GENERAL RATE INCOME POOL (GRIP) – FOR CCPC'S

What is GRIP?

- **The General Rate Income Pool (GRIP)** is a pool that keeps track of income that gets taxed at the general corporate tax rates for all **Canadian Controlled Private Corporations (CCPC's)**
- When the corporation pays dividends, it is allowed to designate the amount in the GRIP Balance as Eligible Dividends.
  - Because the corporation has already paid taxes at the high corporate rate; to achieve integration, amount paid out of the GRIP is considered eligible dividends. Eligible Dividends get taxed a lower personal rate (30% as opposed to 33% for non-eligible dividends at the top tax bracket)
- GRIP is kept only by CCPC's

GRIP Formula : 2012 Tax Year

GRIP @ End of Tax Year =

GRIP Balance at the end of the previous year + 72% * [Taxable Income – Amount Eligible for the SBD – Aggregate Investment Income] + Eligible Dividends Received – Eligible Dividends Paid by the Corporation

- In essence, the formula assumes that the combined general corporate tax rate is **28%** (which is very close to the average rate of 27.5% (calculated in our overview of federal and provincial corporate tax rates notes)
- Eligible Dividends received by corporations increase the GRIP balance, to insure that integration is still achieved by individuals who earn dividend income through a corporation (substance over form)

Eligible Dividends

- When a corporation pays out dividends, it needs to designate how much of it is eligible dividends (done in schedule 3)
- The maximum amount they can designate as eligible dividends = GRIP Balance at the end of the tax year

What happens if I designate Eligible Dividends > GRIP Balance

- Suppose the GRIP Balance is $72,000 and you designate $80,000 as eligible-dividends
- You will need to pay **Part III.1 Taxes = (eligible dividends designated in excess of GRIP) * 20%**
- Therefore, in our example, there will be a Part III.1 Tax of (80,000-72,000) * 20% = $1,600

- If CRA has reasons to believe that this excess eligible dividend designation was done purposely to **manipulate the taxes payable**; there will be a **Part III.1 Tax = 30% * the entire eligible dividends declared**
    - In our example this would equal to 30% * (80,000) = $24,000