

Practice Directive 1-38-2 (A)

Shareholder Earnings – Assessment of Dividends

Effective January 1, 2003

Reference Assessment Policy number 1-38-2:

The total remuneration paid to each active principal, shareholder, director, or officer of a corporation is assessable. Remuneration is defined as any payment made to the principal regardless of the label attached to it.

Dividends are not considered part of payroll unless paid as remuneration for activity in the company.

Rationale The Assessment and Revenue Services Departments have reviewed the application of this policy and are confirming the following practice guidelines as clarification to the policy.

Guiding Principles

- Shareholders, directors, or officers (also referred to as “principals”) of a corporation who have any degree of activity in the operation are considered to be workers of the corporation. They qualify for the benefits prescribed by the *Act* and their remuneration is subject to assessment. (APM 1-38-2)
- A principal’s activity in the operation’ is generally evidenced by a T-4, management fees, stock options, or other such items. If these means are not apparent, then executive or management authority, signing authority, bookkeeping, or other such functions, may also be considered as ‘activity in the operation.’

Practice

1. Principals’ earnings are considered as equivalent to the earnings they (and their companies) report to the Canada Revenue Agency (CRA), such as T-4s and management fees, and stock options etc.

Example:

A principal receives a T-4 for \$50,000 and no dividends. The T-4 amount of \$50,000 is assessable.

2. Actual dividends (not the taxable dividends) as reported to the CRA will be considered assessable if a principal receives no other earnings, with the exception of dividends, and the principal is active in the business.

Example:

A principal receives actual dividends (not taxable dividends) of \$40,000 and no T-4s, management fees, or any other earnings. The actual dividend amount of \$40,000 is assessable.

3. Both dividend and non-dividend earnings (T-4s, management fees, stock options, and other such items) will be used up to the maximum assessable payroll when non-dividend earnings are less than 50% of the total principals' earnings.

Example:

A principal receives a T-4 for \$15,000 and no other non-dividend earnings such as management fees, etc. The principal also receives a dividend amount of \$35,000. The total earnings for the principal are \$50,000. The T-4 is 30% of the total earnings and the dividend is 70% of total earnings. As the non-dividend earnings are less than 50% of the total earnings, both the dividends and the T-4 amounts would be assessable.

4. If principals do not receive any earnings such as T-4s, management fees, stock options, or dividends the Board will not estimate the value of the services of active principals to determine their contributions to their companies.
5. If upon audit, the Board discovers that the principals' earnings reported to the CRA were inaccurate, we will amend the employer's assessable payroll to reflect the actual principals' earnings.

The above guidelines took effect January 1, 2002 and do not apply to payroll reports or audits for prior years.