McLEAN & PARTNERS
WEALTH MANAGEMENT

IAN ROBINSON
GRANT THORNTON – CALGARY

When It's Time for a Little Payback

Remuneration strategies for incorporated professionals

BY IAN ROBINSON

As a professional, you've invested considerable time and money in education, training and certifications, and you've worked hard to achieve success and ensure prosperity down the road.

To maximize your current cash flow and long term wealth, you have chosen to operate your practice through a professional corporation. Now, you rightly expect to take home as much money as possible for your efforts, but figuring out how to maximize the money you get to keep, now and over your lifetime, can be a complex process.

There are essentially three options for Canadian professionals to take their money out of an incorporated professional practice, the outcome of which can vary depending on your overall remuneration profile. These options are salary, dividends and a tailored combination of the two. This paper will outline the key factors involved in building your remuneration profile—an overview of your financial situation that will help determine which remuneration strategy best meets your personal and professional aspirations.

Remuneration should be planned to maximize the cash going "into-pocket" throughout your entire professional career. Simply put, the key is increasing family cash flow.

Five keys to building your remuneration profile

Selecting the optimal financial remuneration structure is not always a simple procedure. To develop a strategy that will effectively serve both your current and future needs, it's important to develop a profile that covers both the tax realities of the province where you're incorporated and the expectations you have for your career, practice, and financial situation moving forward. Asking the following five key questions will help you and your advisors determine the most tax effective way to take your money out of your professional corporation.

When it comes to taking money from your professional corporation, there's no single perfect solution. The best approach is to try to meet your and your family's current lifestyle wishes and long-term needs as effectively as possible, while balancing the potential impact different remuneration strategies can have on the value of your business.

1 How much money do you need to live on now?

Look at the full range of lifestyle and cashflow considerations. For example, you may find you don't really need all of what you earn to support your lifestyle. If you can live comfortably on less, you free up cash for the future. It's also important to honestly assess whether you're a spender or a saver. Marital status and the number of people you support is clearly also a factor. It comes down to how much you need now and balancing that against future needs and expectations.

2 How are you planning for retirement?

Determining how much money you'll need to retire and live comfortably is important. You also need a plan for saving or accumulating that money. This includes assessing how much you should be spending now and taking stock of whatever retirement strategies you have in place, such as RRSP pools, non-registered funds, corporate investments and the accumulation of surplus funds in a professional corporation for later use.

3 What is your profession?

Are you aware of the specific rules of conduct within your profession? While officers and directors of a professional corporation must be shareholders, other rules vary between professions. Understanding, consulting and following these standards is critical as they can change, and in some cases dictate, your choice of remuneration.

4 What are your plans for your professional practice?

You've worked hard to build your practice. You need to carefully consider what will happen to it in the future. For example, do you want to maximize its net value, perhaps with an eye to selling it? If so, there are a number of capital gains issues to take into account. This is just one of many succession planning factors that you and your advisor will need to consider carefully.

5 In which province(s) are you incorporated?

Whether you're in a higher tax rate jurisdiction or a lower one is a key factor in your remuneration profile. Tax legislation and dividend rates differ from province to province, meaning the strategic mix within your tax structure will vary as well. Moreover, entirely different taxes may be applied in different provinces, for example, the employee health tax in Ontario. Make sure you understand how your province of incorporation can impact your plans to maximize remuneration.

Answering these questions clearly and thoroughly will provide a good basis for formulating a remuneration strategy. An accurate, honest profile should help you and your advisors determine which of the following structures is best for you.

Getting the money out: Salary, dividends or a combination of the two

Once you have a working remuneration profile in place, you can begin to consider the three main options for taking money out of your professional corporation. You can take your money out in salary only, have it all paid out in shareholder dividends or implement a tailored, strategic combination of the two.

Option 1 – All salary		Option 2 – All dividends	
Pros	**Cons**	**Pros**	**Cons**
Contribute to RRSPs	Pay into CPP—as employer and employee	No CPP payments required	Inability to contribute to RRSPs and CPP
Participate in CPP system	CPP—related costs due to different provincial tax integration and payroll deduction situations	Enjoy lower marginal tax rates associated with a professional corporation	Inability of lower income spouse to claim childcare expenses
Manage taxes through ongoing source deductions			Quarterly tax installments must be made
Consistent cash flow	Generally higher overall taxes (with the exception of Alberta)	Reduce total tax depending on provincial dividend rates	
Use bonuses to delay tax payments			

Option 3 – Salary/dividend combination

The key is to balance the pros and cons of paying salaries and dividends to achieve the best results for your profile. The resulting strategies can vary significantly. For example, many professionals pay a salary up to the point where their RRSP contribution room is maximized then switch to paying dividends, which are more tax efficient. Others may choose not to pay a salary at all, foregoing the ability to contribute to RRSPs. And within any scenario, a range of other factors must be considered, such as household cash requirements and spouse's income. The more factors involved, the more difficult it may be to optimize the overall remuneration strategy, making it well worth your effort to understand your options.

Allocating corporate expenses

Finally, certain expenditures such as insurance, health coverage and automobiles, need to be considered as part of your remuneration strategy. What types of expenditures should be covered by the corporation and which should be paid for personally? Your decisions will ultimately affect your personal after-tax income, so they should be based on as much knowledge and professional experience as possible.

Life insurance

Assuming your professional corporation is a small business corporation (as most are), its income will be taxed at around 15%, where as personal earnings could be taxed at as high as 50%. This means that, generally speaking, it's wise to purchase life insurance within your professional corporation because with the company as owner and beneficiary of the policy, you can pay shareholders' premiums with lower after-tax dollars. Any death benefit is ultimately paid to the professional corporation as beneficiary, and it is credited to the corporation's capital dividend account. This can be used to redeem shares held by the deceased or pay a dividend to surviving shareholders. Essentially, it allows the company to make a non-taxable distribution, allowing the individual shareholder to be in the same situation as if they received the life insurance proceeds personally.

Health care premiums/benefits

This is also wisely purchased within the professional corporation. Health care premiums paid by the company are not considered a taxable benefit to the employee, as long as certain restrictions are met within the company. If there are no other employees in the company, that is easy to accomplish.

Automobile expenses

When it comes to automobile expenses there is an important rule of thumb to follow: do not own or lease vehicles through your professional corporation unless your personal usage is low.

Over the long run, vehicles are usually best paid for outside the company, with the shareholder/employee charging the company per kilometer for business use—a payment that is tax free for the individual and tax deductible for the company. If the vehicle is within the professional corporation, you must designate all kilometers driven as either business or personal, then report a taxable benefit on personal use calculated using the vehicle's purchase price and the number of kilometers driven over a year.

Optimizing remuneration: Get more into your pocket

Getting what you deserve from your business is important, but taking stock of your financial needs and expectations and weighing the pros and cons of specific remuneration structures isn't as simple as it seems. As a professional services firm ourselves, we understand your situation and the challenges you face—to protect your wealth, to succeed professionally and to look after your family—because we face them too. These are complex, far-reaching decisions, but with the right advice and careful forethought, you can make sure your hard-earned dollars are where you need them—now and in the future.

Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has approximately 4,000 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate in over 100 countries worldwide.

Tel: (403) 260-2515 Email: ian.robinson@ca.gt.com

McLean & Partners Wealth Management

McLean & Partners Wealth Management Ltd. provides investment advisory services to high net worth individuals, trusts, and not-for-profit organizations. The firm manages portfolios through both segregated accounts and pooled investment vehicles. While we invest in public equity and fixed income markets across the globe, our primary focus is to invest in dividend producing growth stocks.

Tel: (403) 234-0005 Email: solutions@mcleanpartners.com