

Condensed Overview

Wealth Management for Business Owners

Gerry Gabon
President and Founder
Trusted Wealth Professionals
The logo for Trusted Wealth Professionals (TWP) features the letters 'TWP' in a large, bold, blue serif font. To the right of 'TWP' is a blue rectangular box containing the words 'TRUSTED WEALTH' on the top line and 'PROFESSIONALS' on the bottom line, both in white, uppercase, sans-serif font.

wealth

noun \ 'welth also 'welth

Simple Definition of WEALTH

- a large amount of money and possessions
- the value of all the property, possessions, and money that someone or something has

Introduction

Owners Win.

Congratulations, you are a Business Owner and you've made it to the Business Owners section of the Trusted Wealth Professionals (www.TrustedWealthProfessionals.com).

Companies are in business to provide you with a standard of living. You decide if you want to be an Owner, or an Employee. And that sets the course for your Wealth Management strategies.

The purpose of this Condensed Overview is to create a memory aid, talking points per se, so that you can help yourself along with your Wealth Management goals. Verbal Knowledge Transfer only goes so far but this Condensed Overview is documented so that you may take notes and guide yourself as you converse with other Business Owners and Wealth Professionals.

You may already have a Team of Wealth Professionals that are helping you Win; namely a Tax Accountant, Corporate Banker, Corporate Lawyer and Investment Professional. The Investment Professional could also be helping you with your insurance needs as well.

As you invest, and there are many assets classes to invest in; your own company, your personal self, securities (i.e. stocks, bonds et al), collectibles, private equity, real estate, etc. ... diversification, liquidity, and associated risk tolerance, all should be considered along with tax consequences.

The underlying principles of Wealth Management are:

1. You don't have enough Wealth. With respect to Risk, can you preserve and grow your Wealth, in conjunction with Inflation? In other words "How Big Is Your Stack?"
2. Taxes really matter. Taxes probably are your overall largest expense to your Wealth, and require professional expertise to manage. Especially when considering the Sale, Succession or Winding-down of your business' operation. When your business is operational, the tax bracket for individuals earning over \$220,000 is 53.53% in Ontario, and the tax bracket for individuals earning between \$200,000 and \$220,000 is 51.97% (varies by province).
3. Wealth Professionals' Fees are important. The Fees are controllable by you and should correlate to the Wealth Services rendered because the Leadership and Guidance from your team of Wealth Professionals is invaluable.

This Condensed Overview of Wealth Management for Business Owners complements the Business Owners section of the Trusted Wealth Professionals website and is categorized into 4 distinct sections:

1. Business Structure,
2. Wealth Accumulating,
3. Exiting; Sale, Succession or Winding-Down, and
4. Estate Planning

This Condensed Overview will be periodically updated and will also be supplemented by questions (and answers) at AskGerry@TrustedWealthProfessionals.com. And please feel free to email questions, if Gerry doesn't know offhand the answer, or Google searching doesn't yield an answer, but only begs more questions, Gerry can find a Trusted Wealth Professional who can help you. Please note that there is a Wealth Professional Locator on the website (www.TrustedWealthProfessionals.com) that is initiated by you entering your postal code.

What won't be covered in this Condensed Overview are the detailed Tax Solutions that are available to you via your accountant. Many of these detailed Tax Solutions, or probably better known as Tax Strategies, involve International/Foreign Investments, Real Estate and Employees. Your Tax Accountant can help you as this is an evolving area especially around the annual timeframe of Canadian Federal Budget announcements (first quarter of each calendar year).

Also for the most part, Province specific rules will be generalized, as it is best to connect with your Tax Accountant and Lawyer, to ensure your Business Strategies avail themselves of the most current and accurate legislation.

The starting point to comprehend this Condensed Overview is some familiarity with Business. It is not an Introductory to Wealth Management but more so of a practical hands-on guide or template to dialogue with your Trusted Wealth Professional. The latest version of this Condensed Overview will be found in the Resources tab of the Trusted Wealth Professionals website.

Owners Win. Let's keep extending the Winning Streak.

Please note: There may be the occasional 'One Sentence' Strategy contained within this document. And that is purposeful because the intent is for you to take the idea to your Team of Trusted Wealth Professionals and discuss the concept. Also the Strategies contained within this document are not meant to be exhaustive; there are business operations that may require different/unique strategies that are not outlined in this Condensed Overview.

Disclaimer

All Wealth Management strategies contained within this Condensed Overview need to be verified through and by engaging with the appropriate regulated Wealth Professional.

1. Business Structure for Wealth Accumulation

“The Canadian Taxation System is setup to Benefit the Small Business Owner”

Structurally most businesses will incorporate as they grow, especially if they have an opportunity to defer tax versus the Partnership and/or Sole Proprietorship business models.

Corporation Setup and Overview

A Canadian Controlled Private Corporation (CCPC) is the term used to denote a business that incorporates. It is a Canadian owned entity that has its own ‘identity’ separate from the individuals or business shareholders. This ‘identity’ provides a CCPC with a legal status such that the shareholders are not liable for the CCPC’s actions (generally). Thus if the CCPC is sued, the shareholders assets are not at risk (generally). Incorporation can occur at either the Federal or Provincial level and the associated laws must be followed.

A general rule of thumb is that if your business grosses over \$100,000 per year, or perhaps your business revenue surpasses the Maximum Pensionable Salary limit (MPS) of approximately \$145,000 in 2016, then you should incorporate. Especially if you have a track record of profitability and don’t need all of the business income to provide for basic lifestyle expenses. The costs for incorporation, and the annual tax filings, are about \$2000 each, this generally creates this minimum income boundary. Of course every business owner, and every business, is different so please consult your tax accountant to ensure the time is right for you to incorporate.

If you do incorporate, you don’t have more write-off’s per se, but you are allowed to deduct all bona fide and reasonable expenses and costs to operate your business. Car Allowances and Home Office expenses can be included in these deductions as well. From a tax standpoint, all monies taken out of the business, dividends or salary, will be subject to equalized taxes (the concept of ‘Integration’ in the Canadian Tax System), but the monies left in the incorporated business will be taxed at approximately 15% on the first \$500,000 of income. Beyond the \$500,000 threshold, income is taxed at 26.5% (variable per province).

Now that the business is a corporation, no longer a sole proprietorship or a partnership, the business owner(s) move from being self-employed to that of being shareholders and directors of the corporation. If they take a salary they are deemed to be an employee. Employment Insurance (EI) is not payable on salaries of majority shareholders or spouses. And the Health Tax (varies by province) has certain exclusions as well. Your Tax Accountant will be able to help you verify your status through the CRA regulations.

Incorporation involves administration and paperwork: choosing voting and non-voting shareholders (spouse, family members, and possibly family trusts), annual fees, appropriate permits, separate bank accounts, annual filings and choosing a year-end date (if allowed). The year-end date is key as the personal income tax return and ‘bonus’ dates may allow cash flow

and tax deferral to a more favorable period (depending upon the bonus date). It is noteworthy to mention that 'connected' individuals, those that own 10% or more of any voting share calls of the corporation, are eligible for Individual Pension Plans (IPPs). See your Lawyer to setup your Corporation properly based on current and future family environments. Your Lawyer will also tell you to operate your business entirely through the OpCo so that you don't run afoul of the CRA's 'Agency' definition; an 'Agent' is taxed personally as opposed to through the OpCo.

Cash flow and Payment of tax is also a consideration for Corporations. The first year of tax for a Corporation can be deferred (unlike sole proprietorships and partnerships), but starting in the second year, the tax installments must be made monthly (vs. quarterly for sole proprietorships and partnerships).

The keys to setting up your business are to get it going, to a sustainable base level of revenue/income, ensure you are profitable and can leave cash in the business, and then incorporate. Incorporation allows:

1. cash preservation through lower Small Business Deduction (SBD) tax rates,
2. creditor protection,
3. remuneration strategies that involve salary, dividends,
4. income splitting, as well as
5. Capital Gains exemptions at time of sale.

Ensure flexibility in the setup of the Operating Corporation (OpCo) so that you can account for 1. Can't Fund, 2. Death, and 3. Family Dissolution. And this ranges from the ability to pay dividends whenever and to whomever, cancel shares and also setting up multiple share classes.

At setup, if applicable, transferring assets to the CCPC will require professional help.

Tax laws may change, but the economic stimulus derived from the entrepreneurial zeal of fellow Canadians has tremendous appeal to the Federal Government. In fact, there are still outstanding changes that may in fact lower the Small Business tax rate. Stay tuned.

Holding Company -- HoldCo

Incorporated businesses also provide a form of financial creditor protection as the corporation is a legal entity and liability is transferred to the corporation. Your accountant will know if you should further protect yourself by creating a Holding Company (HoldCo) for your operating company (OpCo), but in general separate business practice insurance is required.

There are restrictions on who is allowed to setup HoldCo's but they provide for a further level of protection and the opportunity to deploy different remuneration strategies. For example, you and your spouse could 50%/50% own the OpCo, or it could be 90%/10% ownership of the OpCo, or possibly you could own 100% of the OpCo, but pay dividends to the HoldCo (where remuneration takes place). Income splitting, allowable for Corporations, can occur via salary or dividends within the HoldCo or OpCo. And if, or when, the OpCo is sold it would also qualify for

the Capital Gains Exemption (about \$824,000 in 2016).

Investment Holding Companies

Investment Holding Companies (InvHoldCo's) are not covered in this Condensed Overview. InvHoldCo's are often used for real estate holdings and foreign business investments. The acquisition, associated income and disposition of the held assets involve the expertise of Wealth Professionals with jurisdictional specialization.

Medical Corporations and Professional Corporations –MedCo's and ProfCo's

Certain Professionals in Canada have the ability to incorporate; creating a Professional Corporation (ProfCo) or a Medical Corporation (MedCo); a partial subset (in alphabetical order) is outlined below:

- Accountants,
- Chiropractors,
- Dentists,
- Denturologists,
- Doctors,
- Engineers,
- Land Surveyors,
- Lawyers,
- Notaries,
- Nurses,
- Optometrists,
- Pharmacists,
- Psychologists,
- Social Workers,
- Veterinarians,

etc ..., . These professionals are allowed to operate their business as a CCPC subject to Provincial regulations, Again, subject to Provincial Regulations, Real Estate Professionals and certain Investment Professionals may be on this list in the near future.

These CCPC's are subject to additional rules of the governing bodies of each profession. The governing rules of the ProfCo or MedCo can extend to:

- The business operation of the CCPC must be solely focused on the profession
- Naming Conventions apply; for example in Ontario the CPSO requires 'Medicine Professional Corporation' or 'Medecine Societe Professionnelle' to follow the exact spelling of the Doctors' surname as it appears in the CPSO registry
- Shareholders must be of the same profession (a notable deviation from this rule permits family members of Doctors in Ontario to be shareholders of the MedCo)
- Officers and Directors of the ProfCo/MedCo must be shareholders
- Limitation of ownership by HoldCo's and/or Family Trusts (that affect income splitting tax strategies). For example, in Ontario, Doctors and Dentists cannot have HoldCo's that own shares in their DrCo or DentCo (respectively).

A legal professional can help setup your ProfCo and/or MedCo and include the appropriate filings with the provincial professional regulators. Your legal professional will also structure your ProfCo or MedCo to address to 'Loss of Status' situations when death of the professional occurs and the possibility that the ProfCo/MedCo will not be owned by a regulated professional.

Recent Federal Budget Changes

The recent Federal budget, March 22 2016, also removed the eligibility of the 'multiplication' of the Small Business tax rate for 'related' or 'associated' businesses. A business operation that provided 'contracted services' to a 'related' business no longer qualifies for the lower 15% tax rate. Your tax accountant will know the exact details of how to setup an arm's length transaction (if at all possible). And to counsel you with respect to having multiple professionals as part of one CCPC or setting up multiple CCPC's (the generally preferred strategy).

There were also several other Education related items within the 2016 Federal Budget. Again, tuition, student debt and certain credits have changed and your tax accountant will know how these affect your MedCo/ProfCo.

Please Note: professional negligence is a personal liability, not available through the Professionals' operation of the OpCo (or possibly HoldCo).

Specialty Corporations

Of note, Personal Services Businesses (PSB), businesses with essentially one client where you act akin to a 'contracted employee', and Specified Investment Businesses (SIB), where income is generally derived from physical property (rent, interest, dividends, etc ...), have certain limitations including the denial of the Small Business tax rate. Your Tax Account will know the details including the SIB regulations that include the test of 'more than 5 full time employees'.

Family Trusts

A trust is not a legal entity, it is a relationship between 3 parties; a 'settlor' who transfers assets to the 'trustee(s)' for the purpose of the 'beneficiaries'.

Family Trusts, and Trusts in general, are a way to maintain control of assets. And Family Trusts can own shares of an incorporated business, a CCPC, and thus are eligible to receive dividends from either an OpCo (or a HoldCo). Plus if the CCPC is sold, the Capital Gains Exemption can be 'multiplied' across the beneficiaries of the Trust.

Family Trusts setup costs range from approximately \$500 to \$15,000 and may require a valuation and Estate Freeze if the CCPC is quite successful. And the Business Structure could be 1. Opco, 2. HoldCo and then 3. Family Trust or perhaps 1. OpCo, 2. Family Trust, and then 3.

HoldCo. And you may have multiple Trusts, OpCo's and HoldCo's. The OpCo and HoldCo are known as 'connected' companies and can tax-free dividend from the OpCo to the HoldCo. Plus the Family Trust can dividend to the family members (a form of Income Splitting). It is also possible to transfer assets to your trust (possible tax consequences but creditor protection is the underlying initial rationale).

If you do have over \$824,000 of cash within a HoldCo, and an established Family (spouse, children), then Family Trusts should be considered as part of the Business Structure to maximize your Tax Deferral Strategies and provide Creditor Protection.

There are other concerns around Family Trusts including the handling of business losses and income attribution rules; your Tax Accountant can guide you in regard to these situations. If the beneficiaries of the Family Trust have no other income, it is possible to use the Family Trust as a conduit for income and if any, associated tax, because of the personal tax credit system (varies by province). Beneficiaries of the Family Trust can receive a 'flow through' of tax-free income in the following approximate amounts; \$10,000 of interest income, \$20,000 of capital gains or \$50,000 of eligible dividends per year.

Summary

The Bottom Line is that business liability protection can be enhanced through an OpCo, HoldCo and/or Family Trust structure, and that Tax Deferral plus Tax Strategies are maximized when you are incorporated.

As mentioned above, there are also tax-free dividend transfers that can occur from OpCo's to HoldCo's.

And the incorporated business structure, OpCo/HoldCo, tremendously aids the Tax Strategies if you don't need to withdraw all your cash from the business for living expenses.

Please Note: The designation of Management Companies exists as a structure such that the relationship between OpCo's, HoldCo's and Family Trusts can be maximized. Also profitable and non-profitable companies (ProfitCo and LossCo) can be envisioned such that tax minimization occurs. Your Tax Accountant will know all the appropriate details and nuances.

2. Accumulating Wealth

With respect to accumulating Wealth, please bear in mind this other topical yet profound question:

“How Big Is Your Stack?”

Its derivation is from the game of Poker and was put in context because it is more important than the other people/personalities at the Poker table, the cards in their hand(s), or the cards in your own hand. “How Much Do I Have?” dictates what you need to do to achieve your Wealth Accumulation goals in conjunction with your age/timeframe, your level of risk, etc ...

Once you express to yourself/others that your Net Worth is in the millions, thus \$250,000 is not “two hundred and fifty thousand” but rather “a quarter of a million dollars”, then you probably should avail yourself of a Trusted Wealth Professional.

Please see where you are on this Ladder to categorize your Net Worth (outside of primary residence or personal home):

- aHNW – aspiring High Net Worth; \$10,000 to \$100,000
- eHNW – emerging High Net Worth; \$250,000 to \$750,000
- HNW – High Net Worth; \$1,000,000 plus
- UHNW – Ultra High Net Worth; over \$10,000,000 (starting point varies)

The question is now “Where Are You on the HNW Ladder?”

Please Note: Net Worth calculations typically include the value of the residential home but Home Ownership (renting versus owning) and location of the home typically greatly impact this calculation (price fluctuations).

Wealth Accumulation

There are generally two aspects to accumulating Wealth:

1. minimization of taxes when compensating the business owner; through either explicit Tax Savings, or Tax Deferral
2. Investment; growth and protection of existing monies and assets

Since the Small Business Deduction (SBD), of approximately 15%, only covers the first \$500,000 of active business income, there are opportunities to decrease income to this level via bonuses (a form of salary), known as ‘Bonusing Down’; additional income, beyond MPS, can be achieved via Dividends.

Salary or Dividends

For the most part, the pertinent question is “How can I pay for my lifestyle while maintaining my business?” And the answer generally includes a discussion about Salary and Dividends in the context of Accumulating Wealth.

To help position the Salary and/or Dividend levels, let’s keep in mind a few approximate figures:

- \$40,000 – a ‘poverty’ level for household income
- \$80,000 -- the average Canadian household income
- \$100,000 – a minimum income for a Government Sunshine list
- \$145,000 – In 2016, the approximate Maximum Pensionable Salary (MPS)
- \$200,000 – Approximate amount need to pay MPS, contribute to a Registered Retirement Savings Plan and address all deductions and professional fees

Although a lot of theoretical work is undertaken to consider the ‘better’ Tax remuneration strategy, and it varies by Province, the interesting observation is that ‘low’ income business owners probably should not be incorporated unless they have subsidization from spouse, family, partners, inheritance, previous business sale, etc ... The fees and administration negate the benefits of incorporation, unless limiting your personal liability is mandatory.

Active and Passive Business Income

It should be also noted that ‘active’ business income and ‘passive’ business income also have different tax consequences. Business income from the principle activities of the business, example a veterinarian caring for dogs and cats, is defined as ‘active’ business income. But if the veterinarian leases space to a dog groomer, the rental income is considered ‘passive’ income to the veterinarian and they will be taxed at the higher rate. Investment income is sometimes termed ‘passive’ income and it may be advantageous to pay come dividends in years where the investment/passive income is earned.

Salary or Dividends continued

For those Business Owners that are at the upper end of the example scale provided above, the best counsel is generally to pay yourself an annual salary up to the MPS limit, roughly \$145,000 or monthly payments of approximately \$12,000. If you need more income, use dividends. There might be slight differences per Province, but the advantage of drawing a salary is that you have contribution room for RRSPs (paid personally) or Individual Pension Plans (IPPs) and Retirement Compensation Agreements (RCAs), both paid from the business.

Paying a Salary involves paying Canada Pension Plan (CPP) and possibly Employment Insurance (EI), plus Health Taxes (limits and criteria supplied by your Tax Accountant), but the upside is that you now have access to a new Asset class. The CPP is a guaranteed and indexed to inflation payment that has survivor benefits. Currently in 2016 the maximum CPP amount is just over \$1000 per month and this can be factored into your retirement planning (along with OAS – Old Age Security).

Please note: EI is generally not paid on Salary to the business owner and family members.

Canadian Tax Integration changed in 2014 and the intent is that Salary and Dividends are taxed equally when the full business and personal taxes are totaled. This isn't perfectly exact 'tax integration' but it changed many Tax Accountants views towards paying Dividends only and leaving the remaining cash balance in the corporation. The (passive) investment income, from the surplus cash within the corporation, was and still, is taxed at a higher rate. Income splitting opportunities are still available and can be exercised through Salary and/or Dividends.

Income Splitting

Income Splitting is generally a 'High-Low' strategy. Income, in various forms, is paid from the 'High' tax bracket earner to those in the 'Low' tax bracket. So salary, dividends or capital gains can be paid through to shareholders or beneficiaries of the OpCo/HoldCo or trust. The tests from the CRA ensure that these payments are 'reasonable' or else the attribution rules will kick in and the income will find its way back to the higher tax bracket earner. In the case of salary, that must be a bona fide employer-employee relationship. Kiddie Tax rules were enacted because Business Owners were transferring wealth to family member in exchange for no actual work being performed.

The recommendation of using Salary up to the MPS limit of \$145,000 opens the door for accumulating Wealth through Registered options now. If you don't fully spend the take-home portion of your Salary, you can personally fund an RRSP and/or TFSA. If you have surplus cash within your corporation, the business can fund an IPP or an RCA for the business owners (certain criteria apply).

Con's of Salary and Dividends

Although the overall tax on either Salary or Dividends should be quite close, it is important to note that while the positive (or Pro) position is stated when explaining either Salary or Dividends, as a compensation strategy, the opposite (or 'Con') position should be explained as well. The quick summary below serves as a level-setting list that you are welcome to verify with your Tax Accountant – overall 'tax' should be close to equal.

Dividends Con's

- The Canadian Tax rules have changed recently, this has impacted (more so) Dividend remuneration
- No Canada Pension Plan (CPP) but you may have already maxed this out (if you were an employee early in your career/business with salaried earnings)
- No pensionable earnings for RRSPs/IPP/RCA's – and accumulation of contribution 'room' i.e. carried forward RRSP room
- Because no salary you may not receive other personal tax credits based on salaried earnings

Salary Con's

- Pay both sides of CPP; as the employee and the employer. There are upper bounds.
- Pay EI and Health Tax (if appropriate)
- May need to setup Payroll (with possibly regulation deductions – business income could be variable in the beginnings of your business)
- Losses (business, capital and business investment) cannot be dealt with more effectively (given the carry forward and carry back regulations) if you paid yourself a salary

Everyone agrees though – bonus down to the \$500k Small Business Limit. This provides RRSP and IPP/RCA contribution room as well.

Compensation Wisdom

A CEO of a medium-sized Canadian Tax firm once said

“Why wouldn't you take advantage of all the Tax Deferral mechanisms available to you?”

That's where your Tax Accountant can help you. In particular, when and how to use the 3 classifications of Dividends (eligible, regular/ineligible or a capital), with their Gross-Up and Tax Credit rates. This is an invaluable service in conjunction with OpCo/HoldCo/Family-Trust structure and income-splitting strategies.

Dividend Types

1. Eligible – a dividend paid to a Canadian resident by a CCPC
2. Ineligible/Regular/Ordinary – as above but already received Small Business tax treatment
3. Capital; usually termed Return of Capital and typically are non-taxable. There are multiple rules and regulations surrounding Capital Dividends and their use of the Capital Dividend Account (CDA) and Refundable Dividend Tax on Hand (RDTOH) system.

Note 1: You pay higher tax on foreign dividends as there are no gross-up and credit treatments.

Note 2: The Canadian Federal Government has announced their intentions to change dividend tax rates in conjunction with the Small Business tax rates. This is still a work in progress.

Note 3: The Capital Dividend Account 'accepts' tax-free dividends in certain situations (ie. from life insurance or sale of shares/ assets).

Note 4: RDTOH will not be covered in this Overview other than to note that a 'refund' is not always the preferred tax and cash flow strategy.

Investing: Asset Classes

Corporate real estate holdings, residential homes and other properties are an asset class unto themselves given the rapid rise in real estate and the historic low levels of interest rates. Many business owners, and for that matter, home owners, are 'House Rich and Cash Poor'. So as we acknowledge that a 'Peak' Real Estate valuation timeframe exists, capital gains and rental

income from your holdings will also be considered as part of your Wealth Accumulation strategies. And that perhaps will include converting non-deductible personal debt to a valid business expense.

Re-mentioning CPP as an Investible Asset Class, there are many Canadians that are proud to accept this payment, almost to the point of believing they are entitled to it (no matter what the contributions were). But you need Salary as a remuneration strategy to 'invest' in this asset class.

Investing: 'Plans'

A Trusted Wealth Professional can offer you generally any Canadian financial instrument from any Canadian institution. And you can invest your TFSA, RRSP, RESP, IPP, RCA, IRP, etc ... as well as your corporate account with them.

Wealth Accumulation Summary

A Business Owner can conclude from section 2. Accumulating Wealth is that they should be looking at moving up the Net Worth Ladder. If you only take just enough cash/remuneration from your business to fund your basic lifestyle expenses, how can you utilize your corporation to achieve investments in a variety of different asset classes to increase your Net Worth? Your Tax Accountant and CFO will help you apportion cash for short term needs and emergencies, and your Trusted Wealth Professional can help you with investments in other asset classes.

Essentially you are creating a Wealth Portfolio of different asset classes within different tax-efficient structures.

Additional Wealth Accumulation Strategies

Leaving cash in the CCPC, to be taxed at 15% is far better than withdrawing salary/dividends to be taxed at the highest levels (over 50%).

If you were applying to a Bank for a business loan, the general rule of thumb is to halve your revenues and double your expenses. That is an interesting way to view your Net Worth. If you thought that \$1,000,000 was all you needed to retire upon and you would spend only \$60,000 per year; perhaps you could plan, or strive, for \$2,000,000 and possible annual expenses of \$120,000. Maybe you fall short of these lofty new targets but you will need more to protect against taxes and inflation that increases basic lifestyle costs (food, transportation, etc...). Your Trusted Wealth Professional can help you construct a Financial Plan if you are unsure about your Net Worth, Lifestyle Expenses, or the Size of the Stack you'll need to 'retire with the lifestyle you desire'

Estate Freezes can be used in conjunction with Income Splitting, as you have the opportunity to create/increase Spousal and Family Net Worth's as well. You would be capping your own wealth through the Estate Freeze but ensuring the transfer of future wealth growth to other family members in a more tax efficient manner.

As mentioned above, opportunities to convert Personal Debt to Business Debt may be appropriate. There are strategies around mortgages on real estate, student debt, etc

Corporate, Spousal and Other Loans, with their associated Payback (principal and interest) will not be covered in this Condensed Overview. However it should be noted that the CRA prescribed rate is currently only 1% and can be locked-in-for-life. Your Tax Accountant will know how to setup these Loans such that income attribution does not become transferred to your business. Please note that 'Other' loans could be loans to a Family Trust for investment purposes.

Other allowable remuneration forms from the Corporation to the Business Owner, such as Retirement Allowances, Automobile usage, and Management Fees, exist as a method of having the business pay for allowable expenses. The 'reasonableness' test will apply to many of these compensation forms and your Tax Accountant will know best how to guide you. But the general principal is that you should let the business pay for whatever it can before paying for it personally.

Summary

How Big is Your Stack?

Can you climb the High Net Worth Ladder by paying less Taxes and investing wisely? A good starting point is to consider if you are above or below \$200,000 of free cash flow per year, for remuneration and retirement investing.

Decisions abound in relation to your Total Net Worth.

1. Do you need to expand your business with \$100,000 from retained earnings, or should you attract \$1,000,000 in private equity to procure/finance the building where you operate your business?
2. Should you invest through the corporation and pay higher tax, or do you have \$50,000 in contribution room within your TFSA?
3. How should you acquire international vacation property?
4. How liquid are my investments if I require funds because of illness or disability?

Essentially you are Wealth Planning for 3 unique time situations:

1. When you are operating your business and require income
2. When you are retired; not working and require income
3. And when you are not in one of the above two categories

3. Retiring; Exiting via Sale, Succession or Winding-Up.

The proverbial question is always “How Much Do I Need To Retire On”?

How Big of A Stack Do You Need?

There are a couple of ways of looking at this. If you retire at age 65 and live for 35 more years, the Rule of 72 says with inflation of 2%, the cost of everything will double by the time you are 100. So the time for doubling is ‘72 divided by 2’ which is 36 years. And age 100 is quite close to age 101 (65+36).

The other way is to look at yourself as a candidate for a loan, the bank would double your expenses and halve your revenue. And as mentioned in the previous example, if \$1,000,000 yields a fixed annuity of \$60,000 per year, you might want to consider whether you’ll be ‘needing’ more.

Maybe you’ll need \$2,000,000 in assets and \$120,000 per year to live on. Especially since the beginning of 2016, hydro/electric bills increased incrementally but cauliflower and bacon prices spiked (cauliflower prices have since normalized). Gasoline prices dropped for a bit but have since crept back to over \$1.00 per litre. Low interest rates generally equate to a low Canadian dollar thus making necessities (staples and consumer goods) more expensive to import (most often paid for in US dollars).

Although \$120,000 per year may seem like a lot, you do need to live somewhere (thus paying at least property tax or rent). And a good portion of that \$120,000 will be paid in tax (and OAS might be clawed-back). CPP might contribute to the \$120,000, but that is only \$15,000 per individual (based on maximized contributions). If you spend \$5000/year on gasoline, car insurance and maintenance you’ll see that your base ‘necessity’ costs to retire start to add up. You are (unfortunately) going to need more. The cost of everything is increasing. And especially if your retirement income is not indexed to inflation.

Thus the formula for Retirement Income =

CPP /QPP + OAS + RIF + LIF + IPP + RCA + TFSA + Annuities + Cash +Investment
Income from business +IRP + Income-Property + etc

As a Business Owner your target for Retirement Assets and Income could be as high as 2 times as the original Nest Egg planning that has occurred. So, as in the example, strive for \$2,000,000 instead of \$1,000,000.

If you are an Ultra High Net Worth individual (UHNW) you might not have any cause for concern. Other Business Owners can start to look at Pensions and Pension style investing. The Defined Benefit pensions are the most highly sought after workplace pensions and are proving

to be very appealing especially if they are indexed to inflation. But it all boils down to the considerations required when taking cash out of your business (while operating or upon Exit) such that you can fund your working life-style and your retirement years.

Scenario – Is This You?

A 70 year old doctor, who for a variety of health reasons can't qualify for certain insurance offerings, and can't sell their business, but has \$2M cash held within the MedCo. The spouse was not setup as a shareholder of the corporation and has already pre-deceased the Doctor. And as retirement looms for the doctor, what tax-efficient options are remaining?

Cash Dichotomy

At one point, keeping cash in your business for the purpose of tax deferral was paramount. Now as the business matures the opposite is the case, how do you take cash out of the business?

Keeping cash in the business for investment and/or tax deferral, and then switching to removing cash from the business, requires careful planning and the expertise of Tax Professionals.

Cash can come out of the business to you as a form of Capital Return or perhaps income. A few of the Cash/Capital Removal Strategies are overviewed below.

Regular Remuneration

As mentioned above, especially if you were taking Salary, you were in the habit of withdrawing cash from your business OpCo. Perhaps paying dividends to shareholder and beneficiaries via HoldCo's or Family Trusts.

Preface: Selling the Business

There are 90 year old business owners, still working, who have assets in excess of \$100M and only draw \$30,000 per year in salary, but this is not the norm. There are far more business owners who believe they can sell their business for 'X' and yet they find out they had a J.O.B. (Just Over Broke), and their business is worth very little. Also, and quite unfortunate, non-specialty medical professionals (MedCo's, DrCo's, etc ...) may find that their business won't be valued highly because a new Doctor could open up literally 'next door' and the patients would migrate over with no compensation to the original medical professional who established a local presence.

Selling the Business

Selling your Business, to a new Business Owner, an existing partner or possibly within the family, involves an exercise in valuation; whether or not there is a Buy Sell Agreement (BSA) in place. A BSA will define the terms for 'internal' share deals; sale or redemption. Share sales are considered Capital Gains whereas share redemptions are considered dividends (taxed at a

higher rate based on the difference between redemption price and Paid-Up Capital (PUC, not discussed here). But it all starts with a Valuation.

Valuing the Business

To determine the sale price, and/or to qualify for the Lifetime Capital Gain Exemption (LCGE) via a share sale, about \$824,000 in 2016, the valuation will be based on operational assets (not 'cash'). 'Purifying' of a business involves removing cash from the business and can help reduce income deemed to be Capital Gain. In layman's terms, 'purification' of a business involves ensuring that 2 years prior to the sale of the business, 50% of the assets of the business are operational. And at the time of the sale, 90% of the assets of the business are operational. Cash is not considered an 'operational' asset so it is recommended that while you leave cash not needed for lifestyle expenses in the business, you also regularly invest in asset classes that allow you to withdraw/expense cash from the business.

Sale of a business can involve an Asset sale or a Share sale (via the OpCo, most likely not HoldCo). In either case, selling Shares or Assets, there are tax consequences and if you can foresee this transaction, it is best to start 2 or more years in advance of the sale. This is particularly important because to ensure the application of the Qualified Small Business rules, and multiplying the CGE (through shareholder and beneficiary structure of HoldCo's and Family Trusts), you must own the qualifying shares of the OpCo/HoldCo, for two years before the sale.

Removal of cash to prepare a business (or the assets) to be ready for sale should also require an examination of the investments that aren't used in active business income. These (passive) investments should be removed from the business as well 2 years in advance. It is also possible to pay a tax-free Capital Dividend (from Paid-In-Capital or the CDA) to shareholders/HoldCo before the sale of the company to help prepare the business for sale. In either case, a regular plan for removing cash from the business, possibly to the HoldCo, will help ensure a smooth transition to ready the business/assets for sale.

Taxation when Selling Business Assets

If you are selling the business' assets, tax is paid on the taxable income portion of the asset sale (if applicable), and then you can pay shareholders a taxable dividend; tax optimization and "What If" scenarios/testing will also be performed in advance of the transaction.

Business Goodwill

In 2017 the rules for the sale of a business with Goodwill, and related intangible assets, such as Patents, will change. This was part of the 2016 Federal budget that says in 2017 Goodwill, etc ... will be treated akin to that of a depreciable asset. Your Tax Accountant will help you understand the details involved in this analysis.

Business Sale Details

A couple of other considerations in the sale of your business involve Key Employees and Foreign Investments. Retention of Key Employees may involve many different strategies, possibly even

a partial sale and perhaps non-compete clauses. A partial sale in this case is very similar to selling (partial) shares to Family Members; both involve a partial Estate Freeze. Foreign tax considerations require specialized knowledge that is best provided by your Tax Accountant. Of interest, Estate Freezes are a simple way of capturing the value of shares (all, or just a block) at a point in time. It's generally a share exchange that allows the business to continue, but for valuation purposes there is a definitive date and definitive value that allows share capital transaction to proceed; for example, on June 20th 2016 the business was worth \$3.4M. The business is ongoing during this effort, not shut-down, and the Estate Freeze can also help with taxes and other Estate Planning initiatives.

Note1: There are also other liability considerations that might be associated with the corporation that make the asset sale more attractive (but not tax efficient); purchasers of the shares inherit the business liabilities. This is of particular interest if you sell a minority stake in the OpCo via a Private Equity transaction (possibly through a royalty based return of capital – the Kevin O'Leary typical Shark Tank deal structure).

Note2: Buy-Sell Agreements (BSAs) may also impact the available choices when selling shares or assets.

Individual Pension Plans (IPP)

One way to remove cash from a business is to fund your own Individual Pension Plan (IPP). This is a Defined-Benefit 'Registered' option akin to the Defined Contribution RRSP, but it is funded by the business and (typically) only for business owners those that own 10% or more of any voting share of the corporation. The business (OpCo or HoldCo) pays all IPP related fees; for both administration and investment. As the IPPs are part of a Trust arrangement they are (generally) protected from creditors.

Prescribed Growth IPP's

Of particular pertinence now, especially considering Provincial and Federal initiatives (ie. the creation of the Ontario Retirement Pension Plan (ORPP) in Ontario and the possible expansion of CPP) is that this investment vehicle has a 'prescribed growth' component. Other than the CPP, no other asset class, ie. RRSP, TFSA, etc, has a 'prescribed growth' mandate. And this is key as it is the reason many teachers, civil servants, etc ... are regularly visiting 'Retirement Beach' via a Defined Benefit plan. It is true that an IPP has greater contribution limits, per se, than an RRSP, but the 'prescribed growth' requirement of pension legislation is what makes this unique asset class so attractive. Often the IPP is portrayed as 'forced savings', but the Wealthy Barber would disagree, it is regular paying yourself first through regular contributions. An IPP is a necessary lifestyle expense that just so happens to be paid into and maintained by the business. The IPP is a great way to withdraw cash from your corporation; especially if you can Buy Back Past Service (described below).

Two IPP Fallacies

1. **You don't need to take the Pension.** In fact the business owner could opt for an annuity or could convert the assets back to LIRA/LIF or RRSP/RIF depending upon the

nature of the assets.

2. **The IPP Funding Requirement of 7.5% per annum is generally miscommunicated.** The funding is really the rate of inflation + 3.5% (net of investment fees). Thus the IPP is perfectly suited for Rules Based Investing (RBI).

Retirement Compensation Arrangements (RCA)

The RCA, Retirement Compensation Arrangement, is a close cousin to the IPP. If the IPP was to be drawn as a square or a rectangle, the RCA could be hexagonal or possibly free-formed. The RCA does require consultation, but if you've maxed-out the IPP, or have too much cash on hand the RCA may be an attractive investment option for the business owner. And of note, although the IPP is not usually offered to key employees or shareholders with less than 10% of the shares of the corporation, the RCA can be offered to Key Employees as a method of compensation and retention.

IPP and RCA Requirements

Please keep in mind, just like the RRSP, both the IPP and RCA require evidence of Salary compensation. And this is usually evidenced by T4 slips. There may be options to provide a form of Terminal Funding to your IPP and/or RCA. This is akin to paying a lump sum bonus into your retirement account. Upfront there are also ways to 'service' your IPP and/or RCA by 'Buying Back Past Service'; this is a parallel to topping-up the unused RRSP contribution room.

Other IPP Benefits

Of note, the terminology for contributing to your IPP is 'service', you 'service' your IPP, the prescribed growth Defined Benefit retirement account. The term 'service' is quite powerful in the context of investing for retirement. And it is usually associated with a 'known outcome'. The majority of other asset class investments, including the RRSP, a Defined Contribution plan, have 'unknown outcomes' generally because they are not 'serviced'. 'Servicing' the IPP, and for that matter the CPP, creates a 'known' outcome, quite desirable for retirement planning purposes.

Rules-Based Investing is a perfect investment strategy for the IPP because you have a mandate to achieve every 3 years when the IPP is re-evaluated. This growth target, inflation plus 3.5% net of fees (very similar to that of the CPP), requires diligent investing and missing downturns in assets classes. If appropriate, opportunities exist to also 'top up' the IPP.

The IPP can also accept other registered plans. For example, if you have just retired from an employer with a pension, you may 'fold' the pension into the IPP as long as you have a bona fide business (OpCo). It is also possible to temporarily include your RRSP in the IPP as well; and have the associated investment fees expensed to the Corporation as well.

If you have an IPP in place, you will also be exempt from the ORPP (details still pending).

Of note, if you are taking the pension from the IPP, you still need to keep the sponsoring company in place (ie. HoldCo or another OpCo).

Currently the contribution limits to the IPP can be as high as \$40,000, versus \$25,370 for the RRSP. Your Trusted Wealth Professional will be able to share with you the Age-Index Contribution details of the IPP.

Note: A future publication will be coming; **The Business Owners Guide to the IPP**, possibly in video format on the www.TrustedWealthProfessionals.com website.

Exempt Life Insurance Policies

Insurance is an attractive method to extract cash from your business. In general the insurance doesn't pay out when you are alive, so you'll need to plan and invest for the years when you are not a business owner, but still alive.

Typically Exempt Life Insurance is purchased to cover taxes at Death. Also Exempt Life Insurance can be a method of Wealth Transfer to multiple family generations. Term to 100, Whole Life (WL) and Universal Life (UL), are types of Permanent Exempt Life Insurance. WL and UL also have an investment component that pays out tax free at death. While not inexpensive, generally for those with a substantial Net Worth (not 'aspiring' or 'emerging' HNW business owners), the investment component is another facet of life insurance that is considered part of Estate Planning that can be funded by the Corporation. Your Trusted Wealth Professional can help you understand the covenants of these policies and cash funding flows required to purchase these products.

Life Insurance premiums are generally not deductible from corporate income. But the policy itself can be used to fund a Buy-Sell Agreement (BSA), the main triggering event is typically death. A BSA is usually how Partners and/or Families transfer shares of the Corporation based on retirement, death, disability, mental illness, divorce, disagreement, bankruptcy, etc ... Obviously Life Insurance pays in the event of Death but BSA's are setup when there are 2 or more shareholders within the Corporation. And the Life Insurance can be personally owned or corporately owned.

Your Trusted Wealth Professional along with your Tax Accountant can determine if it is better to own the Exempt Life Insurance personally or through the Corporation. The investment portion of Corporate Exempt Life Insurance may have also been used as collateral for a corporate loan and there are considerations to be examined in this regard as well. Corporately owned Exempt Life Insurance has the added capability of when the shareholder dies, a dividend can be paid tax-free to the estate or a HoldCo (via the CDA).

Life Insurance policies/rules are changing as of January 1st 2017; specifically for Exempt Insurance. People are living longer these days, and the mortality tables are changing for new policies, and that will affect the premiums and payouts. Your local Wealth Professional will be

able to help you choose wisely in this regard.

Also please bear in mind that Non-Exempt life insurance policies have annual taxes on the investment earnings (exempt policies do not have this annual tax).

Insurance serves many other business needs other than accumulating wealth; it can help protect the business (Key Person or Business Loan) as well as form part of an Executive Compensation strategy. Your trusted Wealth Professional will be able to guide you in this regard. Especially for the use of Split-Dollar insurance; as the name says, both Personal and Business interests can be addressed with this arrangement. In all cases, the caveats and funding conditions associated with joint 'Investment plus Insurance' offerings, must be fully understood before implementation. Particularly where the cash/investment portion is leveraged for a loan (the usage of cash also could include a 'living buyout' option).

Corporate versus Personally owned Exempt Life Insurance

Typically Exempt Policies are positioned as a better use for surplus cash within the corporation, than investing within the corporation (passive business income), because the investment portion of the Policy is tax-free forever whereas the same holding/asset, or other income triggering events from different holdings/assets, within the corporate investment account, will require annual taxation. And at death, the Exempt Policy is received tax-free by the corporation and can be distributed as capital dividends (again, tax-free). The policy is not exempt though from the claims of creditors; whether or not the business owner is alive.

If the same policy is now personally owned, at death the payouts are to the named beneficiaries. But the creditor claims against the personally held policy requires a breakdown between the Investment portion of the Exempt Policy and the Insurance portion. If the business owner is alive or dead, the Insurance portion of the policy, with a named beneficiary (most likely) a direct family member, cannot be pursued as part of a creditors' claims. The Investment portion of the policy is subject to claims against the business owner personally, possibly through their estate if deceased.

In either case, personally or corporately owning Exempt Life Insurance, your Trusted Wealth Professional will be able to guide you in the correct direction. And explain the recent changes that generally negated the transfer of the Policy from the business owner to the corporation.

Note: Creditors can only pursue assets in your estate at the time of your death.

Insured Retirement Plans (IRP)

Insured Retirement Plans (IRP) can also be used to supplement your retirement income. After contributing the maximum-out the RRSP and/or IPP, you may consider an IRP.

The IRP involves contributing to an Exempt Life Insurance policy and then assigning the policy to a financial institution in exchange for tax-free loan(s). Upon death the financial institution is

paid, as appropriate from the death benefit, and excess monies, usually from the investment portion of the Life Insurance are transferred to named beneficiaries in a tax-free manner.

Please note: In general, Insurance products that include both investment portions and insurance portions together, are offered only to the existing HNW business owners. You will need solid earnings and surplus cash to take on certain policies. The 'aspiring' HNW or 'emerging' HNW business owners may choose to afford regular Term, Critical Illness or Disability insurance.

Management Companies

In certain cases a Management Company, that provide services to the OpCo and charge the OpCo management Fees, can be created, in conjunction with a HoldCo or a Family Trust such that proceeds from the OpCo can flow through to shareholders/beneficiaries. Your Tax Accountant and Lawyer will ascertain that this structure is setup such that the arm's length adherence is intact. This is appealing to MedCo's where family members are prohibited from owning shares in the OpCo (and the HoldCo and Family Trust structure have regulatory ownership restrictions). Management Companies have also been established to 'hold' property as well such that the arm's length provisions are not violated. Please consult your Wealth Professional Team for the correct guidance in this regard.

Personal Expense Reimbursement

If the business owner has been paying for specific expenses through the course of the OpCo's existence, your Tax Accountant will be able to guide you in the retroactive application of these costs, such that you can reimburse yourself and remove cash from the business.

Bonuses and/or Retiring Allowances

Again, your Tax Accountant will instruct you to the applicability of these cash removal options. Especially if there is an opportunity to 'top up' RRSP contributions with a Retiring Allowance.

4.Estate Planning

You have worked hard for your money and now comes the time to preserve your Capital and plan for your Family. Creditor protection will have been a paramount undertaking while you were accumulating your Wealth and now the same protection is required, albeit from the taxation system. The general rule is that taxes are payable on death and you'd like to continue your Winning Streak as a Business Owner.

At present you could be sitting on Retirement Beach. You still might be working, providing services through the original HoldCo to the OpCo you sold to the new owners. Or you could be traveling (ie. dentist looking for new cavity fighting offerings through the DentCo), or on a Speaking & Book Tour. If you have the IPP in place you are still maintaining an OpCo (if you took the pension) and you could be investing through the business.

Then all of a sudden you pass away ☹.

Corporation StandPoint

Since the incorporated business survives the Business Owners' passing, the business may only be affected minutely depending upon the nature of the business' structure. The OpCo/HoldCo structure of the corporation will determine the outcome of the corporation's existence. The company could be transferred to a spouse tax-free or the OpCo could be 'wound-up' and taxable dividends paid to the shareholders. There are many options available to minimize tax and your Trusted Wealth Professional can help you chose.

Corporately Owned Exempt Life Insurance

As previously mentioned, the Exempt Policy is received tax-free by the corporation and can be distributed as capital dividends (again, tax-free). The amount of coverage will be determined by the purpose of the policy; the proceeds could be used to fund a Buy Sell Agreement or to pay off business liabilities.

Since you've conducted in advance a detailed tax analysis such that insurance solutions address business taxes, death expenses, income replacement and inheritance for your Family and/or Charities, you will have considered Split-Dollar insurance and possible Criss-Cross insurance. Criss-Cross is where shareholders, usually 2, purchase policies on each other's life. When one shareholder dies, the proceeds can be used within the confines of a Buy-Sell Agreement to purchase the shares of the deceased shareholder.

Estate Freeze and Valuation of Business

In many cases, the question of "How Big Is Your Stack?" will have been determined in advance. Understanding the size of your Business and the overall size of your Estate provides the data necessary for planning; succession or otherwise. Dividing your Estate and Business amongst current shareholders and your family (spouse plus children) can be done in advance possibly via an Estate Freeze.

An Estate Freeze can help cement the personal tax liability upon death and the applicability of the LifeTime Capital Gains Exemption. The transfer of shares that occurs during an Estate Freeze must allow for the maintenance of current lifestyle expenses. Partial Freezes may occur, but again, the strategy involves consideration of tax, income, growth and succession. Family Trusts are also an option here to transition the business and/or wealth when appropriate.

Holding Companies

HoldCo's can be utilized prior to death to separate assets. You could for example have non-active, or 'passive' investment assets transferred into a HoldCo and include non-active-business spouse/children as shareholders. Apportioning shares, versus providing an inheritance (via insurance), is a conversation you can have amongst your family and your Team of Wealth Professionals.

Specialty Trusts

Trusts bypass the estate and are not included in probate, thus there are no probate fees on the assets held within the trust at death.

If there are considerable unknowns with respect to the succession of the business, it is possible to place the business into a Discretionary Trust upon death of the business owner. The trustee has considerable discretionary powers to continue the operation of the business, allocating assets and possibly the sale/wind-up of the business.

Spousal Trusts are quite common as the business owner may wish that capital assets transfer to the children, but income be provided for their spouse. Typically this arrangement is setup when a second marriage occurs; the spouse can live in the matrimonial home but upon the death the children from the first marriage would receive the principal residence.

Trusts are deemed a 'separate tax payer' and it is possible to transfer shares into the trust so that the business can carry-on without having to pay considerable tax. This is quite applicable when the surviving spouse is already in the highest tax bracket and the Spousal Trust can defer if not minimize the tax implications.

Trusts and the 21 Year Rule

The CRA examines the assets in a trust every 21 years and levies tax similar to the deemed disposition rules. However, with careful planning the opportunity to transfer assets to the beneficiaries may exist. Your Trusted Wealth Professional will be able to guide you especially if it is shares of a CCPC that are being transferred.

Trusts Overall

There are many types of Pre-Death Living Trusts and Post-Death Testamentary Trusts. Transferring cash or (appreciated) assets to these trusts requires careful planning and consideration as not all transfers receive favourable 'rollover' treatment as Spousal, Joint-

Partner or Alter Ego trusts.

Wealth Transfer and Splitting

Your Estate and Business, when valued, will have a 'size'. There will be many opportunities to 'split' the 'size' of your Wealth, both in the present and in the future via 1.

Inheritance/Insurance and 2. shares with growth potential. And this division can occur across 'active' and 'passive' assets, and non-business assets as well. Each situation will be unique and attention must be paid to the business value of certain ProfCo's as the 'valuation' might be less than originally desired.

USA/Foreign Assets

Jurisdictional regulations regarding international Trusts, assets, foreign citizens, etc ... are beyond the scope of this Condensed Overview. But suffice it to say, there are many Wealth Management and Wealth Transfer strategies with specific criteria and conditions that only apply to CCPC and Canadian citizens. Consult with your Trusted Wealth Professional in this regard.

Registered Assets and IPPs

"What happens when I die?" is the most frequent question asked when enrolling in any type of 'registered' saving plan. If you haven't retired yet, death typically dictates that 1.Spouse, 2.Beneficiaries and then 3.Estate/OpCo are the order of disbursements. If you have retired, the order is the same, but the monthly payments, lump sum and or commuted value require a consultation with your Trusted Wealth Professional.

Intergenerational Wealth Transfer, via an IPP, is an appealing feature of this type of registered plan. If the business owner has 'transferred' or sold the business to the next family generation, upon the 2nd death (if there was a spouse), the IPP pension assets are deemed surplus and are transfer back to the OpCo's pension plan. And this amount could be considerable if Terminal Funding was enacted. More details will be available when **The Business Owners Guide to the IPP** is published.

Note: Typical pension plans only pay for the member, and possibly the spouse, and then surplus funds are returned to the Plan (ie. OMERS, Teachers, etc ...). But since the OpCo sponsors the IPP, the surplus assets (if any) are returned to the sponsoring company; the CRA (or any other governing body) does not have access to these funds.

Gifts

Gifted assets to a spouse are non-taxable. There is no gift-tax in Canada but appreciated assets are deemed to have been disposed of at Fair Market Value (FMV) and any appreciation is thus taxable as a capital gain.

Probate Fees

In Ontario there are probate fees of 1.5% with no limit on asset total. Quebec does not have probate fees at all.

Personal Final Taxation & Beneficiaries

You've safely grown, tax-free your RRSP, LIRA, IPP, RCA, TFSA, Exempt-Life-Insurance investment portion, etc ..., you may have been drawing on your RIF, LIF or taking the pension from an IPP (or other source) and now you've passed away. You may have used the tax refund generated by your RRSP contribution to fund the TFSA (a registered plan with recently changed limits). Suffice it to say, there is taxation when you die, naming of the Beneficiary simplifies the transferring of the funds and possibly helps minimize probate fees.

Non-registered plans do not allow the opportunity to name a Beneficiary and will be deemed to have been disposed of at Fair Market Value (FMV) and taxed personally before probate fees are applied.

It might make sense to ensure that assets are held with the designation of Joint Ownership with Right of Survivorship. But the legal definition of Intent surfaces in this regard, as well as concerns about creditor protection. Consult your legal professional in this regards.

Final Tax Return

Personally your executors or tax accountant will need to file a final tax return in the year of your death. And if you hold shares of a CCPC, the Fair Market Value (FMV) will determine if there are Capital Gains personally owing and/or is you qualify for the LifeTime Capital Gains Exemption.

Deemed Disposition occurs when you die and your investments are considered to be sold at FMV. From January 1 until the date of your death, your in-year income, and all real estate that is not already transferred to a Trust, or Gifted, becomes taxable. Exceptions apply in the case of primary residences and spousal transfers. You might find yourself (in today's market) House-Rich and Cash-Poor. But if these assets are then sold, they are taxable in the hands of the seller (ie. cottage property, rental property, etc ...)

Wills and Power of Attorney

Initially you should have a Will in place, possibly a Power of Attorney will have been enacted at that time, and executor(s) identified. A second will, or a Business will, may be in place to separate the assets. And perhaps multiple additional wills if there are assets held in several foreign jurisdictions.

All bequeathments should have named beneficiaries to ensure control and transfer of assets. The beneficiaries could be charities. In any and all cases, clear ownerships rights need to be

established to avoid any 'distant' interpretation or challenges.

Power of Attorney's can also help determine if a Living Will is required.

Note: The Wills should be structured to make sure they do not overlap or invalidate each other.

Trusts before Wills?

Trusts can transfer assets while you're still alive and hence can be more powerful than Wills that require Death as a triggering event. Trusts also maintain an element of control (vs. Gifts) as the Beneficiaries may not be 'financially mature'.

The trustee must act within the confines of the trust which is a legal entity and more binding than a Will. Trusts are generally not challenged in court. Trusts also have a measure of secrecy attached to them as Trusts avoid the probate process, whereas Wills are typically probated for significant estates.

Unfortunately Trusts are taxed at the highest marginal tax rate, but many Trusts are established as Flow-Through entities and thus pay no tax at all.

Overall Wealth Transfer Strategy (re: Death)

Generally speaking, the goal may be to try and reduce the value of your Business. And your Estate.

The aforementioned Cash Retention and then Cash Extraction Wealth Strategies will serve you well. Beneficiaries for assets and insurance, HoldCo's for splitting of 'passive' business assets, a variety of Trust options (ie. Living Trust), tax-free Gifts, etc ... will purposefully mitigate taxation and creditors.

The Income Tax owing upon Death is typically the greatest liability that the Business Owner faces, both personally and with the Corporation.

5.Summary

As your business matures, and you experience business cycles, there will be an Evolution to your Wealth Management Strategy. The use of various incorporated business structures (OpCo and HoldCo), and possibly a Family Trust, can be conjoined with Wealth Management:

1. for today (via Remuneration),
2. for post-business ownership (ie. Retirement),
3. and even further beyond (ie. Estate).

Wealth Management involves many strategies, some of them available through certain product offerings, but the guiding principles are:

1. You don't have enough Wealth. The proverbial "How Big Is Your Stack?"
2. Tax minimization, or deferral, is critical in the context of Wealth Generation, and
3. Fees, in the context of professional Wealth advice/guidance, are invaluable.

The purpose of this Condensed Overview is to help business owners by serving as a memory aid and inspiring ideation.

Please interact with your existing, or new, team of Wealth Professionals, and don't hesitate to question everything. Too often examples have specific assumptions and a famous person once said "If You Allow Me to Control the Assumptions, I Can Convince You of Everything". Your questions will not only be to understand the Go-Forward options, but also the 3 Life Scenarios of:

1. Can't Fund, possibly through bankruptcy, and perhaps as soon as the day after I sign the documents
2. Death. If I die, or when I die, what happens re: tax and Wealth Transfer?
3. Family Dissolution, through matrimonial breakdown or other family matters

The primary goal is to achieve \$200,000 free cash flow per year and climb the 'aspiring' and 'emerging' rungs of the HNW ladder. Unless you have a subsidized Income/Lifestyle via spouse/partner, inheritance, sales of previous business, etc ... this upward growth should be envisioned by all business owners. True, certain businesses may not 'scale', but in general 'more wealth' is an obvious conclusion.

Companies are in business to provide you with a standard of living. You decide if you want to be an Owner or an Employee. And that sets the course for your Wealth Management, and your associated team. Feel free to enter your Postal Code into the Wealth Professional Locator on the website and connect with the appropriate professionals. There will also be a blog section on this website that may delve into a few of the more esoteric scenarios (foreign investments,

dividends and real estate). Or connect directly with AskGerry@TrustedWealthProfessionals.com via email if you require immediate help.

We encourage you to further your learning and work through the free Canadian Investors' Course which you can link to through www.TrustedWealthProfessionals.com. This course will help you understand the investment and liquidity options available to you via ownership of securities. Diversifying through multiple assets can help guard against outliving your assets.

You are a Business Owner and Owners Win. Congratulations again for being a Business Owner.