

Information Sheet
Dividends vs Salaries

SOME OF THE ADVANTAGES OF DIVIDENDS

- Dividends may slightly reduce the overall tax costs (corporate and personal) as compared with salary
- If the only source of personal income was from ineligible dividends, it was possible to receive up to \$38,160 in 2011 without paying any personal income tax other than the Ontario Health Premium. (Eligible = \$51,602)
- Dividends do not require you to contribute to the Canada Pension Plan, EHT or WSIB
- Dividends will provide more opportunities for income splitting with your family
- Dividends do not require the recipient to perform services for the business, whereas salaries must not exceed a "reasonable" remuneration for the services rendered to the business
- The payment of dividends does not require an immediate personal income tax payment; salaries require tax and CPP remittances by the employer within days or weeks
- If there are insufficient corporate profits to make use of the tax deduction for salaries, dividends may be more tax-efficient

SOME OF THE ADVANTAGES OF SALARIES

- Salaries provide opportunities for deferring taxes by maximizing RRSP contribution room
- Corporate taxes can be deferred by accruing bonuses
- Salaries are required to qualify for Canada Pension Plan benefits
- The distribution of salaries among shareholders may be more flexible than dividends
- Salaries paid to children are taxable at normal rates, whereas dividends paid to children may be subject to tax at the highest rates.
- Salaries entitle the recipient to the Canada Employment credit
- If the company's taxable income exceeds \$500,000 in 2012, salaries can reduce that income to eliminate any corporate income tax that would be payable at the higher corporate income tax rates.
- A requirement for quarterly personal income tax instalments in future years may be one result of paying dividends
- If personal income is so low that the dividend tax credit would be wasted, a salary may be more tax efficient

Please call us at 905-898-4900 if you have any questions regarding the above