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Sun Life Global Investments

A Portfolio Investment Solution: Considerations for your Corporate Clients

Key questions:

What types of passive investment income are the investments held by my clients generating?

Is my client looking to minimize the impact that their PII is having on their small business deduction?

Start here and follow the orange lines

Potential taxpayers in your client's corporate structure

- **Individual**
- **Active business** (Canadian controlled private corporation (CCPC))
- **Holding company** (CCPC)
- **Family** (inter vivos) trust

TAXATION OF INDIVIDUALS

- Graduated tax rates
- Nature of income
  - Employment, business, partnership, passive investment income & other

TAXATION OF CCPC

- Flat tax rates
- Nature of income
  - Active business income (ABI); potential access to the Small Business Deduction (SBD) on 1st $500,000
  - General income
  - Manufacturing and processing (M&P) income
  - Passive investment income (PII)

How do the two approaches to taxation work together?

The Concept of Integration

Individual earning income through a corporation

Individual earning income personally

What tools are employed in pursuit of integration?

CORPORATE LEVEL

- Refundable accounts
- Capital dividend account (CDA)

PERSONAL LEVEL

- Dividend gross-up
- Dividend tax credit

Corporate passive investment income and related tax accounts

Passive investment income by type	Tax efficient investment income	Generate Refundable account balances: Eligible (ERDTOH)	Generate Refundable account balances: Non-eligible (NRDTOH)	Generate CDA balance
Interest			●	
Foreign source			●	
Rental income			●	
Eligible dividends	●	●		
Non-eligible dividends	●		●	
Realized capital gains	●		●	●

1 2

For more details, refer to next page 1 2

Impact of passive investment income on the SBD limit?

SBD grind

When? → Corporate passive investment income (PII) > $50,000

How much is the SBD reduced? → 5 X (PII - $50,000)

3 For a hypothetical case scenario, refer to the next page

To learn more about investment solutions – Contact Sun Life Global Investments

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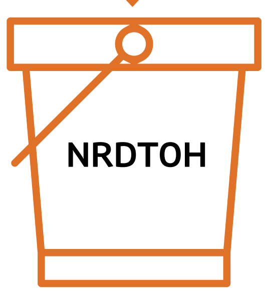
1 Refundable accounts – Two types

HYPOTHETICAL CASE SCENARIO:
Profit Ltd. declares and pays a $64,000 dividend ($44,000 non-eligible dividend and $20,000 eligble dividend)



- Interest
- Net taxable capital gains
- Canadian non-eligible portfolio dividends

Balance: $16,867

- Canadian eligible dividends
- Non-eligible conected corporation dividends

Balance: $7,667

Dividend refund recieved by CCPC

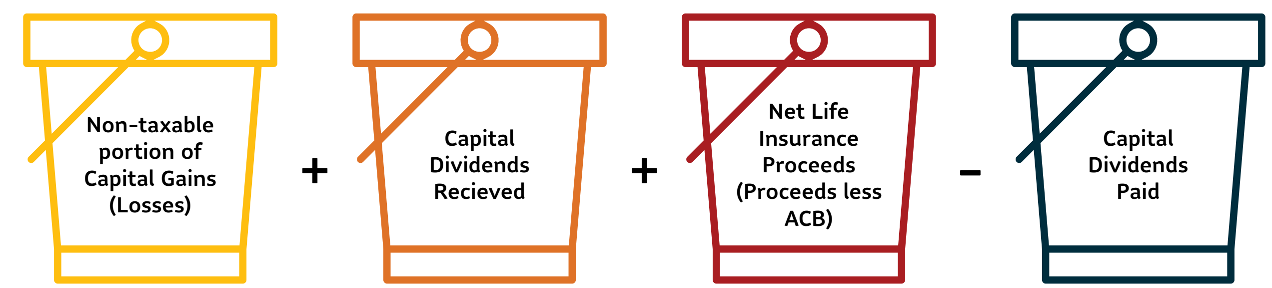
- Ordering

– NRDTOH refund	$ 16,867
– ERDTOH refund	$ 7,667
Tax refund	$ 24,534

- Dividend refund received is limited by NRDTOH and ERDTOH balances

2 Capital Dividend Account (CDA)

Tracks amounts received at the corporate level that if otherwise had been received personally would not be subject to income tax. Such amount can be declared and paid to a shareholder in the form of Capital Dividend.



Three key features

1. The CDA is cumulative; balances are tracked from later of:
   - Date of incorporation; or
   - Post - 1971
2. Each bucket is tracked separately
3. A negative ('-') balance in one bucket does not impact any other bucket

3 SBD grind

HYPOTHETICAL CASE SCENARIO:

Profit Ltd. earns $75,000 of passive investment income.

What is the impact of Profit Ltd's small business deduction (SBD)

Passive income earned	$ 75,000
Less:Threshold	$ 50,000
Excess	$ 25,000
SBD reduction (Excess * 5)	$125,000
SBD limit	$500,000
SBD reduction	$125,000
SBD remaining	$375,000

Outcome: $375,000 SBD available

How does CDA accumulate?

HYPOTHETICAL CASE SCENARIO:

Profit Ltd. realizes a $20,000 capital gain (passive investment income)

No net life insurance proceeds and no capital gain dividends recevied in the year

		CDA
CDA – Opening balance		$ 15,000
Realized capital gain	$ 20,000	
Less: Non-taxable Portion (50%)	$10,000	$10,000
Taxable capital gain	$10,000	
CDA – Closing balance		**$25,000**

Source: Income Tax Act (Canada)