Non-eligible (small business) dividend tax credit

Non-eligible, or ordinary, dividends are any dividends issued by a Canadian corporation, public or private, which are not eligible for the enhanced dividend tax credit *(see below)*.

The non-eligible dividend tax credit rate is used for dividends received from Canadian-controlled private corporations (CCPCs), **to the extent that their income is subject to tax at the small business rate**. A portion of dividends from large public corporations may also be classified as not being eligible for the enhanced dividend tax credit and would therefore be classified as non-eligible dividends.

When an individual receives non-eligible dividends, the amount included in income is 125% of the actual dividend. The additional 25% is referred to as the gross-up.

The **Federal 2013 Budget (/2013-federal-budget.html)** indicates that the current dividend tax credit and gross-up factor for these dividends overcompensate individuals for income taxes presumed to have been paid at the corporate tax level on active business income. For this reason, for dividends paid ***after 2013***, the gross-up factor ***will be reduced from 25% to 18%***, and the tax credit will be revised from 2/3 of the gross-up amount to 13/18 of the gross-up amount. This reduces the DTC rate from 13 1/3% of the grossed-up dividend to 11%, and from 16 2/3% of the actual dividend to 13% of the actual dividend.

For a single individual with no income other than taxable Canadian dividends which are eligible for the small business dividend tax credit, approximately $47,892 can be earned in 2012 before any federal taxes are payable. In **2013**, regular federal taxes start to be payable when actual eligible dividends reach the amount of $48,850. AMT starts when the dividends reach $54,982, and at this point there is $592 of federal tax payable. The federal AMT is applicable for dividends above this amount, until the amount of the dividends reaches $106,825, when the regular federal tax exceeds the minimum amount. In **2012**, because of the higher federal marginal tax rate for eligible dividends than 2011, regular federal taxes start to be payable when actual eligible dividends reach the amount of $47,892. AMT starts when the dividends reach $56,097, and at this point there is $791 of federal tax payable. The federal AMT is applicable for dividends above this amount, until the amount of the dividends reaches $101,970, when the regular federal tax exceeds the minimum amount.

This Exhibit ' AA ' referred to in the
Affidavit of .... Deirdre Moore ....,
sworn before me at the City of Ottawa, this
..... 17 ... day of ... April ......, 20 18 .....
A Commissioner for taking affidavits

Enhanced Dividend Tax Credit

There is an enhanced dividend tax credit for **eligible Canadian dividends** received after 2005 from:

- public corporations resident in Canada

Dividends are paid to individual owners of shares of a company that makes a profit. Shareholders pay taxes on dividends because they are investment income. Canadian residents pay less tax on Canadian dividends than on other investment income because the government has already collected income tax from the corporation issuing the dividends. Calculate the tax by determining whether dividends received are "eligible" or "other than eligible," then work out the federal and provincial tax credits.

Canadian Tax Calculator:

Our friends over at TAXTips.ca have a

marvelous tax calculator available on their website. We link to it, rather than reinventing the wheel.

2012/13 Tax Calculator (http://www.taxtips.ca/calculators/taxcalculator.htm)

- other corporations resident in Canada that are not Canadian-controlled private corporations (CCPCs) and are subject to the general corporate tax rate
- CCPCs resident in Canada to the extent that their income (other than investment income, which is eligible for a special refundable tax) is subject to tax at the general corporate tax rate

A portion of dividends paid by public corporations will sometimes be not eligible for the enhanced dividend tax credit.

With the enhanced dividend tax credit, a "gross-up" is added to the actual dividend to determine the taxable dividend amount to include in income. The tax credit is calculated as a portion of the gross-up. See the tables below for gross-up and Federal tax credit percentages.

Changes to the enhanced dividend tax credit

In keeping with the previously announced reductions to the federal corporate income tax rates, the 2008 Federal Budget reduced the gross-up on dividends eligible for the enhanced dividend tax credit, and reduced the dividend tax credit rate, beginning in the 2010 tax year. The dividend tax credit factor of 11/18ths of the gross-up was changed to

- 10/17 for 2010
- 13/23 for 2011
- 6/11 for 2012 and later years