

LOWER RATE INCOME POOL (NON-CCPC'S)

What is the Lower Rate Income Pool (LRIP)

- The LRIP is tracked by all Non-CCPC's and it represents income that was taxed at low rates
- Non-CCPC's mainly pay taxes at the general rate; therefore, in most occasions the dividends they pay are considered eligible dividends
- However, there are times when a non-CCPC may be subject to the low tax rates; for example:
 - A CCPC that became a Non-CCPC may have been subject to the low tax rates before this transition
- Dividends paid out of the LRIP is considered Non-Eligible Dividends (which are taxed unfavourably at the personal level)

LRIP formula

LRIP at the end of the previous year + Income Subject to the Low Rate if Corporation was a Non-CCPC in a previous year + Non-Eligible Dividends Received – Non-Eligible Dividends Paid – Excess Eligible Dividend Designation (EEDD)

Non-Eligible Dividends

- When a Non-CCPC pays dividends, these dividends are considered **non-eligible dividends** to the extent of the balance in the LRIP
- A corporation needs to clear out the LRIP before they can designate a dividend as eligible
- Once the LRIP balance is fully eliminated, the remainder of the dividends is considered eligible dividends
 - This works opposite of the GRIP that CCPC's need to maintain; when dividends are declared, a company can choose to pay it out of GRIP. On the other hand, non-CCPC's that declare dividends, must pay out of LRIP first.

What if I pay Eligible Dividends when LRIP is not fully eliminated?

- CRA will assess a Part III.1 tax
- Part III.1 Tax = 20% * the Excess Eligible Dividends Designated (EEDD)
- EEDD = lesser of:
 - a) Eligible Dividends Paid; and

- b) LRIP balance at the time dividends are paid
- CRA is very strict here, even if you pay sufficient non-eligible dividends to clear out the LRIP, if at the same time you pay eligible dividends CRA will still apply the Part III.1 tax.
 - TIP:
 - Clean out your LRIP wait a day, then declare eligible dividends
 - DO NOT declare a eligible and non-eligible dividend on the same day when you still have some balance in the LRIP (even if the non-eligible dividend is sufficient to clean out the LRIP)

Example | Part III.1 Tax and Planning Tips

Suppose I paid Dividends of \$20,000 on June 5, 2012, and I designated \$10,000 to be Eligible. At the time when dividends were paid, the LRIP was \$10,000

- **Per the Tax Act, before designating any eligible dividends, I need to clean out the \$10,000 in LRIP, wait at least 1 day, then pay out the remaining \$10,000 to avoid Part III.1 Tax.**
- I paid \$10,000 in non-eligible dividends; therefore the LRIP is cleaned out on June 5
- The problem is that I still paid eligible dividends when there was a balance in LRIP on June 5 (I didn't wait a day)
- CRA will assess a Part III.1 Tax equal to 20% * the lesser of
 - a) Eligible Dividends Paid= \$10,000
 - b) LRIP at the time dividends paid = \$10,000
- **Part III.1 tax = 10,000 * 20% = \$2,000**

How could I have escaped this \$2,000 in additional taxes?

- If I paid \$10,000 non-eligible on June 5, 2012; and paid the remaining \$10,000 non-eligible the next day on June 6, 2012, I could have saved \$2000 in taxes!