

# THE NAVIGATOR



## SALARY VS. DIVIDEND INCOME

### THE REMUNERATION PROCESS FOR THE OWNER-MANAGER

You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered and that action is taken on the most recent information available.

As an employee and shareholder of a Canadian-controlled private corporation, you have the flexibility of receiving your remuneration in the form of a salary, dividend, or a combination of both. A large factor to be taken into consideration when determining which form of compensation you should receive is what type of remuneration would result in the most positive tax outcome for you and your corporation.

The decision to receive a salary, dividend, or both is not an easy one as there are tax and non-tax factors to consider. The tax treatment of a salary vs. dividend income is different for the corporation and for you at the individual level.

### IMPLICATIONS OF A SALARY REMUNERATION

#### AT THE CORPORATE LEVEL

- Salary paid by the corporation is considered a tax deductible expense to the corporation and would

therefore lower the corporation's taxable income.

- In order for a salary payment to be deductible by the corporation, the amount of the salary must be reasonable. For owner-managers, reasonableness would not be an issue provided that the owner-manager is active in the corporation and contributes to the profits earned by the corporation using their special know-how or entrepreneurial skills.
- The corporation will incur an additional expense in the form of payroll taxes when a salary payment is made. The corporation has to match an employee's contribution to the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) but not to Canada's Employment Insurance program (EI) (EI premiums are not required for an employee who is also a shareholder controlling more than 40% of the voting stock of the corporation; however, voluntary participation is permitted).
- Salary paid by the corporation may

attract other payroll expenses such as provincial workers' compensation and health tax payable by the corporation (depending on the province in which the corporation is located and salary expense threshold in that province).

- Salary paid by the corporation will be subject to tax and payroll withholdings at the source (e.g., income taxes and employee's portion of CPP/QPP).

#### AT THE INDIVIDUAL LEVEL

- The gross amount of salary income (before source deductions) is employment income and is subject to tax at the individual's marginal tax rate in the year it is received.
- The individual will get certain non-refundable tax credits in addition to the basic personal amount. The non-refundable tax credits are a credit for CPP/QPP contributions made by the employee (maximum of \$2,306.70 (CPP) and \$2,341.65 (QPP) for 2012) and the Canada employment



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Dividends are paid out of the corporation's after-tax retained earnings which means that these distributions are paid out of corporate funds which have already been subject to a level of tax.

amount (federal maximum of \$1,095 for 2012).

## IMPLICATIONS OF A DIVIDEND REMUNERATION

### AT THE CORPORATE LEVEL

- A payment of a dividend is not a deductible expense for the corporation.
- Dividends are paid out of the corporation's after-tax retained earnings which means that these distributions are paid out of corporate funds which have already been subject to a level of tax.
- A payment of a dividend is not subject to the reasonableness test. Instead, corporate solvency tests and restrictions on the capital stock itself may identify whether a dividend can be paid and the amount of the dividend that can be paid.
- The dividend paid may be designated as an eligible dividend if the corporation has sufficient balance in its General Rate Income Pool (GRIP); otherwise the dividend would be a non-eligible dividend, which is taxed at a higher rate than eligible dividend income at the individual level.

### AT THE INDIVIDUAL LEVEL

- An individual could be required to pay quarterly tax instalments if their income taxes payable after deducting taxes withheld at source are more than \$3,000. This applies to an owner-manager who receives primarily dividend or only dividend income as remuneration as there are no tax withholdings at source on a dividend payment.
- A dividend payment is grossed-up by an additional 25% (if non-eligible) or 38% (if eligible) to arrive at the taxable amount that is included in an individual's income.

- In addition to the basic personal amount, the individual will be eligible for the non-refundable dividend tax credit which is meant to reflect the corporate taxes already paid on this income prior to distribution.

## EXAMPLES

The following examples will illustrate the tax implications to the corporation and to the individual in cases where remuneration is received in the form of a salary, dividend and a combination of salary and dividend income. The examples use the 2012 combined federal and Ontario tax rates (see Appendix I for examples involving other provinces). The examples assume that the individual requires \$100,000 of after-tax funds to meet lifestyle needs and that the individual has no other income. Because salary and dividend income are taxed differently, the pre-tax amount of salary and dividend requirements will be different under each scenario. Under the third option, which is a combination of salary and dividend income, a pre-tax salary amount of \$50,100 is used because this is the minimum amount of salary the individual has to earn in order to maximize CPP/QPP contributions and CPP/QPP benefits upon retirement.

The receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 151,420	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	117,950	80,525
	Total Income	151,420	117,950	130,625
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(49,113)	(17,950)	(28,318)
		(51,420)	(17,950)	(30,625)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(151,420)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(38,172)	(62,000)	(53,877)
After-tax cash flow		208,101	338,000	293,716
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(117,950)	(80,525)
Net after-tax cash flow		<b>\$ 208,101</b>	<b>\$ 220,050</b>	<b>\$ 213,191</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

### OBSERVATIONS

■ Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

■ Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

The salary option results in the highest after-tax cash flow.

## Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 151,420	\$ –	\$ 50,100
	Dividend – eligible	–	113,780	77,065
	Dividend – non-eligible	–	–	–
	Total Income	151,420	113,780	127,165
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(49,113)	(13,780)	(24,858)
		(51,420)	(13,780)	(27,165)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(151,420)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(89,762)	(130,500)	(116,612)
After-tax cash flow		456,511	569,500	530,981
Less:	Dividend – eligible	–	(113,780)	(77,065)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 456,511</b>	<b>\$ 455,720</b>	<b>\$ 453,916</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

- In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

- Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## OTHER CONSIDERATIONS

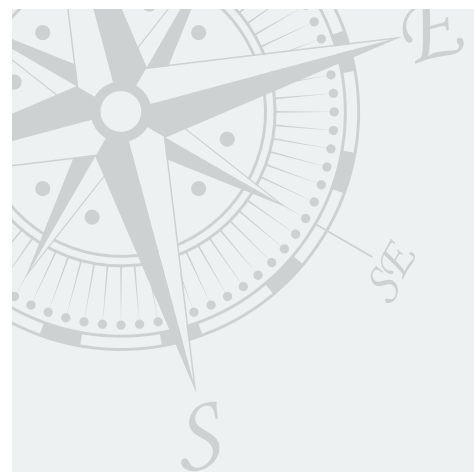
- Since RRSP contribution room is calculated based on earned income, if your only source of income is dividend income, you will not be able to build RRSP contribution room.
- Contributions to an RRSP are deductible against your income; therefore, if you have other funds available to make RRSP contributions, you may be able to benefit from the tax deduction in the current year resulting in greater after-tax cash to you.
- Salary income is considered pensionable earnings for CPP/QPP purposes while dividend income is not. Therefore, the payment of salary attracts CPP/QPP premiums (both for the employer and employee) and the employee would benefit from CPP/QPP benefits (which may include a retirement pension and survivor, death and disability benefits available to CPP/QPP contributors and their family members).
- An owner-manager who receives pension-eligible income may be a candidate for an Individual Pension Plan, which is a defined

benefit pension plan established by a company for an individual. Pension-eligible income includes employment income but does not include dividend income.

- The ability to contribute to an RRSP/IPP allows you to grow your investments on a tax-deferred basis.

## CONCLUSION

The decision of the owner-manager to receive their compensation in the form of a salary, dividend, or a combination of both will have an impact on both the owner-manager and the corporation. This article discusses the tax treatment of various forms of remuneration as well as some non-tax considerations that are of importance when deciding whether to receive a salary, dividend, or both from a corporation. As shown in the examples above, there is no one answer to the question: salary or dividends? The answer depends on your facts and circumstances as well as your corporation's financial position. Both tax and non-tax factors should be considered when selecting the type of compensation you wish to receive. You should discuss this matter with a qualified tax advisor to help determine which option is best for you.



**There is no one answer to the question: salary or dividends? The answer depends on your facts and circumstances as well as your corporation's financial position.**

# APPENDIX I

*The following examples are for illustrative purposes only. You should obtain professional advice from a qualified tax advisor before acting on any of the information in this appendix. This will ensure that your own circumstances have been considered and that action is taken on the most recent information available.*

The following examples will illustrate

the tax implications to the corporation and to the individual in cases where remuneration is received in the form of salary, dividends and a combination of salary and dividends. The examples use the 2012 combined federal and provincial rates. The examples assume that the individual requires \$100,000 of after-tax funds to meet their lifestyle needs and that the individual has no other income. Because salary and

dividends are taxed differently, the pre-tax amount of salary and dividends will be different under each scenario. Under the third option, which is a combination of salary and dividends, a pre-tax salary amount of \$50,100 is used because this is the minimum amount of salary an individual has to earn in order to maximize CPP/QPP contributions and CPP/QPP benefits upon retirement.

## Alberta

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 143,995	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	119,340	79,230
	Total Income	143,995	119,340	129,330
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(41,688)	(19,340)	(27,023)
		(43,995)	(19,340)	(29,330)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(143,995)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(35,518)	(56,000)	(48,663)
After-tax cash flow		218,181	344,000	298,930
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(119,340)	(79,230)
Net after-tax cash flow		<b>\$ 218,181</b>	<b>\$ 224,660</b>	<b>\$ 219,700</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the dividend option results in the

highest after-tax cash flow.

■ Although the receipt of only taxable dividends results in the most after-tax cash flow for the corporation, the receipt of only dividend income would not create

RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

## Alberta

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 143,995	\$ –	\$ 50,100
	Dividend – eligible	–	109,035	70,965
	Dividend – non-eligible	–	–	–
	Total Income	143,995	109,035	121,065
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(41,688)	(9,035)	(18,758)
		(43,995)	(9,035)	(21,065)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(143,995)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(83,425)	(120,000)	(106,898)
After-tax cash flow		470,274	580,000	540,695
Less:	Dividend – eligible	–	(109,035)	(70,965)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 470,274</b>	<b>\$ 470,965</b>	<b>\$ 469,730</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

■ In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

■ Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.



## British Columbia

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 145,730	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	121,230	81,215
	Total Income	145,730	121,230	131,315
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(43,423)	(21,230)	(29,008)
		(45,730)	(21,230)	(31,315)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(145,730)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(34,015)	(54,000)	(46,925)
After-tax cash flow		217,948	346,000	300,668
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(121,230)	(81,215)
Net after-tax cash flow		<b>\$ 217,948</b>	<b>\$ 224,770</b>	<b>\$ 219,453</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.



## British Columbia

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 145,730	\$ -	\$ 50,100
	Dividend – eligible	-	109,035	72,540
	Dividend – non-eligible	-	-	-
	Total Income	145,730	109,035	122,640
Expenses:	CPP/QPP	(2,307)	-	(2,307)
	Income Taxes	(43,423)	(9,035)	(20,333)
		(45,730)	(9,035)	(22,640)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(145,730)	-	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	-	(2,307)
	Corporate Income Taxes	(80,491)	(117,500)	(104,398)
After-tax cash flow		471,472	582,500	543,195
Less:	Dividend – eligible	-	(109,035)	(72,540)
	Dividend - non-eligible	-	-	-
Net after-tax cash flow		<b>\$ 471,472</b>	<b>\$ 473,465</b>	<b>\$ 470,655</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.
- In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).
- Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## Saskatchewan

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 151,165	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	124,665	84,895
	Total Income	151,165	124,665	134,995
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(48,858)	(24,665)	(32,688)
		(51,165)	(24,665)	(34,995)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(151,165)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(32,049)	(52,000)	(45,187)
After-tax cash flow		214,480	348,000	302,406
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(124,665)	(84,895)
Net after-tax cash flow		<b>\$ 214,480</b>	<b>\$ 223,335</b>	<b>\$ 217,511</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

## Saskatchewan

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 151,165	\$ –	\$ 50,100
	Dividend – eligible	–	110,535	75,275
	Dividend – non-eligible	–	–	–
	Total Income	151,165	110,535	125,375
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(48,858)	(10,535)	(23,068)
		(51,165)	(10,535)	(25,375)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(151,165)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(77,563)	(119,000)	(104,850)
After-tax cash flow		468,966	581,000	542,743
Less:	Dividend – eligible	–	(110,535)	(75,275)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 468,966</b>	<b>\$ 470,465</b>	<b>\$ 467,468</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

■ In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

■ Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## Manitoba

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 158,385	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	136,960	95,375
	Total Income	158,385	136,960	145,475
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(56,078)	(36,960)	(43,168)
		(58,385)	(36,960)	(45,475)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(158,385)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(26,324)	(44,000)	(38,235)
After-tax cash flow		212,984	356,000	309,358
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(136,960)	(95,375)
Net after-tax cash flow		<b>\$ 212,984</b>	<b>\$ 219,040</b>	<b>\$ 213,983</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

## Manitoba

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 158,385	\$ –	\$ 50,100
	Dividend – eligible	–	123,045	85,685
	Dividend – non-eligible	–	–	–
	Total Income	158,385	123,045	135,785
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(56,078)	(23,045)	(33,478)
		(58,385)	(23,045)	(35,785)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(158,385)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(77,613)	(121,000)	(106,850)
After-tax cash flow		461,695	579,000	540,743
Less:	Dividend – eligible	–	(123,045)	(85,685)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 461,695</b>	<b>\$ 455,955</b>	<b>\$ 455,058</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.
- In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).
- Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## Quebec

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 164,060	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	131,940	93,555
	Total Income	164,060	131,940	143,655
Expenses:	CPP/QPP	(2,711)	-	(2,622)
	Income Taxes	(61,349)	(31,940)	(41,033)
		(64,060)	(31,940)	(43,655)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(164,060)	–	(50,100)
	Payroll expense (CPP/QPP)	(7,287)	–	(4,086)
	Corporate Income Taxes	(43,444)	(76,000)	(65,705)
After-tax cash flow		185,209	324,000	280,109
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(131,940)	(93,555)
Net after-tax cash flow		<b>\$ 185,209</b>	<b>\$ 192,060</b>	<b>\$ 186,554</b>

\* Calculations include all federal and provincial taxes and surtaxes as well as the Quebec Parental Insurance Plan premiums and contribution to the Health Services Fund. The basic personal credit, federal employment credit, dividend tax credit and credit for Quebec Pension Plan contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for QPP benefits upon retirement.

## Quebec

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 164,060	\$ –	\$ 50,100
	Dividend – eligible	–	124,872	88,548
	Dividend – non-eligible	–	–	–
	Total Income	164,060	124,872	138,648
Expenses:	CPP/QPP	(2,711)	–	(2,622)
	Income Taxes	(61,349)	(24,872)	(36,026)
		(64,060)	(24,872)	(38,648)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(164,060)	–	(50,100)
	Payroll expense (CPP/QPP)	(7,287)	–	(4,086)
	Corporate Income Taxes	(102,708)	(148,800)	(134,224)
After-tax cash flow		425,945	551,200	511,590
Less:	Dividend – eligible	–	(124,872)	(88,548)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 425,945</b>	<b>\$ 426,328</b>	<b>\$ 423,042</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

■ In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

■ Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for QPP benefits upon retirement.



## New Brunswick

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 149,935	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	120,620	81,840
	Total Income	149,935	120,620	131,940
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(47,628)	(20,620)	(29,633)
		(49,935)	(20,620)	(31,940)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(149,935)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(38,403)	(62,000)	(53,877)
After-tax cash flow		209,356	338,000	293,716
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(120,620)	(81,840)
Net after-tax cash flow		<b>\$ 209,356</b>	<b>\$ 217,380</b>	<b>\$ 211,876</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

## New Brunswick

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 149,935	\$ –	\$ 50,100
	Dividend – eligible	–	109,035	73,010
	Dividend – non-eligible	–	–	–
	Total Income	149,935	109,035	123,110
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(47,628)	(9,035)	(20,803)
		(49,935)	(9,035)	(23,110)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(149,935)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(89,440)	(127,500)	(114,398)
After-tax cash flow		458,319	572,500	533,195
Less:	Dividend – eligible	–	(109,035)	(73,010)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 458,319</b>	<b>\$ 463,465</b>	<b>\$ 460,185</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

■ In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

■ Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## Nova Scotia

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 159,970	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	122,885	86,115
	Total Income	159,970	122,885	136,215
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(57,663)	(22,885)	(33,908)
		(59,970)	(22,885)	(36,215)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(159,970)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(35,658)	(60,000)	(52,139)
After-tax cash flow		202,065	340,000	295,454
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(122,885)	(86,115)
Net after-tax cash flow		<b>\$ 202,065</b>	<b>\$ 217,115</b>	<b>\$ 209,339</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

## Nova Scotia

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 159,970	\$ –	\$ 50,100
	Dividend – eligible	–	122,600	85,915
	Dividend – non-eligible	–	–	–
	Total Income	159,970	122,600	136,015
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(57,663)	(22,600)	(33,708)
		(59,970)	(22,600)	(36,015)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(159,970)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(98,694)	(149,000)	(132,754)
After-tax cash flow		439,029	551,000	514,839
Less:	Dividend – eligible	–	(122,600)	(85,915)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 439,029</b>	<b>\$ 428,400</b>	<b>\$ 428,924</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.
- In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).
- Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

Prince Edward Island  
Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 159,640	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	140,185	98,000
	Total Income	159,640	140,185	148,100
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(57,333)	(40,185)	(45,793)
		(59,640)	(40,185)	(48,100)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(159,640)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(28,566)	(48,000)	(41,711)
After-tax cash flow		209,487	352,000	305,882
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(140,185)	(98,000)
Net after-tax cash flow		<b>\$ 209,487</b>	<b>\$ 211,815</b>	<b>\$ 207,882</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.

Prince Edward Island  
Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 159,640	\$ –	\$ 50,100
	Dividend – eligible	–	116,575	81,045
	Dividend – non-eligible	–	–	–
	Total Income	159,640	116,575	131,145
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(57,333)	(16,575)	(28,838)
		(59,640)	(16,575)	(31,145)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(159,640)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(71,797)	(122,000)	(105,754)
After-tax cash flow		466,257	578,000	541,839
Less:	Dividend – eligible	–	(116,575)	(81,045)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 466,257</b>	<b>\$ 461,425</b>	<b>\$ 460,794</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.
- In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).
- Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

## Newfoundland & Labrador

### Example 1: Corporation's Income \$400,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 150,570	\$ –	\$ 50,100
	Dividend – eligible	–	–	–
	Dividend – non-eligible	–	121,730	82,770
	Total Income	150,570	121,730	132,870
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(48,263)	(21,730)	(30,563)
		(50,570)	(21,730)	(32,870)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 400,000	\$ 400,000	\$ 400,000
Less:	Salary expense	(150,570)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(37,068)	(60,000)	(52,139)
After-tax cash flow		210,055	340,000	295,454
Less:	Dividend – eligible	–	–	–
	Dividend - non-eligible	–	(121,730)	(82,770)
Net after-tax cash flow		<b>\$ 210,055</b>	<b>\$ 218,270</b>	<b>\$ 212,684</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

- Where the corporation's taxable income is less than the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia),

the dividend option results in the highest after-tax cash flow.

- Although the receipt of only taxable dividends results in the most after-tax cash flow for the

corporation, the receipt of only dividend income would not create RRSP room for the individual and would not allow the individual to be eligible for CPP/QPP benefits upon retirement.



## Newfoundland & Labrador

### Example 2: Corporation's Income \$700,000

		Salary	Dividend	Both
<b>Owner-Manager's after-tax position</b>				
Income:	Employment	\$ 150,570	\$ –	\$ 50,100
	Dividend – eligible	–	109,965	74,770
	Dividend – non-eligible	–	–	–
	Total Income	150,570	109,965	124,870
Expenses:	CPP/QPP	(2,307)	–	(2,307)
	Income Taxes	(48,263)	(9,965)	(22,563)
		(50,570)	(9,965)	(24,870)
Net after-tax cash flow		<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>

<b>Corporation's after-tax position</b>				
Taxable Income before salary/bonus		\$ 700,000	\$ 700,000	\$ 700,000
Less:	Salary expense	(150,570)	–	(50,100)
	Payroll expense (CPP/QPP)	(2,307)	–	(2,307)
	Corporate Income Taxes	(88,666)	(133,000)	(117,802)
After-tax cash flow		458,458	567,000	529,791
Less:	Dividend – eligible	–	(109,965)	(74,770)
	Dividend - non-eligible	–	–	–
Net after-tax cash flow		<b>\$ 458,458</b>	<b>\$ 457,035</b>	<b>\$ 455,021</b>

\* Calculations include all federal and provincial taxes and surtaxes but exclude the provincial Health Premium. The basic personal credit, federal employment credit, dividend tax credit and credits for CPP/QPP contributions are included in the calculations.

## OBSERVATIONS

■ Where the corporation's income is above the small business limit of \$500,000 (\$400,000 for Manitoba and Nova Scotia), the salary option results in the highest after-tax cash flow.

■ In this situation, the distribution of salary will come from the corporation's income subject to the general rate (i.e. income that does not benefit from the small business deduction).

■ Not only does the payment/receipt of salary result in higher net after-tax cash flow, the individual would also generate the maximum RRSP room for the year and would be eligible for CPP/QPP benefits upon retirement.

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