

money MAKERS

Ideas & Tips to Enhance Your Bottom Line

FOUR EASY WAYS TO ACCESS SURPLUS CASH IN YOUR COMPANY ON A LOW-TAX OR TAX-FREE BASIS

This year's Federal budget allows small businesses to have more income taxed at the low small business rate of 18.6%. With good planning, the owner can access those extra dollars on a low-tax or tax-free basis.

The 2003 federal budget increased the amount of taxable income that can be earned in a Canadian controlled private business from \$200,000 to \$300,000 (the small business limit), phased in over four years. The **low** small business rate of 18.6% will continue to apply.

Assuming you are already in the highest personal tax bracket (46%), taking more money in wages from the business will incur this high personal tax rate.

Leaving the money in the company preserves the 18.6% small business rate, resulting in a **tax deferral of 27.4%** (the difference between the small business rate and your personal tax rate). On an amount of **\$100,000** this represents a deferral of tax of **\$27,400**.

How can you get extra personal income without ending the tax deferral?

There are several ways you can access this extra income on a low-tax or tax-free basis.

Here are four easy ways:

1. Pay a tax-free dividend: If one of the shareholders is an adult relative (e.g. spouse) and they have no

other income, they may receive up to \$29,280 in dividends as a result of the dividend tax credit.

- 2. Pay a capital dividend:** Your company may have a capital dividend account with a positive balance, as a result of having realized capital gains.
- 3. Repay shareholder loans:** You may have previously lent money to your company; this can be repaid tax-free.
- 4. Pay a dividend to a holding company:** You may be able to pay a tax-free intercorporate dividend to a holding company.

As always, you should not implement these strategies without first consulting with your professional tax advisor.

Wilkinson & Company LLP can help you determine which, if any, of the strategies available are appropriate for your situation. To learn more, please call your Wilkinson Client Services Partner.

The commentary contained in Money Makers is not intended, nor should it be relied upon, to replace specific professional advice. We recommend that readers consult their professional advisors regarding issues raised in this publication.



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