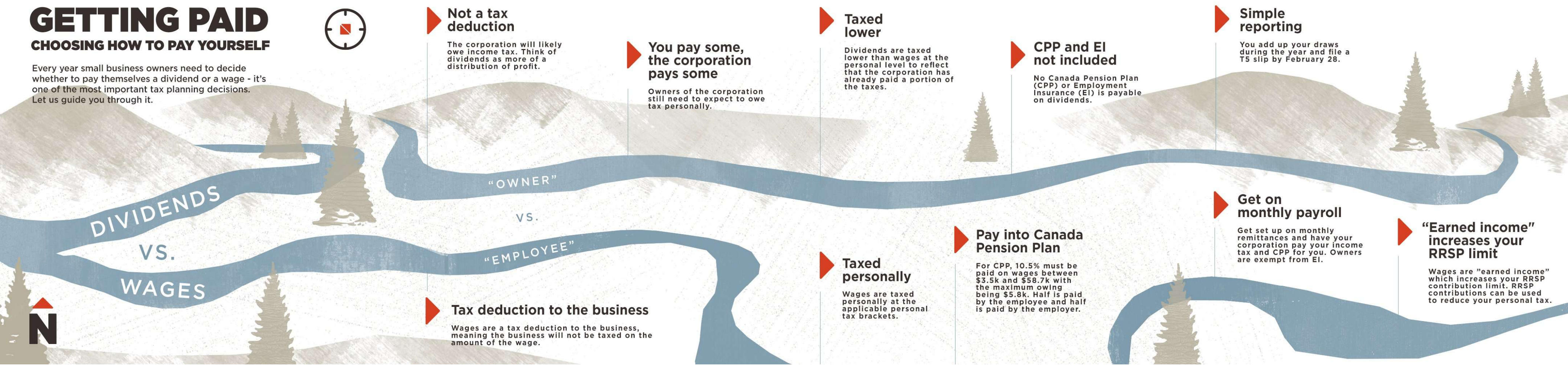
SecuraEdge Financials- Skand Mittal

The best way to pay yourself

The age-old debate: Salaries vs Dividends



Advantages of Paying Salaries

- Taxes are withheld and paid to the CRA throughout the year, meaning that less tax and/or installments are payable by the shareholder personally in April of the following year, generally making their tax burden easier to deal with.
- Salaries build RRSP room, allowing you to contribute to an RRSP. Dividends do not.
- Salaries require the payment of CPP by the company and employee, meaning that you will receive a government pension when you retire. Some may not view this as an advantage, but it depends on the individual situation.
- Payment by salary provides access to certain deductions, such as for childcare expenses.
- **Salaries are 'safer' from CRA claims on unpaid corporate income tax**

Advantages of Dividends

- It's an easier-to-manage process. You just take cash out of your company, call it a dividend, and there is no requirement for the company to withhold or remit tax on these payments.
- Dividends do not count as 'earned income' for certain programs, such as maternity leave. It is possible for a mother to receive dividend income without jeopardizing her access to these programs in many cases.
- Business owners who pay themselves dividends will receive substantially more cash than salaries as they do not have to contribute to CPP.

Live scenario

Corporate earnings	110,000		
			Dividend
	Dividends	**Salaries**	**Advantage**
Corporate earnings	110,000	110,000	
Enhanced CPP (Company)	**$Nil**	(3,868)	
CPP 2 (Company)		(188)	
Corporate tax	(12,100)	**$Nil**	
Dividend	97,900		
Salary		105,945	
Enhanced CPP (Company)	**$Nil**	(3,868)	
CPP 2 (Company)		(188)	
Combined personal tax (AB -2024)	(14,148)	(23,421)	
Net to Joe	**83,752**	**78,468**	**5,284**
Total tax paid	26,248	23,421	(2,827)
Cost of CPP		8,111	8,111

Short-term cash advantage of paying dividends: **$5,284**

Additional taxes paid by paying dividends instead of salaries: $2,827

CPP Paid with salaries: $8,111

The Dividend Trap

You can also take out a shareholder loan without the time limit if you purchase a motor vehicle for company use or if you purchase a principal residence for the shareholder, this can include a house, condo, cottage, or mobile home.

There are certain conditions which must be met in order for this to apply (i.e. must have a legitimate repayment plan with a reasonable time frame, etc.)

I'm in The Dividend Trap and I Want Out!

The only way out of the Dividend Trap is to start setting aside enough money to pay this year's tax bill. This is easier said than done, particularly when you're still paying off last year's tax bill because that would mean paying two years' worth of taxes in a single year!

Here is a Step by step plan:


THANK YOU