

Shareholder Remuneration Guide

Quick guide for owners in deciding whether to pay themselves through salary or dividends.

	<u>Salary</u>	<u>Dividends</u>
Classification	Employment Income	Investment Income
Tax Form	T4	T5
Effect on Personal Taxes	Increased	Increased
Effect on Corporate Taxes	Decreased (business expense)	None
Personal Tax Rate	Higher	Lower
Eligible for Tax Credits	Yes. Salary should be atleast enough to take advantage of qualifying tax credits.	No
Eligible for Government Subsidies	Yes	No
EI Payable	Yes, by individual. Levied on personal income between ~3500 and ~65000 (changes by year). Option for self-employed individuals to opt out of EI.	None, meaning no benefits so individuals should have a plan for loss of work.
CPP Payable	Yes, by corporation and individual. Levied on personal income between ~3500 and ~65000 (changes by year). Personal tax credit for individual CPP premiums.	None, meaning no benefits so individuals should have a plan for retirement.
EHT Payable	Yes, payable by corporation.	None
CRA Tax Remittances	Must be paid when salary paid to individual	Balance due when filing tax return.
Effect on RRSP Contribution Limit	Increased	None
Amount of Payment	Must be reasonable, cannot greatly exceed market rate for type of work.	Must be proportionate with share ownership percentage.
Other	The higher the corporate tax rate, the greater benefit from paying salary vs. dividend.	Not always used in income calculation when applying for personal loans.

Theoretically, the tax system is designed so that individuals pay the same amount of taxes through either payment method. In general, the best strategy employs a balance of both options but it depends on the individual circumstances.

This guide is for information purposes only and is not a substitute for personalized tax advice from a qualified CPA.

