

Employee profit sharing plan

Benefiting business owners and family members





How It Works

An employee profit sharing plan (EPSP) is an arrangement that allows an employer to share business profits with all or a designated group of employees. You can also establish one of these plans exclusively for your benefit and the benefit of family members who are employed in your business. The EPSP can be used in the following situations:

Employee/Owner

The owner does not want to contribute to CPP and would rather invest those funds. Also, where family members are employees but not shareholders.

Family Income Splitting

There is an argument that an allocation by the Trustees of an EPSP is not subject to section 56(2), and allocation to family members would have a better chance of success than bonuses paid directly.

Alternative Management Fees

Where income occurs in more than one corporation in a related group, a single EPSP could be used instead of management fees or bonuses to move the income directly out of the corporation. This avoids paying multiple CPP on bonuses, and the uncertainty of the deduction for management fees.

Employer Profit Sharing Plan

The EPSP is designed to allow the directors of an employee owned corporation to distribute profit on a discretionary basis to employees. Use of the EPSP is similar to declaring bonuses, except that withholding taxes are eliminated, resulting in a one time cash flow improvement for the employer.

Large Bonus

An employee may choose to receive the distribution through an EPSP rather than as a salary because of the delay in paying tax, which is not until April of the year following payment to the trust.

When Is an EPSP the Right Solution?

If you can answer YES to the following questions, and EPSP may be the right choice for you:

- Is your current income structured creating CPP contributions without reasonable value for each dollar invested?
- Do regulatory requirements of your current business structure prevent you from effectively income splitting with other family members OR key employees?
- Do you routinely follow a policy of 'bonusing-down' to the small business limit?

Under certain circumstances, an EPSP can be used as an alternative to traditional remuneration strategies to effectively defer tax and facilitate income splitting.

The EPSP Advantage

They do not attract either Employer/Employee Canada Pension Plan (CPP) or EI contributions

- Allows for greater control of retirement assets.
- Treated as pension and/ or RRSP eligible earnings.
- There are no source deductions for income tax.
- Greater control over YOUR retirement assets.

Tax Implications of an EPSP

- The company accrues a payment to the EPSP trust which is fully deductible by the company if paid within certain time lines.
- The EPSP trust is exempt from tax and is not required to file a return. However, there are certain nominal compliance requirements that must be managed.
- Each year, the amount allocated to a particular employee is included in the respected employee's taxable income for the year.

CPP Premium Has Grown Significantly Over Past 20 Years

Year	CPP	EI	Total	% Increase
1966	\$158.40	-	\$158.40	-
1975	\$241.70	\$323.44	\$564.64	256%
1985	\$759.60	\$1,348.88	\$2,108.48	273%
1995	\$1,701.00	\$3,051.38	\$4,752.38	125%
2000	\$2,659.80	\$2,245.20	\$4,905.00	3%
2002	\$3,365.20	\$2,059.00	\$5,424.20	11%
2004	\$3,663.00	\$1,853.28	\$5,516.28	2%
2005	\$3,722.40	\$1,825.98	\$5,548.38	1%
2006	\$3,821.40	\$1,750.00	\$5,571.40	0.5%
2007	\$3,979.80	\$1,728.00	\$5,707.80	2%
2008	\$4,098.60	\$1,706.47	\$5,805.07	2%
2009	\$4,237.20	\$1,756.30	\$5,993.50	3%
2010	\$4,326.30	\$1,793.66	\$6,119.96	2%
2011	\$4,435.20	\$1,888.22	\$6,323.42	3%

Established under section 144 of the Income Tax Act, an EPSP is a special trust that allows the beneficiaries to share in company profits



CASE STUDY

Mojo Electric

A small family owned electric company has five employees and establishes an EPSP. The shareholders and owner operators are husband and wife.

If the first year they are the only beneficiaries to the plan. Each earns more than \$47,000 of profit sharing income through the EPSP trust. At the end of each calendar year

they would be paid \$3,500 each in T4 earnings and he balance from their EPSP.

Since shareholders do not pay EI contributions their savings from employer/employee CPP contributions will equal \$8,870.40 total.



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