Eligible Dividend/GRIP/CDA

November 16, 2021

Dividends

- Eligible v. Ineligible (or non-eligible)
- Eligible taxed at lower personal tax rate
- Important to keep track

General Rate Income Pool

- Calculated **at the end** of a tax year
- Add:
  - ➢ Last year's GRIP
  - ➢ 72% of (taxable income less amount eligible for SBD and aggregate investment income)
  - ➢ Eligible dividends received in the year
  - ➢ Dividends received from foreign affiliates
- Less:
  - ➢ Eligible dividends paid out last year
  - ➢ 72% of losses applied for the year

Eligible Dividends

- Lower personal tax rate to compensate for higher corporate tax rate
- Paid out of GRIP of the payer corporation
- Cannot "consolidate" GRIP of subsidiaries (i.e., need to pay up the corporate chain to the parent)
- Must make designation, in writing; without a valid designation, a dividend will never be eligible
- For private corporations, designation made by notification in the form of a letter to shareholders and notation on dividend cheque stubs, or where all shareholders are directors, notation in the corporate minutes

Eligible Dividends

- May now elect to designate a portion of dividend to be eligible
- Late designations allowed up to three years, subject to minister's discretion (just and equitable)
- Report all dividends paid on T5 slips, including intercompany dividends
- Supports intent to pay eligible dividend if a late designation is required

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Eligible Dividends

- Overpayment of eligible dividend leads to "excessive eligible dividend designation" and Part III.1 tax in the current year
- Section 185.1 tax: 20% of the excessive eligible dividend designation plus potential additional 10% if GRIP was "artificially increased"
- Election to treat excessive eligible dividend designations as an ordinary dividend under ss. 185.1(2) to avoid penalty; must be within 90 days of notice of assessment

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GRIP and Eligible Dividends

- Dividends from foreign affiliates (10% shareholding) add to GRIP (common mistake)
- Review GRIP balance carefully
- Ensure sufficient GRIP balance at **year end** of the corporation
- Proper documentation and designate all eligible dividends (notify shareholders, indicate in minutes)
- Complete and file all T5 slips by deadline
- Cannot allocate eligible dividend to a non-resident (per definition)

Eligible Dividends

Do not pay eligible dividends to

- very low income taxpayers (if DTC wasted)
- taxpayers with losses carried forward
- public companies
- exempt plans (RRSP) or RCA
- non-residents
- inter-corporate (trust sandwich) if GRIP is scarce (better to save to pay to individuals)

Capital Dividend

- Is received tax free, not put on T-5 or personal tax return
- The capital dividend account is:
    1) Untaxed portion of capital gains net of losses
    2) Untaxed portion of gain on sale of goodwill prior to 2017
    3) Life insurance proceeds (net of adjusted cost basis of policy)
    4) Other capital dividends received
    5) Less capital dividends paid before

Capital Dividend

- Common errors with calculation and overpayment
- Example – allowable business investment loss (non-allowable amount) not deducted from CDA
- Example – 100% of capital gain on donation of public stock added to CDA
- Gain on disposal of life insurance policy (cash in or transfer) is not capital gain
- Overpayment can elect to be taxable dividend or 60% penalty paid by corporation