate investments prior to personal tax[14]	126,200	81,900	87,500	94,500	110,800
Personal tax on withdrawal from RRSP or dividend from the corporation[15]	(61,000)	(40,600)	(30,700)	(29,000)	(33,300)
After-tax amount to shareholder	**65,200**	**41,300**	**56,800**	**65,500**	**77,500**

If Sera invests $29,200 in her RRSP at a 5% rate of return over 30 years, Figure 3 shows that the investment will grow to $126,200 within the RRSP at the end of 30 years, with $65,200 remaining after Sera withdraws the funds pays personal taxes of $61,000. It does not matter if the earnings are in the form of interest, dividends or capital gains, since all amounts withdrawn from an RRSP are taxed at rates for ordinary income.

With corporately-held investments, the after-tax amount that remains depends on the type of income that is earned. The income is initially taxed in the corporation, with a portion (or all) of the corporate taxes being refunded upon payment of a dividend to the shareholder. The shareholder is then taxed on the dividend. A detailed description of the taxation of corporate investment income is available in our report, In Good Company.[16] The amount available to Sera after 30 years is $41,300 with interest, $56,800 with eligible dividends, $65,500 with annually-realized capital gains and $77,500 with deferred capital gains.

While Figure 3 shows results for Sera after 30 years, Figure 4 shows the amount of after-tax investment income available to Sera after all taxes have been paid over the entire 30-year period, using 2022 federal / Ontario tax rates. It is assumed that investments earn a 5% rate of return, either from interest, eligible dividends, annual realized capital gains, deferred capital gains or a balanced portfolio of investments.[17]

[13] It is assumed that refundable taxes that accumulate in the RDTOH account are recovered and are also distributed as a dividend.

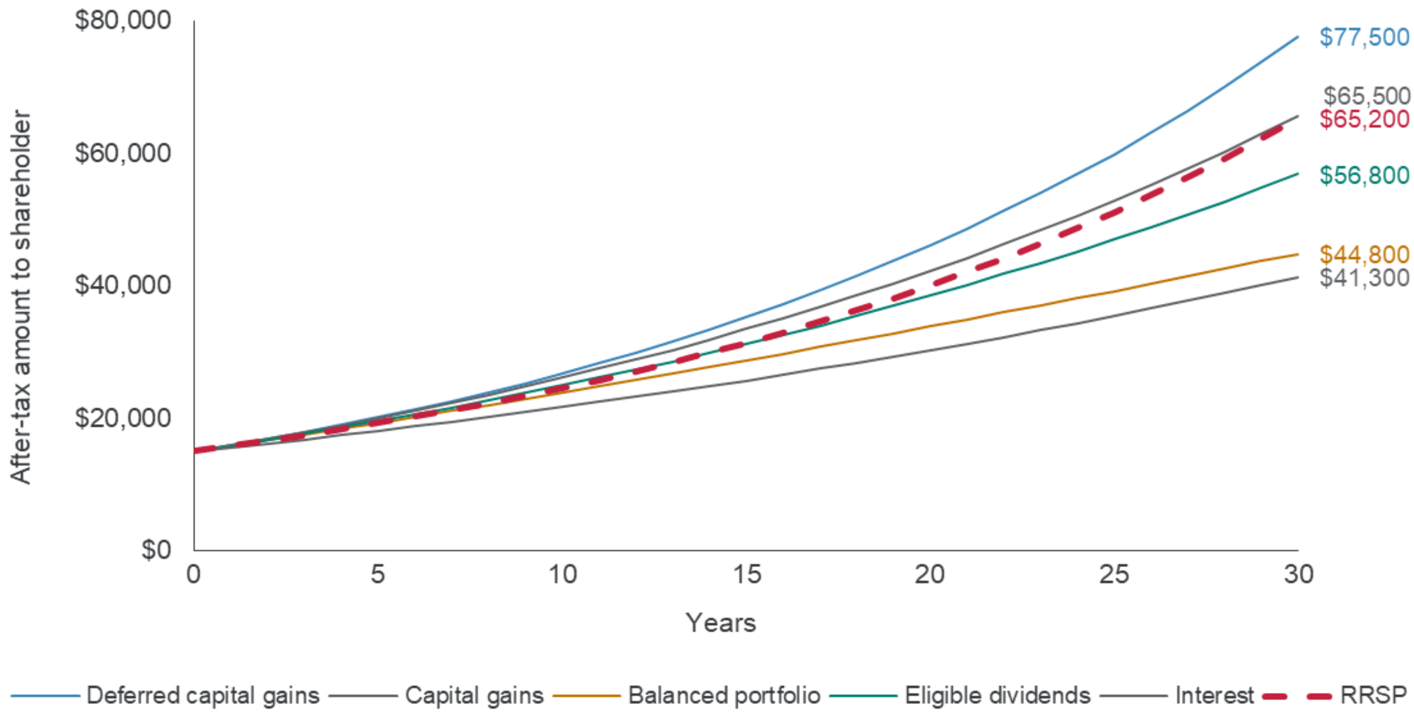
[14] With corporate investing, it is assumed that corporate tax is paid on investment income as the income is realized (annually for interest, eligible dividends and capital gains, and after 30 years for deferred capital gains). It is also assumed that refundable taxes that accumulate in the RDTOH account are recovered when a dividend is paid after 30 years and are also distributed as dividends.

[15] The following federal / Ontario marginal tax rates have been used in the calculation of personal tax: Ordinary income: 48.35%; Non-eligible dividends: 41.78%; Eligible dividends: 32.20%; capital gains: 24.18%. These tax rates apply with taxable income between $155,625 and $219,999 in Ontario in 2022.

[16] The report "In Good Company" is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/in-good-company-en.pdf.

[17] The balanced portfolio assumes an allocation of 40% fixed income investments earning 2% interest, and 60% equities earning 3.5% eligible dividends and 3.5% annual capital gains. It is assumed that 60% of capital gains are realized annually and 40% of capital gains are deferred.

Figure 4 – Example of amount of after-tax investment income to shareholder over 30 years with RRSP vs. corporate investing



Some interesting trends are revealed[18]:

- **Interest**: Investing in an RRSP is always a better option than corporate investing over a 30-year time period.
- **Eligible dividends**: Your after-tax cash would initially be slightly higher with corporate investments than with an RRSP; however, after 15 years the RRSP would outperform corporate investments.
- **Annually-realized capital gains**: Corporate investing always outperforms an RRSP.
- **Deferred capital gains**: Corporate investing always outperforms an RRSP.
- **Balanced portfolio**: Your after-tax cash would initially be slightly higher with corporate investments than with an RRSP; however, after six years the RRSP would outperform corporate investments.

These are the same results that were noted when we compared a TFSA to corporate investments in our report, TFSAs for business owners: A smart choice.[19] This is not surprising since the results from investing in an RRSP are equal to a TFSA when your personal tax rates remain constant.

As a rule-of-thumb, when personal tax rates remain constant over time, corporate investments will likely leave you with less in your pocket than an RRSP, especially when investment income is highly-taxed. For capital gains, corporate investments always yield a greater amount than an RRSP and, so, are the exception to this rule-of-thumb; however, few investors would be likely earn 100% of capital gains over a long period of time.

[18] After the first year of investing.

[19] Op. cit.

What happens if personal tax rates increase or decrease upon withdrawal?

We have seen that personal taxes are deferred until income earned in a corporation is withdrawn and taxed to you as dividends. Personal taxes are also deferred on contributions to, and earnings in, an RRSP until you withdraw funds from the plan and pay personal tax.

If your personal tax rate was lower at the time funds are withdrawn, then there would be an additional benefit to you, since you would pay less tax on amounts withdrawn from the corporation or RRSP and be left with a greater amount of after-tax funds. The converse is also true; if your personal tax rate was higher, you would pay more tax on withdrawn amounts and be left with a lower amount of after-tax funds.

Given sufficient time, RRSP investing would outperform corporate investing when earnings come from interest, eligible dividends, or the sample balanced portfolio. Only corporate investments that exclusively earn capital gains would outperform RRSPs in all instances. As may be expected, however, a higher amount would be available to you when your personal tax rate is lower upon withdrawal; conversely, a lower amount would be available when your personal tax rate is higher.

Is it worthwhile to take salary / bonus solely to create RRSP room?

In our example, after paying personal expenses, Sera used all funds to invest, either in an RRSP or corporate investments. Intuitively, it makes sense that the tax-deferred RRSP produced better results than the taxable corporate investments, other than for capital gains that are only 50% taxed.

But what if Sera didn't need money for personal expenses? She would need salary / bonus of $162,278 ($29,210 divided by 18%) to create the maximum RRSP contribution room of $29,210. After paying taxes of about $38,000 (in Ontario in 2022)[20] and making the $29,210 RRSP contribution, she would have about $95,000 left. If Sera does not have any TFSA contribution room, she would likely only be able to invest the $95,000 in a non-registered account.

Instead of taking salary / bonus, Sera could leave $162,278 of SBD Income in her corporation, and there would be about $142,500 to invest after paying corporate taxes of about $19,800.

So would Sera be better off making her RRSP contribution of $29,210 and putting the balance ($95,000) in a taxable non-registered account? Or would she come ahead if she simply invested the $142,500 in her corporation?

Although the calculations are beyond the scope of this report, we have found that Sera would generally receive more cash by doing all her investing within her corporation than by paying salary / bonus simply to create RRSP room. This seems logical since there is a higher amount for initial investment in the corporation and only a small portion of personal investments are sheltered via the RRSP. This is similar to the conclusion reached in our report Bye-bye Bonus[21], which showed that corporate investing was generally more favourable to personal investing in non-registered accounts.

As a rule-of-thumb, **it generally would not make sense to receive $162,278 salary / bonus for the sole reason of making the maximum contribution of $29,210 to a tax-deferred RRSP if the remaining after-tax salary / bonus would be invested in non-registered investments that produce taxable income.** It would be preferable to leave after-tax business income in your corporation to take advantage of the significant tax deferral (See Figure 1) that provides additional corporate funds for investment.

Other considerations

Unlike paying dividends, if your company pays you a salary, there are various payroll taxes associated with T4 income, such as Canada Pension Plan premiums, Employment Insurance premiums and other provincial or territorial levies. Being able to claim the lifetime capital gains exemption and split income with family members may also be considerations when deciding whether to pay salary or dividends. Finally, the small business

[20] Taxable income is calculated as salary ($162,278) minus the RRSP contribution ($29,210), which is $133,068. Personal tax would be about $38,000 using 2022 graduated personal tax rates, assuming only the basic personal amount is claimed and excluding the Ontario Health Tax.

[21] Op. cit.

deduction may be limited if over $50,000 of passive income is earned in your corporation, or if the corporation's taxable capital exceeds $10 million.

Canada Pension Plan ("CPP") / Quebec Pension Plan ("QPP")

If you receive a salary, you must contribute to the CPP (QPP in Quebec), which provides certain benefits to you and your family on retirement, disability or death. For example, in 2022, the maximum retirement pension is $1,253.59 per month, which is fully indexed to inflation.

In 2022, both the employer and the employee contribute 5.7% (6.15% in Quebec) of employment income paid, up to the yearly maximum pensionable earnings of $64,900, with the first $3,500 exempted. This works out to a maximum premium of $3,500 ($3,776 in Quebec) for each of the employee and the employer, or a total contribution of $7,000 ($7,552 in Quebec) to fund the pension.

While paying enough salary to maximize CPP or QPP entitlements is often touted as one of the benefits of salary over dividends (which are not considered pensionable earnings for purposes of earning CPP or QPP entitlements), it is conceivable that, over the course of a 40-year career, the savings (from not paying premiums) might be independently invested in a diversified portfolio to ultimately produce a larger pension income. The Fraser Institute previously performed an analysis of rates of return for the CPP in its report Rates of Return for the Canada Pension Plan.[22] Of course, the pension is guaranteed versus the risk of private investing.

Employment Insurance ("EI") Premiums

While EI premiums are another payroll tax, this is generally not a concern if the business owner owns more than 40% of the voting shares of the corporation and, thus, is exempt from the payment of EI premiums on salary remuneration. For ownership of 40% or less, however, EI premiums apply. The 2022 total combined cost of EI premiums for an employee and employer reaches a maximum of $2,287 once insurable earnings hit $60,300.

Other Payroll Taxes

Some provinces and territories may levy additional payroll taxes, which can increase the cost of salary remuneration. For example, in 2022 the Ontario Employer Health Tax ("EHT") ranges from 0.98% to 1.95% of total remuneration paid to employees[23].

Lifetime capital gains exemption (LCGE)

Another consideration when making investments through a small business corporation is to ensure that the investments do not inadvertently disqualify the owner from claiming the LCGE, which is $913,630 in 2022,[24] upon a disposition of qualified small business corporation (QSBC) shares.

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[22] Rates of Return for the Canada Pension Plan, Fraser Institute, May 2016, which is available online at fraserinstitute.org/sites/default/files/rates-of-return-for-the-canada-pension-plan.pdf.

[23] The maximum EHT rate is reached with $400,000 of total employee remuneration in 2022.

[24] The exemption amount is $1 million for shares that are qualified farm or fishing property.

Simply stated, QSBC shares are shares of a Canadian controlled private corporation in which “all or substantially all” (interpreted to mean 90% or more) of the value of the corporation’s assets is used in an active business at the date of sale (or death) or consist of debt or shares of other QSBCs. In addition, either you or someone related to you must have owned the shares for at least two years prior to their disposition and during that entire two-year period, more than 50% of the corporation’s assets must have been used in an active business. Investing surplus cash in the corporation may jeopardize its QSBC status because of the accumulation of investments that do not meet the asset tests outlined above.

It should, however, be possible to restore a corporation’s QSBC status by extracting non-active assets through a process known as “purification.” There are a number of ways to “purify” the company – some of them are simple, while others are more complex.

Simple strategies may include: regularly distributing non-active assets (as dividends, capital dividends or return of capital), paying down debts with non-active assets, purchasing additional active business assets, prepaying business expenses, or paying a retiring allowance.

More complex strategies often involve paying tax-free inter-corporate dividends from the operating company (the active business) to a connected company[25] or transferring non-active assets or assets with accrued gains to a sister company on a tax-free basis, thus purifying the operating company.

Income splitting

One of the benefits of contributing to an RRSP is the ability, in the withdrawal phase, to ultimately split income with a spouse or partner, either with spousal or partner RRSPs or by splitting pension income on your tax returns. Pension income doesn’t include RRSP withdrawals but does include RRIF withdrawals, once you’ve moved RRSP funds to a RRIF and you are 65 years of age or older.

On the other hand, if funds are left in the company instead of being contributed to an RRSP, more limited opportunities for income splitting may be available through the payment of dividends to the owner if shares are issued to a spouse or partner and children. Dividends paid on shares held by a spouse or partner or adult child may be taxed at a lower rate than shares held by the owner and, thus, income splitting may be accomplished in this manner.

It should be noted, however, that there are rules that may apply to eliminate the income splitting advantage when dividends are paid to family members.

The Tax on Split Income (TOSI) rules impose a tax at the highest marginal rate on any Canadian dividends received, either directly or through a family trust, by someone under the age of 18 from a related private corporation, including a corporation that is controlled by the child’s parent. In fact, not only does it tax these dividends at the highest rate regardless of the amount of other income that the child may have, but also it does not allow the basic personal tax credit to be used to shelter this dividend income.

These rules also apply where an adult, either directly or through a trust, receives dividend or interest income from a corporation, or realizes a capital gain, and a related individual is either actively engaged in the business of the corporation or holds a significant amount of equity (with at least 10% of the value) in the corporation. One important exception to the TOSI rules is the ability to pay dividends to a non-active spouse or partner once the shareholder is at least 65 years of age, providing a significant income splitting opportunity upon retirement. While the TOSI rules contain a number of other exceptions, they are complex and more information is available in our report titled “The CCPC tax rules.”[26]

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[25] Dividends may be recharacterized as a capital gain in certain circumstances. Further information is available in the CIBC report “Intercorporate Dividends: New Anti-Avoidance Rules” by Debbie Pearl-Weinberg. You should consult with tax advisor before paying intercorporate dividends.

[26] The report “The CCPC tax rules” is available online at cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf.

Loss of the SBD based on taxable capital in a corporation

This federal SBD limit is reduced, on a straight-line basis, when the combined taxable capital employed in Canada of the CCPC (and its associated corporations) is between $10 million and $15 million.[27]

Loss of the SBD with passive income

There are also rules that can reduce access to the small business deduction (SBD) based on the corporation's adjusted aggregate investment income (AAII), which includes most interest, dividends and taxable capital gains. The federal SBD limit is reduced by $5 for each $1 of AAII in the previous year and will reach zero once $150,000 of AAII is earned. Put another way, the federal SBD limit of $500,000 is reduced on a straight line basis once AAII is $50,000 or more and is completely eliminated once AAII is $150,000.

When the SBD is not available, income is taxed as General Income, which generally has a lower tax deferral and higher tax cost than SBD Income (see Figure 1).[28]

By withdrawing funds from your corporation and investing in an RRSP, you may be able to reduce the AAII within your company. This may preserve access to some or all of the SBD and associated benefits of higher tax deferral and lower tax cost.

More information is available in our report CCPC tax planning for passive income.[29]

Corporate life insurance

If you choose to invest within your corporation, you may wish to consider using some (or all) of your business' excess cash to fund a corporately-owned permanent life insurance policy, to minimize annual taxes by taking advantage of the tax-advantaged growth within an exempt policy.

With this strategy, the corporation purchases an exempt life insurance policy, generally universal life or whole life. You are listed as the life-insured and the corporation is named as the beneficiary. Cash value is created as the corporation deposits amounts into the policy in excess of what is required for the policy's costs, such as the mortality costs inherit in the policy and other fees. Cash value accumulates on a tax-deferred basis that may increase the death benefit payable under the insurance policy.

At death, the corporation receives the life insurance proceeds tax-free, as well as a credit to its capital dividend account for the amount of the life insurance proceeds less the insurance policy's adjusted cost basis. It may then be possible to pay capital dividends, which are generally tax-free, to the corporation's shareholder(s).

Corporate life insurance may also help to minimize loss of the SBD with passive income that was described above. As long as the savings from the life insurance policy aren't included in the corporation's income on an annual basis, they shouldn't be included in AAII. This will be the case for permanent life insurance policies qualifying as "exempt policies."

This strategy may be most beneficial if you are 45 years of age or older, are in good health, have surplus capital in your corporation that is not required to operate the business or fund personal expenses during your lifetime, and are seeking tax-advantaged strategies that may enhance the value of your estate.

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[27] Draft legislation has been introduced that would increase the maximum taxable capital from $15 million to $50 million, which allow more businesses to benefit from the SBD rate.

[28] Passive income does not affect the provincial SBD in New Brunswick or Ontario.

[29] The report "CCPC tax planning for passive income" is available online at cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf.

Conclusion

As you can see, many variables may affect your decision to leave excess funds in your corporation for investing or withdraw funds so you can contribute to your RRSP but here is the bottom line: over time, an RRSP will likely leave you with more in your pocket than corporate investing. For 100% capital gains, however, corporate investments generally yield a greater amount than an RRSP and, so, are the exception to this rule-of-thumb; however, few investors would be likely to earn 100% capital gains over a long period of time.

If you are a business owner who wants to get the most from your investments over the long run and your portfolio earns a combination of interest, eligible dividends and capital gains, you should probably consider taking sufficient salary / bonus from your corporation to maximize your RRSP contributions, rather than leaving the funds inside the corporation for investment.

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