
Tax Planning

The largest ongoing expense of the average Canadian is tax. Therefore any financial plan that does not fully factor in tax is deficient. At Investaflex we have the expertise to ensure any tax planning is done in the context of your overall financial plan and does not compromise either your financial objectives or flexibility to make future choices. We do believe that the tax tail should never wag the financial or business dog; therefore any tax planning is done on a holistic basis as apposed to piecemeal structuring. In order to reduce taxes payable both on an ongoing basis and also in your estate the following broad principles are applied:

Asset Shifting

- ❖ Moving assets from a fully taxed environment (e.g. salaries and interest income) to a tax preferred (e.g. capital gains, where only half of the gain is taxed, and dividends, where a dividend tax credit is received) or tax exempt environment (e.g. principal residence exemption which allows the capital gains on a residence per family unit to be tax free, life insurance, where the accumulation of investments in the insurance contract are tax sheltered and the insurance proceeds are paid out tax free).

Income Splitting

- ❖ Moving income from a higher income-earner to a taxpayer with a lower marginal tax rate, thereby reducing the overall tax burden. (Some of the tools, which can be used, are spousal RRSPs, income-splitting trusts, prescribed rate loans and corporate structures).
- ❖ Attribution Rules (of the Income Tax Act) are designed to reduce income-splitting opportunities and should always be borne in mind when attempting to implement an income splitting structure.

Tax Deferrals – For example:

- ❖ RRSP - where a deduction is received on contribution and all accruals in the registered fund are tax free with all withdrawals being fully taxable.
- ❖ Estate freeze - which allows future growth on an investment to accrue to a trust and so defer the tax on that growth to the death or disposition of the asset by future generations, thereby overcoming a deemed disposition on a earlier death.

Deduction Maximization

- ❖ Ensuring transactions are structured in a manner that maximizes the deductibility of costs (e.g. interest deductions, self employment costs) and if possible characterizes income as capital gains as apposed to income.

Taxpayer Duplication – For example:

- ❖ Creation of additional marginal taxpayers via testamentary trusts which are taxed at the same marginal tax rates as an individual. This allows for income to be retained in the trust and taxed at lower rates and then be distributed to the beneficiary as capital.

Tax Jurisdiction Utilization

- ❖ Utilizing Alberta trusts (having dividends taxed at lower Alberta tax rates), offshore inheritance trusts (creation of trust in a tax free jurisdiction to hold inheritances from a non-Canadian source) and pre-immigration trusts (which allow for a five year tax holiday on offshore assets on immigration to Canada).



Investment Allocation and Management

- ❖ Allocating investments between non-registered and registered accounts to minimize taxes. Fully taxable interest income investments are held in registered accounts, while tax preferred dividend and capital gains producing investments are allocated to non-registered portfolios. Non-Canadian investments are allocated to non-registered accounts so as to gain access to foreign tax credits.
- ❖ Pregnant capital losses are triggered to offset realized capital gains.

Charitable Gift Structuring

- ❖ Utilizing private foundations, charitable remainder trusts, gifts of public shares and charitable life insurance policies to reduce the after-tax cost of charitable gifts.
- ❖ Ensuring that charitable receipts can be matched against taxable income.

US Estate Tax Considerations

- ❖ Structuring the assets of Canadians who hold US property, or are US citizens or are domicile in the US to reduce US estate tax exposure.

Owners of small businesses have many additional planning opportunities available to help alleviate the impact of taxes:

- ❖ \$500,000 Small Business Capital Gains Exemption (SBCGE) on the sale of small business corporation shares
- ❖ The duplication of the SBCGE with children or spouse using a trust
- ❖ Utilization of the low small business tax rate on the first \$300,000 of active business income
- ❖ Duplicating the access to the small business tax rate where applicable
- ❖ Refundable Dividend Tax on Hand (RDTOH) strategies to reduce the overall tax payable
- ❖ Increased deductible pension plan contributions created by the establishment of an Individual Pension Plan
- ❖ The deduction of family medical expenses against business income through the creation of a Private Health Services Plan
- ❖ Funding non-tax deductible expenses (e.g. life insurance premiums) and investments with low taxed corporate dollars.

Beyond the above opportunities the business owner should ensure that the corporate structure allows for the sale of shares in a tax effective manner. Shareholder Agreements and Buy-Sell Agreements should be structured to allow for a tax effective buy-out.

When implementing planning for the small business owner, the corporate planning should always be integrated into the personal planning as the corporation is just another asset of the individual and any structuring should be related back to the personal objectives of the client.

Planning for Small Businesses should always be integrated into the personal planning of the business owner and his or her family.

Each individual is unique in terms of their assets, their income, their family circumstances and their objectives. For this reason, the tax structuring to be applied is not done on a cookie-cutter basis but on an individualized basis after performing detailed projections using Investaflex's proprietary software to analyze alternative structures.

