

## **Dividends vs. Working Income: Why Many Physicians Earn Salary Now — and Dividends Later**

One of the most common questions physicians ask after incorporating is:

**“Should I pay myself a salary or dividends?”**

The answer is rarely one or the other. For most physicians, the optimal strategy **evolves over time** — often favouring **working income (salary) earlier in your career**, and **dividends later on** as your practice and investments mature.

Understanding how — and *when* — to use each is a cornerstone of effective wealth planning for incorporated physicians.

---

### **Understanding the difference**

**Working income (salary)** is paid to you as an employee of your corporation. It is:

- Deductible to the corporation
- Taxed personally at marginal tax rates
- Eligible for **RRSP contribution room**
- Subject to **CPP contributions** (both employee and employer portions)

**Dividends**, by contrast:

- Are paid from **after-tax corporate profits**
- Do **not** create RRSP room
- Are **not subject to CPP**
- Are taxed personally at dividend tax rates, which are often lower than salary at comparable income levels

Both have a role — the key is understanding *when* each makes the most sense.

---

### **Why salary often makes sense early on**

In the early stages of practice — particularly for physicians relocating to Canada — salary provides structure, flexibility, and planning opportunities that dividends do not.

**Key advantages of salary early in your career include:**

**Building RRSP room**

Salary creates RRSP contribution room, allowing physicians to defer personal tax while accumulating long-term retirement savings.

**Using RRSPs to help purchase a home**

RRSP contributions can later be accessed through the **Home Buyers' Plan (HBP)**, which allows eligible first-time home buyers to withdraw up to **\$60,000 per individual** from their RRSP on a tax-deferred basis to help purchase or build a qualifying home.

For couples, this can mean up to **\$120,000 toward a down payment** using tax-deferred dollars — a powerful tool for physicians establishing themselves in Canada.

**Income stability for lenders**

Consistent employment income is often easier for lenders to assess, which can simplify mortgage approvals during the early years of settlement.

**CPP participation**

While CPP contributions are often viewed as a cost, they also function as a form of forced retirement savings and can complement other long-term plans.

**Household income coordination**

Salary supports coordinated planning with spousal income, RRSPs, and family cash flow during years when expenses are typically highest.

---

**Paying a reasonable salary to a spouse**

For physicians whose spouse assists in the medical corporation — such as administration, bookkeeping, scheduling, HR, or practice management — paying a **reasonable salary** can be both legitimate and tax-efficient.

**Key requirements:**

- The spouse must **actually perform work** for the corporation
- Compensation must be **reasonable for the duties performed**

- Responsibilities, hours worked, and pay should be **documented**

When structured correctly, spousal salary can:

- Reduce taxable corporate income
- Shift income to a lower marginal tax rate within the household
- Allow the spouse to build RRSP room and CPP entitlement
- Improve overall family cash flow without triggering income-splitting penalties

---

### Why dividends often make sense later

As physicians progress through their careers and build sufficient retirement assets, dividends often become more attractive:

- RRSP room may no longer be a priority
- Avoiding CPP contributions improves cash flow
- Dividends allow greater control over **when personal tax is triggered**
- They are well-suited for semi-retirement or reduced-work years

Dividends are also commonly used when drawing income from **corporate investment portfolios** built during peak earning years.

---

### Salary vs. dividends by career stage

Most physicians move through different compensation strategies over time.

| <b>Career Stage</b>             | <b>Primary Goals</b>                        | <b>Salary Makes Sense Because...</b>  | <b>Dividends Make Sense Because...</b> |
|---------------------------------|---|---|--|
| Early Career /<br>New to Canada | Settle family, buy a home, establish credit | Builds RRSP room, supports RRSP HBP withdrawals, stable income for lenders, CPP accrual | Less common at this stage              |

| <b>Career Stage</b>                | <b>Primary Goals</b>                            | <b>Salary Makes Sense Because...</b> | <b>Dividends Make Sense Because...</b>                              |
|------------------------------------|---|--------------------------------------|---|
| Mid-Career /<br>Peak Earnings      | Maximize savings, invest surplus, grow practice | Salary up to RRSP or IPP targets     | Dividends reduce CPP costs and improve cash flow                    |
| Late Career /<br>Semi-Retirement   | Reduce workload, smooth income                  | Often no longer required             | Ideal for flexible withdrawals at lower personal tax rates          |
| Retirement /<br>Practice Wind-Down | Draw income efficiently                         | Rarely used                          | Dividends (and CDA payouts) provide tax-efficient retirement income |

The goal isn't to choose salary *or* dividends — it's to **use each intentionally at the right stage.**

---

### **A note on corporate investments — and why dividends still matter**

As medical corporations accumulate surplus cash and begin investing, the salary-versus-dividend decision becomes more than a personal income question — it also becomes a **corporate tax-management tool.**

When a corporation earns **investment income**, part of the tax paid is tracked in a special account called **Refundable Dividend Tax on Hand (RDTOH)**. This tax is **only refunded when taxable dividends are paid** to shareholders.

As a result, many physicians use a **combined strategy**:

- **Salary** to support RRSPs, IPPs, mortgage qualification, and stable cash flow
- **Dividends** to efficiently distribute corporate investment income and **unlock RDTOH refunds**

In these cases, dividends are not just about lifestyle income — they are a key part of **optimizing the overall tax outcome of corporate investing.**

664 Main St.  
Oakbank, MB  
R0E 1J0

(204) 444-5678  
investments@obstax.com  
[corporatewealth.ca](http://corporatewealth.ca)



---

## The key takeaway

Salary and dividends are not competing strategies — they are **complementary tools**.

Used at the right time and in the right balance, they can:

- Improve tax efficiency
- Support home ownership and family planning
- Build retirement assets
- Provide flexibility throughout your career and into retirement

For incorporated physicians, understanding **when to earn working income and when to transition to dividends** is essential to turning a medical corporation into a long-term wealth and retirement planning vehicle.