

**Tax Tip**  
**Week of September 27, 2010**

**Directors Fee**

Owners of a small business should consider having their spouse act as a director of the company. Directors are expected to attend board meetings, approve financial statements and direct the affairs of the company. It is very difficult to determine an appropriate level of compensation for directors. Assuming the payments are not excessive, it is difficult for CRA to argue they are unreasonable.

This provides two potential advantages. First of all, it is an effective method of splitting income. Secondly, director's fees qualify as earned income for purposes of the RRSP calculation. This can be invaluable if the spouse has no other material source of income.

There is a potential downside to this strategy. Directors may be personally liable if certain statutory obligations are not met, i.e., making the appropriate payroll deductions to CRA.