RBC Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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Decision tree for addressing surplus cash in a corporation

As a business owner, you most likely rely on the income generated by your corporation's business to fund your lifestyle. You may also hope that your business accumulates sufficient capital to meet your income needs in retirement. In the meantime, what should you do with any surplus cash accumulating in your corporation? Is there a business need for the cash? If so, could you invest the funds within the corporation? Or do you need the funds personally and wish to withdraw them from your corporation? Are there tax-efficient ways to withdraw funds out of your corporation?

This article introduces some of the options you can consider if you have surplus cash in your corporation and provides a decision tree to help you address your personal and corporate needs.

The terms 'corporation' and 'company' are used interchangeably to refer to a Canadian-controlled private corporation (CCPC) in this article. In simple terms, a CCPC is a Canadian corporation that is not controlled by a non-resident of Canada or a public corporation or a combination of both. In addition, no class of shares of the CCPC can be listed on a prescribed stock exchange. This article does not apply to public corporations or to businesses operating as a partnership or a sole proprietor.

The decisions

As a starting point, you may want to be familiar with the rules governing the taxation of business income inside your corporation. Understanding how business income is taxed will provide you with the insight for making informed decisions about what to do with any surplus cash in your corporation. Please refer to our article titled **"Taxation of Business Income in a Corporation"** which reviews the benefits of operating a business inside a corporate structure, describes the various facets of business income and explains how business income is taxed in a corporation.

Once the business income has been taxed in your corporation, you need to determine if there is a business need for any surplus after-tax cash. For example, does your corporation need the cash to pay income tax instalments or make a major capital expenditure? If there is no immediate business need, you might want to consider investing the excess funds within your corporation in order maximize the value of your surplus

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cash in the meantime. However, keep in mind that if you need the funds in the short- or medium-term, you will want to ensure that the investments you make can be easily liquidated when the time comes. Please refer to our article titled **"Taxation of Investment Income in a Corporation"** which reviews how passive investment income is taxed in a corporation should you decide to invest the surplus cash.

If there is no business need for the excess cash within your corporation, consider whether you have a personal need for the funds such as paying down personal debt or funding lifestyle expenses. If you decide you have a personal need for the surplus cash in your corporation, the next step is to determine the best way to withdraw the money, paying special attention to the tax consequences. Please refer to our article titled **"Withdrawing Surplus Cash from a Corporation"** which discusses various methods of withdrawing cash from your corporation as well as the consequential tax issues and incentives that might apply with each method.

Lastly, if you do not have a short- or medium-term business or personal need for the cash, you should consider your long-term objectives, whether they involve boosting your retirement savings or enhancing the value of your estate. Please refer to our article titled **"Retirement and Estate Solutions using Surplus Cash in a Corporation"** which provides information on possible retirement and estate planning solutions featuring tax-sheltered growth and tax-free payouts.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

The Decision Tree

This decision tree points you to the most appropriate article to get more information depending on your personal and corporate needs.

Want to understand how business income is taxed in a corporation?

YES

Refer to *"Taxation of Business Income in a Corporation"* article

NO

Is there a business need for the surplus cash in your corporation?

YES

Determine the business use:

- Determine the business use (e.g. capital expenditure)
- Co-ordinate the investment solutions with the timing of when funds will be required
- Understand the tax implications of earning investment income within a corporation

Refer to *"Taxation of Investment Income in a Corporation"* article

NO

Do you have a personal need for the surplus cash?

YES

Determine your withdrawal strategy:

- Salary/Bonus
- Taxable dividend
- Capital dividend
- Reducing paid-up capital
- Shareholder loan
- Repaying loan to shareholder
- Expense reimbursement

Refer to *"Withdrawing Surplus Cash from a Corporation"* article

NO

Determine the goal for the funds:

- Retirement
- Estate
- Other (e.g. charitable giving)

Analyze possible solutions:

- Deferred dividends
- Individual Pension Plan (IPP)
- Retirement Compensation Arrangement (RCA)
- Corporate Insured Retirement Plan
- Corporate Insured Annuity
- Corporate Wealth Transfer
- Other (e.g. creditor protection)

Refer to *"Retirement and Estate Solutions using Surplus Cash in a Corporation"* article

Please contact us for more information about the topics discussed in this article.