TD Wealth

Corporate investments ï Why and When

TD Wealth, Wealth Advisory Services

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Agenda

1. Integration of Corporate Investment Accounts
2. Intangible reasons to Incorporate Investment Accounts
3. Tax efficient withdrawals for Corporate accounts

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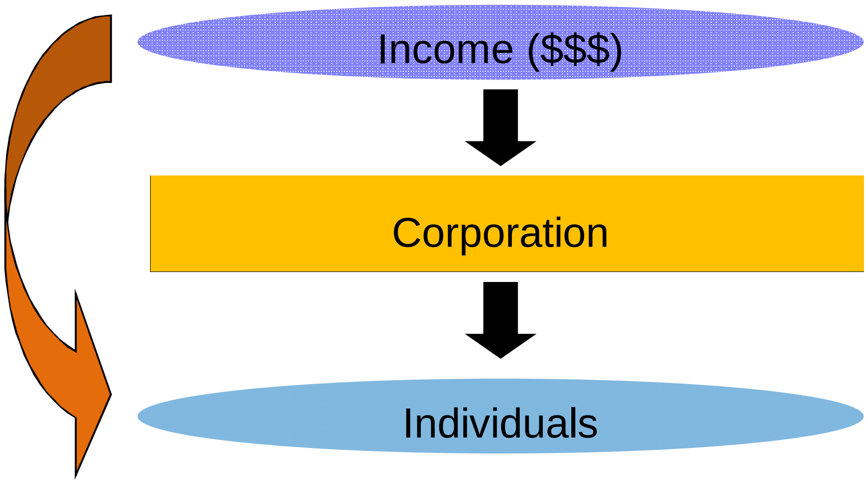
Integration

Tax Integration



Earning Income directly or indirectly, the tax is (supposed to be) the same!!

In theory…Perfect integration

Basic Ontario Tax Rates -2019/2020

Personal -HMTR

- Other Income
  - 53.53%
- Capital Gains
  - 26.77%
- Eligible Dividends
  - 39.34%
- Non Eligible Dividends
  - 47.39%

Corporate - CCPC

- Other Income
  - 50.17%
- Refundable tax rate
  - 30.67%
- Eligible Dividends
  - 38.33%
  - Refundable 100%

Assumption

Å Personal After Tax dollars are either held in personal investment accounts, or

Å Rolled tax deferred into a CCPC owned by the same family.

Reality of integration In Ontario - 2019

Personal

Å Other income	10,000
Å Personal tax	(5,353)
Å Net	$ 4,647

Corporate

Å Other Income	10,000
Å Corp Tax	(5,017)
Å Div Refund	3,067
Å Avail Div	8,050
Å Personal Tax	(3,815)
Å Net	$ 4,234

Ontario 2019 – Other Income

- Tax Cost of incorporation
  - $(413)   (4.13)%
    - ($4,647 - $4234)

- Tax Deferral of incorporation
  - $336   3.36%
    - (53.53% personal – 50.17% corporate)

Does It Ever Make Mathematical Sense to Incorporate Investments?

Å If the investment income earned is Other (interest, foreign income),then:

ï NO, even with the deferral, you never catch up.

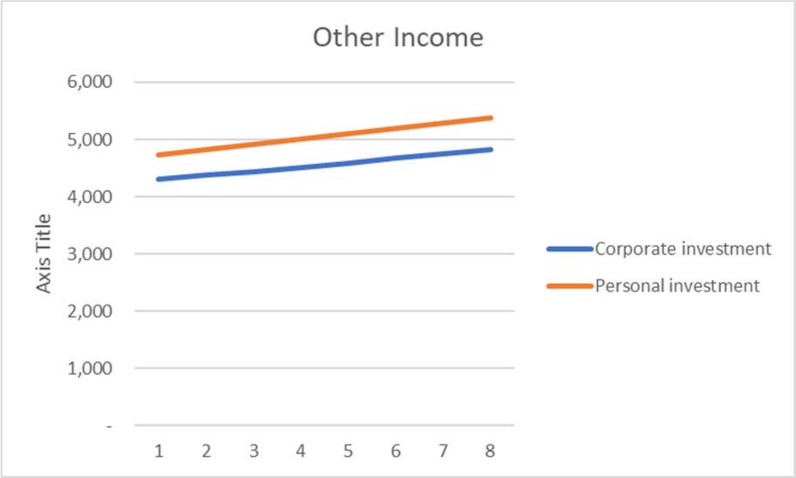
Å However, if you invest corporately to create unrealized capital gains, then:

ï YES, but only after 3 years or longer.

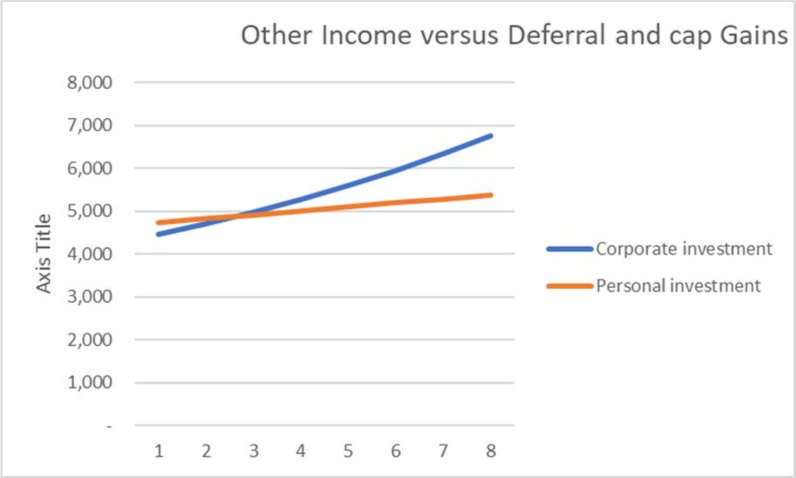
ï However, could do this personally as well

After Tax Results Corporate versus Personal

Other income Only



Other income Personally versus Deferral/Cap gain Corporately



Assumes 4% rate of return, current tax rates and 100% deferral inside corporation until liquidation

Integration of Capital Gains and Eligible Canadian Dividends

Å Capital gains have the same numbers as other income only half as much:

ï Cost ($207) 2.07%

ï Deferral $168 1.68%

Å Eligible Dividends are perfectly integrated (same after tax result personally or Corporately)

ï But has a deferral of $101 1.01%

ï (39.34% personally versus 38.33% corporately)

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Intangible Reasons for Corporate Investment Accounts

Why Else Would You Transfer Investments to a Corporation?

Å Avoid probate fees

Å Avoid US Estate taxes

Å Confidentiality

Probate Fees

Å Requires secondary (Corporate) will.

Å Not necessary to probate the corporate FMV assuming the beneficiaries agree that it is a valid will.

Å Save 1.5% or $15,000 per million.

Avoid US Estate Taxes

Å Exposed if greater the $60,000 in Situs assets and greater than $11.18 million in world wide net assets (exemption). Sunset issue…

Å Up to 45% tax on FMV of exposed assets

Å US individual securities are Situs

Å No exposure as corporation does not die.

Confidentiality

Å Secondary wills not required to be probated are not publicly available information.

Å No exposure to owner of underlying assets if not submitted to the courts.

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How to Tax Efficiently Remove Assets from Corporate Accounts

Eligible Canadian Dividends

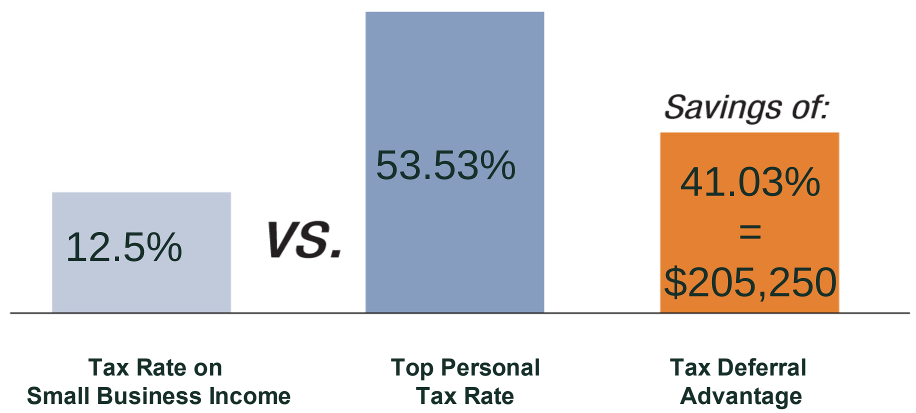
- With sufficient capital inside the corporation, a predictable level of annual cash flow out to the shareholders is preferred at **lower marginal tax rates**. No corp tax if paid out in same year
- Below approx. $97,000 of taxable income, ED's are cheaper than Capital Gains.
- $52,070 is tax free as sole form of income (ignoring the $600 Ontario health tax)
- TOSI rules!

Realized Capital Gains

- Above approx. $97,000 in taxable income, capital gains are the lowest tax rate.
- Remember that Corporate accounts actually split the taxable half from the tax free half and may be directed at different classes of shareholders.
- TOSI rules!

Tax Deferred Advantage

Å Canadian Private Corporations in Canada enjoy a very low tax rate on the first ***$500,000*** of Active Business Income - Comparison of 2019 Proposed Corporate Small Business Rates to Top Personal Tax Rates.



Recently attacked by Finance via the $50,000 realized investment income rules.
May lose Federal small business tax rates

Using the Tax Deferred Advantage

- Assuming active business income is present in the corporate structure
  - Tax efficient management of portfolios (reduce unwanted high rate realized investment income)
  - IPPs…..require employment or self employed earnings present
  - Investment oriented life insurance
    - Beware of new transfer rules

Private versus CCPC Status

Å Current rush to eliminate Canadian Controlled status for corporate investment oriented transactions

Å Flat 26.5% tax rate on all types of income (versus 50.17% for other)

Å 13.25% rate on net capital gains (allows for CDA addition)

Å British Virgin Island corporations are in vogue.

Å $30 to $50k professional fees (half to reverse).

Å **Not** a "do it yourself" transaction.

Å Fear is Finance will eliminate this opportunity.

In Kind Corporate Donations

Å Will avoid realization of deferred capital gains with In Kind donation of portfolio assets

Å However 100% of Capital Gain is added to CDA account.

Å Therefore get donation receipt for FMV and tax free withdrawal of 100% of the capital gain.

Surplus Strip

- Reorganization transaction that changes the taxation of retained earnings from dividend treatment to capital gains treatment.
- Usually requires an immediate triggering of this lower tax bill (time value of money in play).
- Again the fear is that Finance will eliminate this opportunity.
- Must be a material taxable amount to rationalize.
  - Passive Investment corp versus mixed active and passive corp.


Questions?

THANK YOU

Talk to a TD Wealth representative today