III.1 SR&ED tax planning – Salary vs. Dividend effects & Medical Professional Corps

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The Three Ways to Pay Yourself – $1,000 & After tax cash result

PURE DIVIDENDS

(most owners)

≤ $500K income

$492

> $500K income

$412

REGULAR SALARY / BONUS

Both cases

$500

SR&ED SALARY TO OWNER

(100% qualifying time)

≤ $500K income

$825

> $500K income

$772

+33% to +36% extra cash

Per $1,000 of corporate profit. Rates based on Ontario 2025-2026 tax structures.

$1,000 Salary or Dividend

			Active income <= $500K	Active income > $500K (M&P)
I	**INCOME TAXED IN CORP. THEN PAID AS DIVIDEND**			
			ONTARIO	ONTARIO
	Corporate taxable income		$ 1,000	$ 1,000
	Corporate taxes (when earned - 12.2% vs. 25-26.5%) *		-122	-265
	Available for eligible dividend (after taxes)	**A)**	878	735
	Personal tax (dividend when paid - max. rate 44%)		-386	-323
	NET AFTER TAX CASH	**B)**	**492**	**412**
	OR			
II	**INCOME PAID TO OWNER AS WAGES OR BONUS (INSTEAD)**			
	Personal taxable income		$ 1,000	$ 1,000
	Personal tax (maximum rate = 50%)		-500	-500
	NET AFTER TAX CASH	**C)**	**500**	**500**
	TAX EFFECTS OF I) TAXING $ IN CO. VS. II) PAYING OUT AS WAGES			
	1) DEFERRAL OF TAX	**A-C**	**$ 378**	**$ 235**
	DEFERRAL OF TAX %		**38%**	**24%**
	2) SAVINGS (COST)	**B-C**	**-8**	**-88**
	SAVINGS (COST) %		**-0.8%**	**-8.8%**

* - Corporate tax rate on **income over $500,000 is 25%** for Manufacturing & Processing **(M&P) & 26.5% otherwis**

$1,000 SR&ED wages

II INCOME PAID TO OWNER AS SR&ED WAGES (INSTEAD)

% of owner time spent on SR&ED - update % to actual		100%	100%
SR&ED wages - Maximum = 5 x YMPE		$ 1,000	$ 1,000
Increase in Co. income (SR&ED ITC on wages)		$ 660	$ 660
Increased Corporate taxes (when earned)		-81	-175
Additional Amount Available for dividend (after taxes)	**C)**	579	485
Personal tax (dividend when paid - max. rate 44%)		-255	-213
INCREASE IN NET AFTER TAX CASH (vs. I above)		**325**	**272**
Personal taxable income (wages)		$ 1,000	$ 1,000
Personal tax (maximum rate = 50%)		-500	-500
	D)	500	500
Additional After tax dividend (above)		325	272
NET AFTER TAX CASH	**E)**	**825**	**772**

III TAX EFFECTS OF I) PAYING OUT AS SRED WAGES vs. II) TAXING $ IN CO.

1) DEFERRAL OF TAX	**A-C-D**	**$ (201)**	**$ (250)**
DEFERRAL OF TAX %		**-20%**	**-25%**
2) SAVINGS (COST)	**E-A**	**333**	**360**
SAVINGS (COST) %		**33.3%**	**36.0%**

The Two Powerful Effects

	≤ $500K	> $500K
1. Deferral of tax Tax savings from salary deduction	−20%	−25%
2. Permanent SR&ED savings Refundable ITCs on qualifying wages	+33.3%	+36.0%
Net advantage vs dividends	+33%	+36%

When SR&ED is available, salary is no longer "neutral" — it's the highest after-tax option.

Where the Extra Money Comes From

1. Start with **$1,000** corporate profit
2. Pay yourself **$1,000** SR&ED salary
3. Government gives you back **$660** in refundable ITCs
4. You only pay normal taxes → **$825** or **$772** in your pocket

ITCs = Investment Tax Credits. Refundable means cash back even without taxes owing.

SR&ED Salary & Wage inclusions

1 **R&D labour for the:**	**Specified employees***	**Non-specified employee**	**ITA section**
a) R&D expenditure pool (for deduction), **&**			37(1)
b) Qualified expenses (for ITC			127(9)
Type of expense:			
· salary & wages	**In**	**In**	(5-8)
· bonuses or profit based remuneration	**Out**	**In**	37(9) & 5(1)
· Expenses paid > 180 days	**Out**	**Out**	78(4)
Maximum	**5 x [YMPE]**	**N/A**	37(9.1)

2 **Salary base for proxy amount (for ITC calculation)**			
Type of expense:			
· Income from employment	**In**	**In**	5
· bonuses/profit based remuneration	**Out**	**Out**	5(1) & 37(9)
	Out	**Out**	6 & 7
· Expenses paid > 180 days	**Out**	**Out**	78(4)
Maximum	**2.5x [YMPE]**	**N/A**	Reg. 2900(7)

SR&ED wages - annual limits

1	**SR&ED labour:**		**YMPE**		**Specified employees***	**Non-specified**		**MAX - wages + Proxy**
	2026	$	74,600	$	373,000	No limit		
	2025	$	71,300	$	356,500	No limit		
2	**Salary base for proxy amount**							
	2026	$	74,600	$	186,500	No limit		
	2025	$	71,300	$	178,250	No limit	**$**	**534,750**

***Specified employees own >=10% any class of stock (or related to such shareholders).**

Salary vs. Dividends - Avoiding Specified Investment Business (SIB)

The definition is in ITA subsection 125(7) you are **presumed to be an SIB** if your principal purpose is to derive income from property (rent, interest, dividends, royalties) **unless** you meet the active-business test:

1 Employ 5+ FT employees

More than 5 full-time employees in the business

2 Associated corp provides services

Management/admin services on reasonable basis

⚠ Rarely works in practice

Common businesses that ARE SIBs:

Real estate holding companies Passive investment Holdcos Active business with passive investments

Why Being an SIB is Terrible – using salary to avoid

✗ **Lose the $500K small-business deduction**

Pay an extra **14.3%** corporate tax on every dollar of profit

✗ **Lose enhanced refundable SR&ED credits**

The **66% cash-back** on qualifying wages – gone

✗ **Higher combined tax rate**

Pay ~**50.2%** combined corporate + personal vs ~45–50% (or much less with SR&ED)

Being deemed a Specified Investment Business is one of the **worst tax outcomes** for an Ontario CCPC — **avoid it at almost all costs.**

Salary removes passive assets from company

SR&ED Medical Issues – in contention with CRA 2016 – 2021

		2021	2020	2019	2017	2016
1	AFP / APP funding as assistance Portion related to SR&ED?	?	PDF Video	PDF Video	PDF Video	PDF Video
2	Directly engaged / entitlement to exploit Doctor vs. MPC?	Dr. Lamy case	PDF Video	PDF Video	PDF Video	PDF Video
3	Contract eligibility tips	CRA 2019 guidance	PDF	PDF Video		
4	Proving input on protocols	Dr. Lamy case	PDF	PDF Video		
5	Speed of appeals (Objections > 4 years +)	Resolved?	PDF	PDF Video		

Medical claimants - planning

- SR&ED – issues for Medical practitioners
  - **Proving involvement with protocols**
  - **especially if involved with many participants on**
  - **Peer reviewed papers**

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MEDICAL ISSUES – AFP FUNDING

- If any AFP payments relate to SR&ED vs.
- All research funded via Clinical work

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- Look to funding sources &/or
- Make reasonable estimate

Adjustments – actual vs. max tax rates

2026 Ontario: Personal Income - Marginal Tax Rates

Income Level	Wages, Interest, Rental & Business Income	Eligible Dividend Income	Other Dividend Income	Taxable Capital Gains
$0 to $12,350	0.00%	0.00%	0.00%	0.00%
$12,351 to $15,705	14.00%	0.00%	6.41%	7.00%
$15,706 to $20,640	23.58%	0.00%	10.25%	11.79%
$20,641 to $44,758	19.33%	0.00%	8.38%	9.67%
$44,759 to $48,581	22.75%	0.00%	12.80%	11.38%
$48,582 to $78,863	27.90%	7.11%	18.75%	13.95%
$78,864 to $89,569	29.61%	8.39%	20.72%	14.81%
$89,570 to $92,877	31.88%	11.52%	23.33%	15.94%
$92,878 to $97,124	35.66%	16.74%	27.68%	17.83%
$97,125 to $150,620	40.82%	23.86%	33.62%	20.41%
$150,621 to $153,000	43.64%	27.77%	36.85%	21.82%
$153,001 to $214,580	45.14%	29.81%	38.55%	22.57%
$214,581 to $224,400	48.91%	35.00%	42.91%	24.46%
$224,401 and over	50.37%	37.00%	44.59%	25.19%

Corporate taxes

Federal and Provincial Tax Rates for 2026

Type of Income	CCPCs (Canadian Controlled Private Corporations)			Public or Foreign Controlled		
Type of Income	**Federal**	**Ontario**	**Total**	**Federal**	**Ontario**	**Total**
Active - 1st $500,000	9.00%	3.20%	12.20%	15.00%	11.50%	26.50%
M&P (over $500K)	15.00%	10.00%	25.00%	15.00%	10.00%	25.00%
Other income (over $500K)	15.00%	11.50%	26.50%	15.00%	11.50%	26.50%
Investment Income	38.67%	11.50%	50.17%	38.67%	11.50%	50.17%

Notes:

1. CCPC defined as "Canadian controlled private corporation."
2. M&P = Manufacturing & processing income.
3. The federal rate on "investment income" earned by a CCPC is 34.67% including a 10.67% tax.
   A portion of this tax is then refundable at rate of $1 for every $3 of taxable dividends, when they are paid.

Excel workbook for download

- Workbook tables
- Can adjust rates e.g.
  - % time SR&ED
  - Marginal tax rates
  - Discount value of money
  - Determine the net tax effects

  - Questions or feedback: email dsabina@meuk.net

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