## Taxation of Corporation and Shareholders

## PART I (Sept 7)

## *Introduction*

**Part 1 of Income tax in Act**

NATURE OF SUBJECT

1.Artificial ,2. Policy conflicts –Multiple policies(layered),3. SAARs, GAAR.

Section 3 Division B - Income 3(a) SUB A, B, D ,

3 (b)NET TAXABLE CAPITAL GAINS,

3 (c) Other DEDUCTIONS,

3 (d)-ABILS LOSSES

Sub F Computation of rule S.67-80, Sub G Exemptions.

*Sub H S.82-89,S.89 has definitions “CORPORATIONS + SHAREHOLDERS”*

S.2(1) Taxable income S.20© 109-114, S.111 Loss carryover rule.s.112 Inter corporate dividends

Division E Computation of tax. Sub B 23-127 {Tax INVOLVES RATES AND CREDITS [123 SUB DIVISION CCPC] }

# Why does it even exist? Give reasons

-Ability to pay tax

-Benefits received by them. ,there must be more tailored way to deal with beneifts.

## Main reasons

1.Deferral 2. Non residents

# Factors influence the tax rates tax Rates

1.Highest margin rates.47-54 %Aggregate investment income of CCPC. In general 50%

2.Corp. tax rates in major trading partners range of 20-30%.In General 25%

3.Ceratin incentives. There was myth that small business is best one so we have small business deduction but that is deeply wedded in Canadian taxation system. Low rates for ABI & CCPC. In general 12-15%. M+P lower rate provincial

4.There was Double taxation. Section 821) -12 (1)(j) , Two methods of integration:

* Exemption 112(1) its actually included and deducted. Created a new problem
* Tax credit - gross up should reflect the corp. tax rates –GPIP, CRIP. (individuals 121) , inter corporate dividends 82(1)
* Refund of corporate tax- section 129(1)
* Deductible, interest grading
* LCGD.

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| Subdivision B  Section 123, S.124(1), S125(1) Tax credit sets off the tax, section 125.1(1).  Roman numeral 21 look at the tables given in the bare act, next pages CCPC income tax rates. |

Preference shares have little better footing then the common shares. Dividends are declared by the directors.

**Three broad categories of dividends paid to individuals.**

**1.Taxable dividend paid to individuals** Eligible - paid out of high taxed income and Non eligible – paid out of low tax income.

**2.Taxable dividend paid by corporations.** Also known as inter corporate dividend PART IV CLASS

**3.Capital dividends**

**Subdivision H –** Corporations resident in Canada and their shareholders.

Section 82(1)(a) Taxable dividend other than eligible,(a.1) eligible dividend

**Individual**- If there are multiple tier of corporations so there are chances of multiple taxation so there are deductions are allowed in order to stop double taxation. There was under integration , eligible dividend was added in 2005 ,also over integration came into the scene also the current rules say 38% is the gross up income. The rules of general rate reduction came in 2008 and again changed in 2011.