

TAX & RETIREMENT PLANNING

The Capital Dividend Account (CDA) and Investments

The Capital Dividend Account (CDA) is a powerful tax planning tool exclusive to Canadian private corporations, allowing tax-free amounts to flow through to Canadian resident shareholders.

What is the CDA? A notional account tracking amounts received by a corporation not subject to tax. The balance includes:

- The non-taxable portion of capital gains (currently 50% of net gains)
- Capital dividends received from other corporations
- The non-deductible portion of business investment losses
- Life insurance proceeds received as beneficiary, net of the policy's Adjusted Cost Basis (ACB)

How it Works: A corporation pays a tax-free capital dividend to shareholders to the extent of a positive CDA balance, by filing a T2054 election. Excess elections trigger a 75% penalty.

Key Planning Points:

- Pay capital dividends before events that reduce the CDA (e.g., asset sales triggering losses)
- Pay out while the corporation remains private
- CDA credit from life insurance = Death Benefit minus the Policy ACB