

REFUNDABLE TAXES

Refundable Portion of Part I Tax – Only Applies to CCPC's

Refundable Portion of Part I Tax is:

The lesser of:

- a) $26 \frac{2}{3}\%$ * Aggregate Investment Income (All)
- b) $26 \frac{2}{3}\%$ * (Taxable Income – Amount Eligible for the SBD)
- c) Part I Tax

Note how Aggregate Investment Income got taxed at an additional 6.67% for a total federal tax of 34.67; this amount is refundable on the payment of taxable dividends by the corporation; and effectively this refund ensures that All is taxed at 8% federally (34.67-26.67)

Refundable Part IV Tax – applies to all Private Corporations (including CCPC's)

Refundable Part IV Tax is:

- a) $\frac{1}{3}$ * Taxable Canadian Dividends Received from **non-connected corporations**; and
- b) If dividends are received from a **connected corporation**; the tax is
 - a. Recipient's holding % * Dividend Refund received by the payor

Connected corporation = own more than 10% of the voting shares

The Part IV tax was put in place in the tax act to avoid individuals from earning Canadian source dividends through a corporation and deferring taxes. This is possible because corporations do not get taxed on dividends from other Canadian resident corporations.

As a result, to make this a disincentive, this dividend is taxed at 33% which is higher than the top federal tax bracket for personal taxes.

In essence the Part IV tax will tax Canadian dividends up front, and provide a refund of these up front tax when the corporation pays dividends. See RDTOH and Dividend Refund below for more detail.

Refundable Dividend Tax on Hand (RDTOH) – applies to all private corporations (CCPC included)

- The RDTOH is a pool that keeps track of all the refundable taxes

Formula

RDTOH = Refundable Part I Taxes + Refundable Part IV Taxes + RDTOH Balance at the end of the previous year – Dividend Refund in the **Previous Year**

Dividend Refund

Dividend Refund is the **lesser** of:

- a) $1/3 * \text{Taxable Dividends Paid}$; or
 - b) RDTOH Balance
- The payment of taxable dividends will trigger a dividend refund from the RDTOH Balance
 - **Dividend refund** reduce the total federal taxes payable (any amounts still remaining after reducing taxes payable will be refunded by CRA)
 - To clear your entire RDTOH balance you must pay taxable dividends = $3 * \text{RDTOH}$
 - Note that Capital Dividends do not trigger a Dividend Refund because capital dividends are not taxable