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CANADA

FREE GUIDE FOR OWNER-MANAGERS

Salary or Dividends: Paying Yourself

You control both the company and your own pay — here is how to choose the mix on purpose instead of by habit.

Every owner-manager faces the same fork: run payroll, or declare dividends. Most pick whatever their first accountant set up and never look at it again. The right answer depends on three things you can check today — and it can change as your life does.

Five things the choice quietly changes — beyond this year's tax bill

1	**Your RRSP room.** Only salary creates it. An owner paid entirely in dividends builds no new contribution room — year after year, silently.
2	**Your CPP pension.** Salary pays into CPP — both halves, since you are employer and employee at once. Dividends skip it entirely: cash kept now, a smaller government pension later.
3	**The company's tax bill.** Salary is a deductible cost that shrinks corporate profit. Dividends come out of profit the company has already paid tax on.
4	**Your paperwork.** Salary means a payroll account, remittances on a schedule and a T4 each winter. A dividend needs a director's resolution and a T5 slip.
5	**What the bank sees.** Lenders read a steady salary easily. Dividend income can take more explaining when the mortgage application lands on someone's desk.

The best mix turns on current rates in your province, which this book deliberately leaves out because they move. canada.ca carries the rules; the salary vs dividend calculator at taxfilings.ca/tools carries the math.

01 The salary road, end to end

The corporation puts you on payroll like any employee. Each pay, it withholds income tax and your CPP share and sends them to the CRA; because the company is also your employer, it matches the CPP on top. The whole salary is a deductible business cost, so corporate profit shrinks by every dollar you are paid. In February a T4 arrives, and the salary lands on your personal return as ordinary employment income. Predictable, visible, and already taxed as you go.

> SAVINGS
> Salary is the only owner's pay that builds RRSP room — the room grows as a slice of earned income, and dividends add nothing to it. If sheltered retirement saving matters to you, this alone can settle the debate. The salary for RRSP room calculator at taxfilings.ca/tools shows the pay level that fills your room each year — run it before you set this year's salary.

02 The dividend road, end to end

A dividend is a share of profit the corporation has already paid its own tax on. There is no withholding and no CPP — the company passes the money out after a director's resolution, and a T5 slip follows after year-end. On your personal return, a gross-up-and-credit mechanism roughly recognizes the corporate tax already paid, so you are not fully taxed twice. The catch hides in the words "no withholding": nobody set anything aside, and the personal tax bill still arrives at filing time.

> DEADLINE
> Once what you owe at filing passes a trigger — it sits around $3,000 owing; confirm the current figure at canada.ca — the CRA moves you onto quarterly instalments. Dividend-paid owners hit this early. Set aside a fixed slice of every dividend the day it is paid, and the instalment letters become routine instead of alarming.

03 Integration — why there is no magic door

Canada's system is built so that a dollar earned inside a corporation and paid out to you ends up taxed roughly the same whichever road it travels. Tax people call this design goal integration. It is never perfect — small gaps open and close by province and by year — but the gaps are small, and they move. That is the quiet, liberating truth of this whole topic: you are not hunting for a loophole, because the loophole was designed out. You are choosing side effects — RRSP room, CPP, paperwork, cash flow.

> PLANNING TIP
> When anyone promises that one route "saves tax", ask three words back: this year, my province, my income? The honest answer comes from the salary vs dividend calculator at taxfilings.ca/tools, not from a rule of thumb that was true somewhere, once.

04 The three questions that actually decide it

Do you want RRSP room?

If yes, pay at least enough salary to create the room you plan to use. This is the most common reason owners choose payroll, and the easiest to check: your notice of assessment states your room to the dollar.

Do you value CPP?

It is an inflation-indexed pension with disability and survivor pieces attached. Some owners would rather keep both halves and invest the difference — which only works if you truly invest it. Decide which person you are, in writing.

How much admin can you stand?

Payroll demands discipline every month; a missed remittance costs real money. Dividends are lighter until filing time. Many owners land on a mix — a base salary for room and CPP, dividends for the surplus.

05 Paying family — the careful paragraph

Dividends to a spouse or adult children were once an easy way to spread income across a household. The tax on split income rules — TOSI — closed most of that road: unless the family member genuinely works in the business, holds a meaningful stake in the way the rules define it, or fits another narrow exception, their dividend can be taxed at the top personal rate regardless of their own income. This corner of tax is not a do-it-yourself area.

> THE EXPENSIVE MISTAKE
>
> Declaring family dividends for years on a hunch, then watching every one of them get reassessed at the top rate, with interest. One professional conversation before the first family dividend costs a fraction of that. Have it first.

06 Put your own numbers through it

Picture two identical owners with the same profit. One runs payroll: the company deducts her salary, she builds RRSP room and CPP credits, and her tax drips out evenly all year. The other declares dividends: the company pays its tax first, he keeps more flexibility and less admin, and a personal bill waits for him in April. Their lifetime totals land surprisingly close — integration at work. What differs is everything around the totals. Spend ten minutes with the salary vs dividend calculator at taxfilings.ca/tools and you will see your own version of this comparison, in this year's numbers.

MYTH	FACT
"Dividends mean I keep the CPP money for free."	You keep the cash but give up the pension it was buying — indexed, with disability and survivor coverage. Skipping CPP is a real choice with a real price, not a discount.
"Salary versus dividends is a one-time setup decision."	The best mix drifts as income, province, family and rules change. Owners who recheck yearly — it takes an hour — catch the drift; owners on autopilot pay for it.
"One of them is the trick rich people use."	Integration was designed to close exactly that door. The genuine wins are side effects — room, pension, timing — not a secretly lower total.

07 The pay-mix self-check

Mark each line YES or NO, then add up the YES marks.

1. I can say today whether my pay is salary, dividends or a mix — and why.	YES / NO
2. I know how much RRSP room I built, or did not build, last year.	YES / NO
3. My CPP position is a decision I made on purpose, not an accident of setup.	YES / NO
4. If I take dividends, a slice of each one is set aside for the tax bill.	YES / NO
5. Any family member receiving dividends fits a TOSI exception — and we checked.	YES / NO
6. I have run my real numbers through a calculator within the last two years.	YES / NO
7. My pay mix fits my next big plan — mortgage, parental leave, retirement date.	YES / NO

6–7 · Green
Your mix is chosen, not inherited. Recheck it yearly and after any big life change.

3–5 · Yellow
Habit is running part of your pay. Start with the RRSP-room question — it is on your notice of assessment.

0–2 · Red
You are on autopilot with real money. An hour with the calculator and your accountant pays for itself.

08 Your reset week

Day 1
Find last year's T4 or T5 and your notice of assessment. Write down your RRSP room to the dollar.

Day 2–3
Answer the three questions on page 3 in writing: room, pension, paperwork.

Day 4–5
Put this year's expected profit through the salary vs dividend calculator at taxfilings.ca/tools.

Day 6–7
Take the results to your accountant, set the mix for the year ahead, and diarize a yearly recheck.

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