

Retirement Planning: RRSP vs. Corporate Savings



The Question

- Should the shareholder of an incorporated business save for retirement through corporate investments or through an RRSP?
- The answer is complex, and depends on factors such as
 - *personal cash flow requirements*
 - *wishes respecting future CPP disability, retirement, death and survivor benefits*
 - *applicable corporate and personal income tax rates*
 - *available income-splitting opportunities*

Investing for Retirement in a RRSP (B.C.)

Corporate business income¹	\$134,371
Less: net cost of corporate CPP premiums ²	\$2,038
Less: salary paid to shareholder	\$132,333
Corporate taxable income	\$0
Shareholder's RRSP contribution	\$23,820
Shareholder's taxable salary (after contribution)	\$108,513
Less: personal tax on salary ³ plus net cost of CPP premiums ⁴	\$30,174
Net cash for shareholder's day-to-day needs	\$78,339
RRSP and CPP – 15 years later⁵	\$64,428
Less: tax on RRSP withdrawal ⁶	\$19,328
Net RRSP cash to shareholder annuitant	\$45,100

¹Amount required in 2013 to maximize RRSP contributions and CPP premiums ²CPP premium (\$2,356) less corporate tax savings

³Based on 2013 British Columbia graduated income tax rates ⁴CPP premium (\$2,356) less personal tax savings

⁵RRSP contribution grown at 6%/year, plus CPP premiums (\$4,712) grown at 3%/year, in corporate class funds with no distributions

⁶30% average income tax rate

Investing for Retirement in a Corporation (B.C.)

Corporate business income¹	\$134,371
Less: net corporate CPP premiums / salary paid to shareholder	\$0
Corporate taxable income	\$134,371
Less: corporate income tax (at 13.5% small business rate)	\$18,140
Corporate retained earnings (before dividend)	\$116,231
Dividend paid to shareholder²	\$87,975
Less: personal tax on dividend ³	\$9,636
Net cash for shareholder's day-to-day needs¹	\$78,339
Corporate retained earnings (after dividend)	\$28,256
Corporate retained earnings – 15 years later⁴	\$67,718
Dividend paid to shareholder in retirement	\$67,718
Less: total corporate and personal tax ⁵	\$10,786
Net cash to shareholder	\$56,932

¹Same as RRSP chart, for comparison purposes ²Amount required to achieve same consumption amount as RRSP chart

³Based on 2013 British Columbia graduated income tax rates ⁴Growth at 6% annually in corporate class funds with no distributions

⁵Combined corporate tax on capital gain and personal tax at graduated rates on dividend

Comparison of Savings Growth: RRSP vs. Corporation (B.C.)



	RRSP	Corporation
Cash for day-to-day needs	\$78,339	\$78,339
Cash in retirement	\$45,100	\$56,932
Advantage (26.2%)	-	\$11,832¹

¹Based on one year of corporate retained earnings after payment of dividend to entrepreneur

Every corporate and shareholder situation is different and determines the optimal retirement growth strategy

RRSP vs. Corporate Savings - Key Takeaways

- Funding retirement savings for an entrepreneur through corporate savings may be advantageous – 3 main factors
 - *active business income is taxed preferentially and, when retained in the corporation, personal tax is deferred*
 - *use of corporate class investments is tax efficient*
 - *dividend income in retirement is tax efficient compared to RRIF withdrawals*

