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Salary or Dividends in Québec in 2026: How to Choose

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The question to ask before choosing

When you own a corporation, you can pay yourself in two ways: a **salary** (deductible for the corporation and taxed as employment income in your hands) or **dividends** (paid out of the corporation's after-tax profits and taxed in your hands with a tax credit). Comparing just one tax rate is misleading.

The right question is: **for every \$1 of profit the corporation earns, how much stays in your pocket once both corporate and personal taxes are paid?** The tax system is designed to make the answer roughly the same in both cases: this is called **integration**. The choice therefore comes down mainly to the other effects: the Québec Pension Plan (QPP), RRSP contribution room, eligibility for the small business deduction, and cash flow needs.

If you're still asking yourself “should I incorporate?”, start with our [spreadsheet for deciding when to incorporate](#).

How integration works: the dividend gross-up and tax credit

A dividend has already been subject to corporate income tax. To avoid taxing it twice at the full rate, an individual:

1. **grosses up** the dividend received (reporting an amount higher than the amount received, intended to represent the corporation's pre-tax profit);
2. calculates tax on that grossed-up amount;
3. subtracts a **dividend tax credit**, which represents the tax the corporation has already paid.

There are two categories of dividends:

- **Non-eligible dividend** (or “ordinary” dividend): paid out of income taxed at the reduced small business rate. This is the typical situation for a small or medium-sized business.
- **Eligible dividend**: paid out of income taxed at the general rate and designated as such by the corporation.

The parameters in effect in October 2026:

	Gross-up	Federal credit	Québec credit
Non-eligible dividend	15%	9/13 of the gross-up (approximately 9.03% of the grossed-up amount)	3.42% of the grossed-up amount (a reduction to 2.69% announced for 2027, not enacted)
Eligible dividend	38%	6/11 of the gross-up (approximately 15.02% of the grossed-up amount)	11.70% of the grossed-up amount

Sources: gross-up and federal fractions from [CRA Folio S3-F2-C2](#); rates as a percentage of the grossed-up amount and Québec rates from the [Chaire en fiscalité et en finances publiques guide to tax measures](#) (2025 parameters); current and announced Québec non-eligible dividend rates from [Ministère des Finances Information Bulletin 2026-3](#).

The corporate income tax rate in 2026

Federally, a Canadian-controlled private corporation (CCPC) claiming the small business deduction pays a net rate of **9%** on its eligible business income; the net general rate is **15%** ([CRA](#)). The business limit is \$500,000.

In Québec, the general rate is **11.5%**. A CCPC with paid-up capital of \$10 million or less and adjusted aggregate investment income of no more than \$50,000 benefits from a reduction of 8.3 percentage points on the first \$500,000 of income from an eligible business, bringing the rate down to **3.2%**, the rate set out in

section 771.0.2.4 of the Taxation Act as of October 2026 ([Finances Québec, Bulletin 2026-3](#)). This is the **small business deduction (SBD)**.

The surprising condition: 5,500 paid hours

In Québec, being a CCPC is not enough to qualify for the SBD. The corporation must also operate in the primary or manufacturing sectors, or meet a **paid-hours** test: at least 5,500 paid employee hours for the year, or at least 5,500 hours for the previous year including associated corporations. Between 5,500 and 5,000 hours, the SBD decreases linearly; at 5,000 hours or less, it falls to zero ([Finances Québec, Bulletin 2026-3](#)).

A service corporation consisting solely of its owner generally does not reach the threshold and therefore pays the Québec rate of 11.5%, for a combined federal and provincial rate of 20.5%. This completely changes the salary-versus-dividends comparison (see the example below).

The calculation follows [section 771.2.1.2.1 of the Taxation Act](#):

- a maximum of **40 hours per week** per person is counted;
- only **paid** hours for which the expense is incurred during the year count;
- a shareholder holding **more than 50% of the voting rights** is treated as an employee: their unpaid hours count at a rate of 1.1 hours per hour worked (up to 36.36 hours, yielding 40 hours per week), provided the corporation records them in a register.

The sole owner therefore tops out at $40 \times 52 = 2,080$ hours; with two full-time employees, the team reaches 6,240 hours and passes the threshold.

Changes announced for 2026–2027: not yet in effect

Information Bulletin 2026-3, dated April 29, 2026, announces two changes ([Finances Québec](#)):

- **An increase in the SBD** from 8.3% to 9.3%, which would lower the minimum rate on eligible income from **3.2% to 2.2%** for taxation years beginning after April 29, 2026. Revenu Québec relayed the announcement on May 4, 2026 ([Revenu Québec](#)).
- **A corresponding reduction in the non-eligible dividend tax credit** from 3.42% to **2.69%** of the grossed-up amount for dividends received after December 31, 2026.

Status as of October 28, 2026: announced, not enacted. The two measures appear in sections 33 and 34 of [Bill 6](#), introduced on May 12, 2026, which did not progress beyond introduction. The session ended on August 27, 2026, with the dissolution of the National Assembly ahead of the October 5, 2026 general election, and the bill died on the order paper. The Taxation Act therefore still provides for an SBD of 8.3% (a rate of **3.2%**) and a credit of 3.42%. The measures will take effect only if the new legislature passes them again.

Their stated aim is to « assurer une meilleure intégration »: the example below shows that they offset each other almost exactly.

Salary: what it costs and what it provides

A salary paid to a shareholder is a deductible expense for the corporation, but it triggers contributions, with the following parameters in effect in October 2026 according to [Revenu Québec's 2026 employer's kit](#):

Contribution	2026 parameters	Who pays
QPP (base + first additional)	6.30% on salary between \$3,500 and \$74,600; maximum \$4,479.30	Employee and employer, each
QPP (second additional)	4% on salary between \$74,600 and \$85,000; maximum \$416	Employee and employer, each
QPIP	Employee 0.430%, employer 0.602%, up to \$103,000 in insurable earnings	Both
Health Services Fund (HSF)	1.65% of payroll if it is \$1,000,000 or less (outside the primary, manufacturing and public sectors)	Employer
Labour standards	0.06% of remuneration, up to \$103,000 per employee (Revenu Québec)	Employer
CNESST	Classification unit rate per \$100 of insurable salary (see below)	Employer

Two charges do not apply to an owner-manager's salary:

- **CNESST.** The [Act respecting industrial accidents and occupational diseases](#) excludes a legal person's **officer**, meaning a director who also exercises control and management, from the definition of « travailleur » (s. 2). No premium is payable on their salary, but they are covered only if they purchase optional personal coverage (s. 18). For your employees, the [2026 average rate](#) is **\$1.54 per \$100**; for office work, the [2026 Schedule of Rates](#) ranges from \$0.30 to \$0.49.
- **Employment Insurance.** The employment of a person who controls more than 40% of the corporation's voting shares is not insurable employment ([Employment Insurance Act](#), s. 5(2)(b)). Neither the individual nor the corporation pays premiums.

When you are both the employee and the employer, **both shares come out of the same pocket**. At a salary of \$74,600, the QPP alone represents \$8,958.60 per year ($2 \times \$4,479.30$). On an initial salary of \$50,000, the employer's share alone comes to \$4,085.50, or 8.2%: $QPP\ 6.30\% \times \$46,500 = \$2,929.50$, $QPIP\ 0.602\% \times \$50,000 = \$301$, $HSF\ 1.65\% = \$825$ and $labour\ standards\ 0.06\% = \$30$.

These contributions provide a QPP pension and QPIP coverage; dividends do not. For take-home salary calculations, see our [guide to calculating net pay in Québec in 2026](#).

RRSP contribution room: the strongest argument for a salary

RRSP contribution room is calculated on the previous year's **earned income**: the CRA adds up employment income, income from an actively carried-on business and certain other income ([CRA, Guide T4040](#)). The calculation uses 18% of that earned income, up to the annual limit. **Dividends are not included in earned income**: a shareholder paid solely through dividends does not build up new RRSP contribution room.

The 2026 RRSP limit is **\$33,810** (CRA). At 18%, it takes approximately \$187,833 in earned income in 2025 to reach it ($\$33,810 \div 0.18$). In practice, **even a modest salary creates contribution room** that dividends do not.

A numerical example: a \$10,000 increment in profit

A simplified illustrative example.

Assumptions:

- A Québec resident is the sole shareholder of her CCPC and has no other particular source of income.
- She has already paid herself a salary of \$90,000 in 2026 and is wondering how to withdraw **\$10,000 in additional pre-tax profit**.
- At \$90,000, she has already reached the QPP maximums (\$85,000): the additional amount generates no further QPP contributions. She is below the QPIP maximum (\$103,000).
- 2026 tax brackets: federal 20.5% between \$58,523 and \$117,045 (CRA); Québec 19% between \$54,345 and \$108,680 (Revenu Québec).
- Québec abatement: a Québec resident's basic federal tax is reduced by 16.5 percentage points (Finance Canada). The effective marginal federal rate is therefore $20.5\% \times (1 - 0.165) = 17.12\%$, and the combined marginal rate on salary is 36.12%.
- Employer contributions on the additional amount: QPIP 0.602%, HSF 1.65% and labour standards 0.06%, totalling 2.312%. There are no further QPP costs (maximum reached), CNESST premiums (officer excluded) or Employment Insurance premiums (shareholder with more than 40%), as explained above.
- Only the tax credits related to the employee's QPIP contribution (about ten dollars) are disregarded.

Option A: all salary

Step	Amount
Available profit	\$10,000
Gross salary paid ($\$10,000 \div 1.02312$)	\$9,774
Employer contributions ($2.312\% \times \$9,774$)	\$226
Corporate income tax (salary and contributions are deductible)	\$0
Personal income tax ($36.12\% \times \$9,774$)	\$3,530
Employee's QPIP contribution ($0.430\% \times \$9,774$)	\$42
Take-home amount ($9,774 - 3,530 - 42$)	\$6,202

Option B: non-eligible dividend, corporation eligible for the SBD (rate of 3.2% + 9% = 12.2%)

Step	Amount
Profit	\$10,000
Corporate income tax (12.2%)	\$1,220
Dividend paid	\$8,780
Grossed-up dividend ($\times 1.15$)	\$10,097
Federal tax after credit (9/13 of the gross-up) and abatement	\$967
Québec tax after credit (3.42% of the grossed-up amount)	\$1,573
Take-home amount	\$6,240

Difference: \$38 on \$10,000 in favour of the dividend. Integration works almost perfectly. Under the law currently in effect, the result is the same in 2027 (3.2% and a 3.42% credit). If the announced measures were enacted as proposed (a rate of 2.2% for a fiscal year beginning after April 29, 2026, a dividend received in 2027 with a 2.69% credit): corporate income tax of \$1,120, a dividend of \$8,880, a grossed-up amount of \$10,212, federal tax of \$978, Québec tax of \$1,666, and a net amount of **\$6,236**. This calculation depends only on the marginal rates (20.5% and 19%): it assumes they remain the same in 2027 and that indexing the thresholds does not move her into a different bracket.

Option C: non-eligible dividend, corporation without the Québec SBD (rate of 11.5% + 9% = 20.5%)

This is the situation for a one-person corporation, which cannot exceed 5,000 paid hours.

Step	Amount
Corporate income tax (20.5%)	\$2,050
Dividend paid	\$7,950
Grossed-up dividend	\$9,143
Federal tax after credit and abatement	\$876
Québec tax after credit	\$1,424
Take-home amount	\$5,650

Here, the salary leaves her with **\$552 more** per \$10,000 (\$6,202 – \$5,650), while also creating RRSP contribution room. The non-eligible dividend tax credit assumes that the corporation paid the reduced rate; when it pays more, integration breaks down to the dividend's disadvantage.

The takeaway from the example: in a CCPC eligible for the SBD, salary and dividends produce a similar net result at the margin, and the other effects determine the choice. In a one-person corporation without the Québec SBD, salary often has a clear advantage. Leaving the profit in the corporation (without paying it out) is a third option that defers personal income tax, subject to the limits described below.

Passive investment income in the corporation

Keeping profits in the corporation and investing them has a limit. Federally, the \$500,000 business limit decreases when the CCPC and its associated corporations earn between \$50,000 and \$150,000 in passive investment income, and falls to zero above \$150,000 (CRA, [Guide T4012](#)). Québec applies a gradual reduction over the same \$50,000 to \$150,000 range of adjusted aggregate investment income ([Finances Québec, Bulletin 2026-3](#)). A large investment portfolio in the corporation can therefore cost it the reduced rate on its business income itself.

Combining salary and dividends: a tiered approach

One way to approach the decision:

1. **Set your total personal cash needs** for the year.
2. **Set your salary** based on what it provides: a QPP pension (up to \$74,600, then \$85,000), RRSP contribution room next year, and QPIP coverage.
3. **Check eligibility for the Québec SBD** (paid hours). Without it, salary often becomes more attractive.
4. **Pay the rest as dividends**, or leave it in the corporation, while monitoring the \$50,000 passive income threshold.
5. **Consider cash flow:** a salary requires remittances of source deductions; a dividend requires year-end slips and often instalment payments.

What this article does not cover

Several topics can change the answer:

- **income splitting** with a spouse or children who are shareholders, governed by the tax on split income rules (TOSI);
- **holding companies** and intercorporate dividends;
- capital dividends and the general rate income pool;
- alternative minimum tax and the effect of dividends on certain income-tested credits and social benefits.

For your corporation's or its holding company's head office, 2727 Coworking offers a [business address](#) in Griffintown, along the Lachine Canal.

Sources

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