Surplus Stripping

SUMMARY

What is it?

This complex strategy allows individuals to extract retained earnings from an operating company at capital gains rates through a process commonly referred to as "surplus stripping". The strategy involves several transactions including share exchanges, transfers, and specialized restructuring to allow an individual to convert higher taxed dividends into lower taxed capital gains.

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Advantages

- Significant tax savings
- A very attractive option for withdrawing large amounts of money.
- Converts fully taxable income (i.e. dividends) into lower-taxed capital gains (50% taxed)
- Can be a cost-effective way to pay back a large shareholder loan balance owed to the company.

Disadvantages

- Accounting/Legal Fees for the safe income calculation & tax planning
- The safe income calculation can be quite complicated
- If the shareholder needs the funds personally, it is more beneficial to trigger a capital gain, since only 50% of the income is taxed.

Disadvantages

- There may be alternative strategies which provide little to no tax cost, whereas under this strategy the individual is still subject to tax at capital gains rates.
- To achieve a surplus strip, the individual cannot benefit from the capital gains exemption.

Who is it for?

- High-income individuals looking to reduce their tax bill on the extraction of the corporate earnings.
- Individuals with a large shareholder loan balance owed to the company.

Allows an individual to convert higher taxed dividends into lower taxed capital gains

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