

## Shareholder Loans

- Principal amount of Loan to a shareholder will be added to the income of the shareholder in the year received as per Section 15(2)
- If anyone related to shareholder get the loan than it will be included in his/her income and not at the shareholders income

The exception to 15(2) rule: i.e. the loan amount does not have to be included in the income if **any one** of the criteria's below is met:

- (i) If shareholder is also an employee of the corporation than he/she maybe exempt from income inclusion rule <sup>1</sup>
- (ii) If the loan was **repaid within 1 taxation year** of the corporation. This means that the same loan cannot be outstanding on the 2 consecutive years balance sheet
- (iii) If the loan was made in the ordinary course of money lending business as long as **bona fide arrangements to repay the loan within reasonable time** is made at the time of obtaining the loan
- (iv) If the loan is inter-corporate loans and/or the loans are made to non-residents of Canada

***<sup>1</sup> If shareholder is also an employee of the corporation than he/she maybe exempt from income inclusion rule:***

- 1. If the shareholder is an employee who owns less than or equal to 10% of the shares, and the following 2 conditions are met:**
  - (i) Bona fide arrangements were made at the time the loan was made for repayment within a reasonable time, and
  - (ii) The loan was provided as a result of the person's employment rather than his or her shareholdings (need proof that it is available to all employees!)

**If these are met, the loan is not included in the shareholder's income.**

- 2. If the loan is to specified employee (who owns more than 10% of the shares) than it must be given for the following specific purposes:**
  - (i) To acquire a dwelling place
  - (ii) To acquire previously **unissued shares** of the employer or related company
  - (iii) To acquire Motor Vehicle for employment use

**And if the following 2 conditions are met:**

- (iii) Bona fide arrangements were made at the time the loan was made for repayment within a reasonable time, and
- (iv) The loan was provided as a result of the person's employment rather than his or her shareholdings (need proof that it is available to all employees!)

If these are met, the shareholder does not need to include the loan in income.

### Other Points

1. If the loan is included in income if section 15(2) applies as discussed above then **no** imputed interest benefit will need to be reported
2. If loan is **not** included in income than an imputed interest benefit needs to be reported (if any); Imputed interest benefit arise when the interest rate charged to the borrower is less than the prescribed rates (as defined by CRA's prescribed rates)
3. Repayment of all or part of loan that has been included in income will be eligible for deduction by the individual in the year of repayment