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## DIVIDEND PLANNING BY DECEMBER 31, 2019

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### Background

As you by now are no doubt aware, the Minister of Finance has significantly curtailed the ability to split income amongst shareholders of a company and beneficiaries of a trust that are shareholders of a company.

For full particulars of the impact of the amendments to the Income Tax Act (Canada), consult your tax advisor. The extremely condensed version of the changes to income splitting is:

1. tax at the highest marginal rate is imposed where the dividends paid to (primarily) family are not 'reasonable', which tax is referred to as Tax on Split Income, aka TOSI;
2. determining what a 'reasonable' amount of a dividend will look like varies from facts to facts; and
3. the determination of reasonableness will be more onerous for those receiving dividends between the ages of 18-24, particularly if the person does not contribute 20 hours/week to the business.

**Planning into this** – Templates included here: Dividend Template Package – Year End 2019 – Packages I, II, and III

In BC, the highest combined personal federal and provincial tax rate in 2019 is over 49% on general income and over 44% on non-eligible dividend income.

Keep TOSI in mind particularly if you have family members under 24 years of age, such as children who are attending post-secondary. The ability to declare dividends to them without those dividends being taxed at the highest rate has largely disappeared.

The following templates are included here Dividend Template Package – Year End 2019 – Packages I, II, and III should you wish to use them, to declare dividends before the end of 2019 – all templates are dated as if the dividend is declared December 29, 2019, but can be changed:

1. Package I – Package for inter-corporate dividends (then use Package II or III as applicable to move the dividends received by the company to its shareholder(s))
2. Package II – Package for dividends to individual human shareholders





3. Package III - Package for dividends to Trust shareholders and subsequent distribution from the Trust

Where your company has sufficient cash on hand, you may wish to make the payment supported by actual movement of money to the receiving shareholder(s)/trust beneficiaries. Alternatively, you may wish to make the payment by way of promissory note. Both options are included here. Should you effect payment by promissory note, ensure the promissory note is delivered to the ultimate recipient on the date of the dividend.

You should consult with your accountant before using any of these templates. Your accountant will be key in determining whether a salary is more appropriate than a dividend and, if a dividend is appropriate, the amount of the dividend best suited for your shareholders' circumstances, and whether that dividend will be classified as a capital dividend, eligible dividend, or regular dividend. It is also important to ensure that you are declaring dividends on classes of shares entitled to receive them and, if your dividends involve a trust, that the distribution from the trust is permitted by its terms.

There is inherent risk in using these templates without accounting and legal review, but we have tried to reduce this risk. If you have any questions, please contact members of the Wealth Preservation group.

