

## Factors to Consider When Choosing Wages or Dividends

Consider:	Wages	Dividends
Basis of Payment	Wages are paid to employees for work done for corporation.	Dividends are an allocation of corporate profits based on the number of shares owned.
Does the individual need to be active In the Corporation?	Yes, the recipient must be actively earning the Income received from the corporation.	No, the recipient can be inactive in the corporation. However, new tax rules called "Tax On Split Income" – "TOSI" limits this option.
Tax Treatment – Corporation	<p>Deduction as corporate expense.</p> <p>Monthly payroll remittance required</p> <p>Tax savings starting at 11%</p>	<p>Dividends are a reduction of company equity</p> <p>No remittance required</p> <p>No tax savings to the corporation.</p>
Tax Treatment – Personal	Fully taxed at individuals marginal tax rate.	Grossed up to mirror taxation of wages with a tax credit provided to represent the taxes paid on that money in the corporation.
Tax credits on personal return	Qualifies for a non-refundable employment tax credit	Qualifies for a dividend tax credit (lower tax rates than wages)
Deductions allowable	Employment expenses and \ or child care expense deduction can be available	Interest & carrying charges can be deducted against this income
Personal Instalment requirements	No instalments required.	Quarterly instalments likely.
Tax Treatment - Overall	No tax in the corporation and all taxed at the individuals marginal tax rate.	<p>Tax paid both corporately &amp; personally on this money.</p> <p>Designed to be tax neutral with wages at higher levels of income but this varies by province.</p>
Provide contributions to CPP retirement benefits.	With the corporation's matching of CPP the remittance for CPP the CPP paid is over 10% of the wages.	<p>No CPP contributions.</p> <p>Need to save extra for retirement.</p>

Consider:	Wages	Dividends
Adds to RRSP contribution limits	Yes, 18% of wages, to the annual maximum, adds to the individual's overall RRSP contribution limit.	No effect on the RRSP contribution limit.
Are amounts paid restricted or limited.	Wages paid to related individuals, such as spouse or children, are subject to reasonability tests.	Dividends are generally limited to the profits earned by the corporation. The new TOSI rules can restrict dividends received by some individuals.
Cash Flow	Helps manage cash flow as taxes are being paid monthly.  Con – need to pay taxes monthly.	No deduction in corporation and no remittances on personal taxes can often lead to surprise tax bills both on the corporate and personal taxes.
Financing	Banks tend to favor employment income. (wages or salary)	Dividends often fluctuate and are discretionary, as such, the banks are less comfortable with this source of income.
Filing Requirements	Monthly remittance report accompanies the monthly remittance.  Annual T4 slips and supplementary.	No monthly filings required.  Annual T5 slips & supplementary.
Director Liability	Shareholder wages are ok – no risk if wages are reasonable.	Any dividends to shareholders can put personal assets at risk.
<p><b>Summary</b> - There are advantages to both, shareholders of corporations would be advised to take both wages &amp; dividends every year. How much of each depends on you and your circumstances.</p> <p><b>Let's talk</b> – You and your company are unique. Let's talk and tailor a solution that is right for you.</p>		

The above comparison is only a summary of some key differences between wages & dividends along with a very brief discussion about the tax treatment of each. No decisions should be made on based on the above without a detailed discussion with one of our tax professionals. Please give us a call to arrange an appointment to review your needs and goals in order to best determine a financial plan that will work for you.