CV Bookkeeping
Corrie Verheijen

FREE GUIDE · PAYING YOURSELF

How to pay yourself *on purpose*

How you pay yourself depends on how your business is set up. This page covers sole proprietors, with a simple monthly routine. Page 2 covers incorporated businesses. We won't tell you which structure or mix to choose: that's a decision your accountant helps you make.

If you're a sole proprietor

- **Money you take out is an owner draw.** CRA says drawings you pay yourself aren't deductible, so a draw isn't a business expense and doesn't lower your profit.
- **Tax is on profit, not on draws.** You report business income and expenses on Form T2125 with your personal return. Income tax is based on net income, whether you take the money out or not.
- **You pay both halves of CPP.** Employees split CPP with their employer. Self-employed, you pay both portions when you file your return (Schedule 8).
- **Instalments may apply.** If your net tax owing is more than $3,000 ($1,800 in Quebec) this year, and was also more than that in either of the two years before, you pay tax in instalments during the year.
- **EI is optional.** You don't pay EI premiums unless you register for EI special benefits, like maternity, parental, sickness and caregiving benefits. Your agreement must be active for 12 months before you can receive them.

Pay yourself on purpose: a monthly routine

SAMPLE: BIRCH LANE YOGA (A MADE-UP STUDIO), MARCH

STEP	WHAT YOU DO	AMOUNT
1. Start with profit	Net income from your March P&L	3,729.20
2. Set aside for tax and CPP	30% of profit, moved to separate savings	1,118.76
	What's left	***2,610.44***
3. Pay yourself a steady amount	Your owner draw for the month	2,000.00
4. Leave a buffer	**Stays in the business for slower months**	**610.44**

Why a steady amount?

Birch Lane's owner draws 2,000.00 every month, so draws to March 31 total 6,000.00. A steady number is easier to plan around than whatever happens to be left.

Why 30%?

Our tax set-aside guide suggests 30% of profit for a sole proprietor earning $25,000 to $75,000 a year, to cover income tax plus both halves of CPP. It's a rounded-up rule of thumb, not tax advice.

Corrie's take: I'd rather you pay yourself a steady, even modest, amount than wait to see what's left. Choose your number with your accountant, write it down, and let your monthly books tell you whether it still fits.

Birch Lane Yoga is a made-up business, for illustration only. General information, current as of September 2026. Not tax or legal advice.

PAGE 2 · INCORPORATED BUSINESSES

If your business is *incorporated*

A corporation is separate from you. Owners take a salary, dividends, or a mix.

Salary or dividends?

	SALARY	DIVIDENDS
What it is	Pay for your work as an employee of your corporation	A payment to you as a shareholder
Tax slip	T4	T5
Payroll	Yes. The corporation deducts tax and contributions, remits them to CRA, and files T4 slips	No payroll. Reported on your personal return, where you may claim the dividend tax credit
CPP	Yes. You pay the employee share and the corporation matches it	No CPP contributions
EI	Generally not insurable if you control more than 40% of the voting shares. You can register for EI special benefits instead	No EI
Creates RRSP room?	Yes, salary counts as earned income	No, dividends don't count as earned income
Builds CPP retirement benefits?	Yes, through your contributions	No

T4 and T5 slips are due by the last day of February.

A quick word on shareholder loans

Money you take out that isn't salary or dividends gets recorded in a shareholder loan account. It has tax rules (a loan can be included in your income if it isn't repaid in time), so talk to your accountant.

Thinking about CPP? Only salary builds CPP retirement benefits, so many owners take at least some salary. Whether that's right for you is tax advice: talk to your accountant.

Questions to ask your accountant

- What mix of salary and dividends fits this year, and why?
- How does that mix affect CPP, RRSP room and a future CPP pension?
- Is registering for EI special benefits worth considering?
- With a salary, how often should payroll run?
- Will personal tax instalments apply?
- When should the mix be reviewed again?

At a glance

	SOLE PROPRIETOR	CORPORATION
How you take money out	Owner draws	Salary, dividends, or a mix
Business tax return	Form T2125, with your personal return	The corporation's own T2 return
Slip for your pay	None	T4 for salary, T5 for dividends
RRSP room from your pay	Yes, from business profit	From salary, not dividends