

Tax Tip

Week of February 21, 2011

Children's Dividends

If an individual is considering incorporating a company, it is a common tax planning strategy to give shares to family members in order to facilitate future income splitting possibilities. If a child under the age of eighteen is a shareholder, any dividends received by child will receive special tax treatment. Such income will be taxed at the highest marginal tax rate and will not qualify for the dividend tax credit.

The parents of the child that are active in the business are jointly responsible for this tax liability of the child. These rules only apply to shares of companies that are not listed on a stock exchange, which are primarily the shares of Canadian controlled private corporations.