

**Tax Tip**  
**Week of June 7, 2010**

**Capital Dividends**

If an individual owns a company that has generated a capital gain, the non-taxable portion of the gain goes into a notional account known as the capital dividend account. It is important that corporations keep track of such capital gains because a balance in this account can be paid to shareholders on a tax free basis. There are certain forms that must be filed, but attention to the rules allows shareholders to extract these funds from the company completely free of income tax.