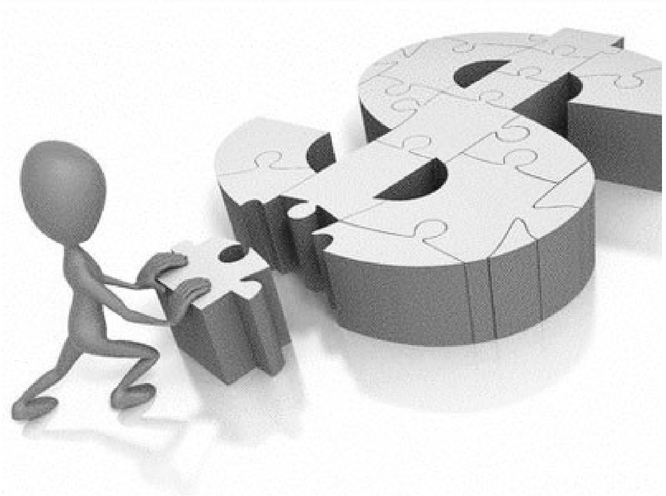
SecuraEdge Financials

Shareholders loan: An Important year-end planning area
And some tax strategies

Shareholders loan:
A common accounting Error

A shareholder loan is money you either put into or take out of your company.

You may be using your shareholder loan now without knowing how it works or why it's being used. It's quite common for bookkeepers and accountants to record transactions to a business owner's shareholder loan account without the business owner realizing.



For example, the bookkeeper might assume that an e-transfer out of your bank account is a shareholder withdrawal when it's really a payment to a contractor.

Double TAXATION

CRA Issues: Loans from your company can incur double taxation if not repaid within a year or taken into your income via dividends or salary.

First, the shareholder loan rule does not apply if you repay the loan in full by the end of the next taxation year of the corporation following the year in which the loan is made. This gives you almost two years to repay.

For example, say your corporation has a calendar taxation year (ending December 31). If you receive a loan from the corporation in January 2020 and repay it by the end of December 2021, the rule does not apply.

If you DID not return the money

First, If you don’t repay the loan within that time, you must include the unpaid amount in your taxable income and pay income tax on it.

Also, if you didn’t charge an interest rate on the loan, you must also add interest rates equal to the prescribed rate to your taxable income which is subject to revision every quarter.

This interest is considered a taxable benefit to you, as a shareholder, and it reflects a benefit you received (i.e. a loan) due to your role as a shareholder. Taxable benefits are included in your personal taxable income.

Even If you don’t take any money out, Not only do you have to pay interest but also pay taxes from the company on that interest income

If you DID not return the money: Example

Taken a $100K shareholder loan, not repaid by the end of next year

Included in personal Income and taxed in your income

Until repayment, assuming 6% interest.

Pay a corporate tax on 6% interest income plus either pay that money or report that as income and then compound it next year to pay tax and interest on that.

Biggest Exception

You can also take out a shareholder loan without the time limit if you purchase a motor vehicle for company use or if you purchase a principal residence for the shareholder, this can include a house, condo, cottage, or mobile home.

There are certain conditions which must be met in order for this to apply (i.e. must have a legitimate repayment plan with a reasonable time frame, etc.)

Tax saving strategies

- RRSP contributions
- Review mileage Log: consider moving your car to the business if you use it for work more than 90% to write it off, any lower will need tracking km.
- Pay installments
- Eligible vs non-eligible dividends: If you made over 500K in profit, you pay a higher corporate income tax and therefore are taxed at a lower rate on dividend income but make sure to declare dividends correctly.
- Consider income splitting
- Move any planned capital purchases in January to this year instead.
- Look into capital gains exemption if you sold a business this year.


THANK YOU