Passive Investment Income impact Calculator (PIIIC)

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Passive Investment Income Impact Calculator (PIIIC)

The Small Business Passive Investment Income Impact Calculator concept (PIIIC) demonstrates to your business owner clients the tax impact of losing access to the small business deduction (SBD) because their corporation has too much passive investment income.

What is passive investment income?

Passive investment income is income that is not directly related to the business activities of a corporation. As a business grows, it can accumulate cash, a portion of which is not needed to conduct day-to-day operations.

The passive income of a business is precisely that part of its income that it derives from its investments. This includes but is not limited to: interest, dividends, capital gains, and rental income. Passive investment income is therefore opposed to income directly related to the business activities of the company.

What is the impact of having too much passive investment income for the corporation?

If you work with business owners, you know that too much passive investment income will limit access to the small business deduction (SBD) of a Canadian Controlled Private Corporation (CCPC). Passive investment income greater than $50,000 a year will limit access to the SBD. In addition, once the CCPC's passive investment income reaches $150,000, the business limit will be reduced to zero.

Advantages of PIIIC

You will be able to produce a report that will illustrate the tax impact of having passive investment income inside a corporation. The calculator will ask you for the following information: active business income, the amount of the investment portfolio (including asset allocation), net rental income if applicable and the province of residence of the corporation.

The final report will provide you with the financial impact of not using one of the solutions available to mitigate against the additional taxes and ensure that corporate passive investment income does not exceed the $50,000 limit.

By knowing the yearly projected corporate taxes over a 10-year period and the overview of the financial impacts, you will be able to advise your clients on advantageous solutions available for their corporation and thereby, potentially helping them save several thousands of dollars in taxes.

Applicable products

There are several strategic corporate planning ideas available to mitigate the potential additional taxes and ensure the corporation does not exceed the $50,000 limit. Some ideas include:

- Taking out an exempt life insurance
- Setting up an Executive Health Plan (based on client's needs)
- Setting up an individual pension plan (IPP)
- Maximizing shareholder RRSPs and TFSAs
- Deferring capital gains (except on sale of property that is excluded from AAII definition)
- Making investments that defer taxable income such as Guarantee Advantage.