

I'M A BUSINESS OWNER/MANAGER, HOW SHOULD I BE PAID?

OWNER v. MANAGER: WHAT'S THE DIFFERENCE?

If you choose to be paid by way of salary, bonus, or management fees, you are essentially being compensated as an employee of the business. If you receive a dividend, you are being paid as a shareholder of the business. Having both roles within the business provides you with a unique opportunity to carefully plan your remuneration in order to take advantage of certain tax concessions.

WHY WOULD I WANT TO RECEIVE A SALARY/BONUS?

It is commonly believed that receiving dividends is more tax advantageous than receiving a salary. However, there are various circumstances where it would be beneficial to take a salary rather than a dividend, including:

- if you have unused personal tax credits or deductions, or no other source of personal income, a salary may reduce your corporate tax liability without increasing your personal tax liability;
- if you wish to contribute to an RRSP, you need to take a salary in order to qualify for the tax deduction;
- if the business's corporate income is too high to qualify for the small business tax deduction, taking a salary/bonus can reduce the corporate income so the business remains eligible for the small business tax deduction.

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WHAT SHOULD THE OWNER/MANAGER DO?

How you withdraw remuneration from your business is a decision best made in conjunction with your accountant. However, it is not sufficient to simply look for the most tax advantageous option. If your decision is not properly documented and supported by sound business principles, Canada Revenue Agency can simply determine that a salary is a dividend or vice versa, which may result in significant tax consequences.

DOCUMENTING A SALARY OR BONUS

A business can only deduct a salary or bonus if it can demonstrate that the owner/manager provided services that were real and identifiable, and were of a value tied to salary/bonus received and, in the case of bonuses, the bonuses were established within a reasonable time frame after the company's profit for the year were determined.

The Business and the owner/manager should enter into an employment/management agreement which documents the owner/managers' salary and bonus entitlement and detail the services which will be provided in exchange for the salary or bonus.

DOCUMENTING A DIVIDEND

The requirements for declaring a dividend are strict. Canada Revenue Agency can (and does) demand proof that a dividend resolution was passed at a properly constituted directors' meeting. In British Columbia, a signed copy of any dividend resolution **MUST** be filed in the minute book of the company, which **MUST** be kept at the company's publicly available Records Address. These are not suggestions or recommendations - they are the requirements of the Business Corporations Act (British Columbia).

Don't be caught unaware - have your paperwork ready. Failure to properly document your remuneration could have significant unintended tax consequences.

For more information about owner/manager remuneration, or Business Law in general, please contact Jacqueline Flett at: jacqueline@flettlaw.com.