REFUNDABLE DIVIDEND TAX ON HAND AND THE DIVIDEND REFUND: PLANNING TO MAXIMIZE THE TAX BENEFITS

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Certain transactions undertaken by a corporation offer an opportunity to maximize the tax benefits of the corporation’s refundable dividend tax on hand (RDTOH) account and the related dividend refund. This article first reviews the rules for calculating RDTOH, the operation of the dividend refund mechanism, and transactions that may result in denial of a dividend refund. It then sets out several tax-planning considerations and strategies.

Where a transaction will change the corporation’s status as a Canadian-controlled private corporation, the loss of status may reduce the amount of RDTOH that can be accumulated in the account. In this situation, appropriate planning can preserve the benefits of RDTOH and the dividend refund. Strategies for maximizing the utility of RDTOH include using RDTOH to fund the redemption of shares; increasing the paid-up capital of shares and using the dividend refund to return capital to shareholders; and, in some cases, reorganizing the corporation as two separate businesses in order to create the ability to accumulate RDTOH and generate a dividend refund where none was available before.

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