

## CAPITAL DIVIDEND ACCOUNT (CDA)

- The **Capital Dividend Account** is tracked by all **Private Corporations** (including CCPC's)
- The Capital Dividend Account (CDA) keeps track of items that can be distributed tax free to the shareholders

### Capital Gains – Most common element of CDA

- When a capital gain occurs, only 50% is taxable and the other 50% is not taxable
- The non-taxable portion of Capital Gains for any private corporation (including CCPC's) gets added to the Capital Dividend Account (CDA) and can be paid as "capital dividends" which is tax free in the hands of the corporation's shareholders

### Capital Dividend Account – Formula

**Capital Dividend Account (CDA) = 50% \* (Capital Gains – all Capital Losses – Business Investment Losses) + Capital Dividends Received From Other Corporations + 50% \* Gains on Eligible Capital Property + (life insurance proceeds – ACB of policy) – Capital Dividends Paid**

#### Some things to note:

1. Although **ABIL's** can be deducted against any source of income; the non-deductible portion of BIL's (50\*BIL) is treated just like capital losses in the Capital Dividend Account
2. **Capital losses** – we deduct all capital losses (even when the Capital losses > Capital Gains) from the CDA
  - **Example:** Suppose during the year the corporation had capital gains of \$50,000 and capital losses of \$70,000
    - For tax purposes we are only allowed to claim \$50,000 in capital losses (since we can only claim capital losses against capital gains); the net taxable capital gains will be \$NIL.
    - However, in the Capital Dividend Account (CDA), we will deduct;
      - $50\% * (50,000 - 70,000) = - \$10,000$
3. **Capital Dividends received from other corporations** is added to the CDA to ensure that the tax free status of non-taxable amounts are maintained
4. **Gains on Eligible Capital property**
  - Please see Cumulative Eligible Capital Deduction for Unlimited Life Intangible Assets notes
  - ½ of the gains on eligible capital properties are considered business income; nevertheless the untaxed (50%) is added to the CDA just like capital gains
5. **Proceeds of Life Insurance Policies less the ACB of the Insurance Policy**
  - Some corporation have a life insurance policy on an executive or shareholder (these are sometimes required by creditors)