TriDelta
Private Wealth

Fighting Back

Tax Strategies for Professionals and Entrepreneurs

Disclaimer

This presentation is for informative purposes only and under no circumstances should it be construed as an invitation to invest in any of the Funds or strategies discussed, nor does it constitute a public offering to sell the Funds or any products described herein.

The information contained in this presentation is general in nature and has does not constitute tax advice. It is not intended to provide, and should not be relied upon for tax, legal, insurance or accounting advice. It should not be relied upon without the advice of a qualified tax advisor.

The information contained in this presentation is subject to change without notice and TriDelta Financial and any of its subsidiaries will not be held liable for any inaccuracies or misprints.

TRIDELTA
Private Wealth

Tax Planning

1. Long-term focus: Should be considered over a lifetime
2. Objective is to increase after-tax funds that can be spent or passed to future generations
3. Reduce total tax by splitting as much possible with spouse and kids
4. Corporation provides significant flexibility on when you realize income, BUT
   - Need to focus on how to get funds out of corporation without incurring large tax liability

TRIDELTA
Private Wealth

What We Do – Part 1

Typical Questions that we answer for clients:

- Is there any risk of me outliving my money?
- I know how much money I have, but will it allow me to do the things I want to do?
- Am I being tax smart or are there other things we should be doing?
- How can I generate more investment income without taking a lot of risk?

TriDelta
Private Wealth

What We Do – Part 2

Typical Questions that we answer for clients:

- I have a corporation, but don't have a good plan for getting money out efficiently?
- Can I afford to retire now?
- Can I afford to help my kids and grandkids without putting myself at risk?
- How much money will I leave and how will I be taxed on that?
- Should I be doing something different with my Will?

TRIDELTA
Private Wealth

What We Do – Part 3

Tools we use to help:

- Financial and estate planning – focused on reducing taxes for client and estate while meeting retirement goals
- Investment Counselling division – manages portfolios of stocks, bonds, ETFs, and Alternative Income strategies.
  - Focused on client needs and objectives
- Insurance Brokerage – access to almost all companies, with a focus on advanced tax planning strategies.
- Advise clients on how to get the most from their Accountants and Lawyers (can also provide recommended list of lawyers and accountants)

TRIDELTA
Private Wealth

Proposed Corporate Tax Changes

- Changes focus on 3 major items:
  - Income Sprinkling
  - Holding Passive Investments
  - Converting Income into Capital Gains

TriDelta
Private Wealth

Income Sprinkling

Current Regime:

- This strategy involves issuing non-voting special shares to family members for nominal value.
- Dividends would then be payable to them on a discretionary basis.
- If the shareholder was at a fairly low tax rate – the resulting taxation could be very low.
- This was a good way to lower the effective tax rate of ineligible dividends below the highest 45% rate.
- Using a Family Trust you are able to multiply the Lifetime Capital Gains exemption amongst several family members.

TRIDELTA
Private Wealth

Income Sprinkling

Proposed Changes:

- Government is proposing that only those shareholders or employees that make a reasonable contribution to the business would be eligible for salary or dividends.
  - If these payments are not ‘onside’ then attribution rules would apply to the principal.
- Certain Tests are being discussed to properly assess. However, the days of paying a dividend to a spouse or child with no physical involvement in the business are likely over.
- Multiplication of the LCGE will no longer be possible via Family Trust.

TriDelta
Private Wealth

Holding Passive Investments

Current Regime:

- Corporate Income is subject to the passive tax rate of just over 50%. Capital Gains are taxed at 50% inclusion.
- 50% of all Capital Gains credit the Capital Dividend Account (CDA), and may be paid to shareholders Tax-Free.
- Portion of the Federal tax is credited to the Refundable Dividend Tax on Hand (RDTOH) account, these come back to the company when taxable dividends are paid out.

TriDelta
Private Wealth

Holding Passive Investments

Proposed Changes:

- Removing the RDTOH and CDA.
- Changes could result in **20% reduction of net assets pulled out of the corp vs. the status quo** due to changes in effective taxation rate.
- Government’s view is that the net result over time, assuming the assets are distributed out, will result in the exact same assets as an individual who invests the same amount.
- The effective tax rate on corporate passive Income will go from 50% to 73%.

TriDelta Private Wealth

Taxes on Death – Getting Higher

- Combined RRIF assets could be taxed at up to 53.5%!!
- Assets in a Corporation could be taxed at up to 45.3% if paid out as Dividends in one year.
- Family cottage would face Capital Gains tax of up to 26.8%.
- Probate taxes of roughly 1.5% on total Estate.
- If Estate is over $5.5 million, could face US Estate Taxes on US stocks and real estate.

TriDelta
Private Wealth

The Tax Game

Tax is like Tennis. The Federal Government fired a serve over the net – if you don't return it, you will lose.

TriDelta Private Wealth

Strategy 1 – Sprinkle Dividends Heavily in 2017

- If you are in a position to pay dividends to adult children, spouse or other relatives in 2017 – maybe **do so in a significant way**.
- If 20 year old child has no other income, a $40,000 dividend will effectively cost **$0 tax**.
- A $150,000 dividend will face $30,109 tax, a rate of only 22.1%.
- In your hands in 2018, that same $150,000 dividend could be taxed at 45.3% or $67,956
  - **almost $38,000 more in tax**.

TriDelta Private Wealth

Strategy 2 – Specialized Flow Through Shares

- Government provides credit for mining and energy exploration.
- Great program, but you have to invest in a volatile junior mining or energy company.
- Our strategy (in place for over 10 years), removes the investment risk by selling to an investment group at a pre-set price. It allows for all variables to be fixed, i.e. pricing risk is removed.
- Net result is someone with taxable income of $350,000, uses $100,000 of flow through and lowers tax bill by $10,546 or 6.9%.

TriDelta
Private Wealth

Strategy 3A: Couple Near Retirement

- Frank (55) and Mary (55) are 5-10 years away from retirement.
- Mary has a Medical Professional corporation and has managed to build up $2MM inside.
- Over the years, they have funded a comfortable lifestyle and raised their 3 kids, who are close to being financially independent. They have set aside $1.5 million of RRSP / TFSA assets and own their $1.5 million home without debt.

TriDelta
Private Wealth

Strategy 3A: Couple Near Retirement

Objectives:

- Extract funds from corporation tax-efficiently throughout retirement
- Manage assets with moderate to low risk
- Maximize Old Age Security (OAS) benefit
- Leave a legacy to kids tax-efficiently

TriDelta
Private Wealth

Strategy 3A: Couple Near Retirement

- Mary should make all RRSP contributions to a spousal plan.
  - This is a way to increase Frank’s retirement income vs. Mary, as she will be taking dividends in addition to her RRIF
- Mary may split half of her RRIF payments with Frank during retirement, and draw dividends down in her name as required.
- Depending on how much they require to live on, they may be able to salvage some or all of OAS.
- Problem: if money left in corporation, it is taxed at highest rate for children

TriDelta
Private Wealth

Strategy 3A: Couple Near Retirement

- Solution: Purchase a $2 million Joint Last to Die Insurance policy inside Mary's MPC. Asset shift of $70,000/yr. for 9 years only.
  - $4.2 million payout to estate in 35 years
  - Significant Cash Value from year 17 ($3.2MM by year 35). Accessible if needed.
  - The Death Benefit represents an annualized growth rate of 16.6% vs. cash investment.

* Insurance scenario assumes standard non-smoker rates, results will vary based on health and other factors.

TriDelta Private Wealth

Strategy 3B: Young Entrepreneur

- Brian is 35 and has begun to build a thriving business.
- His annual earnings are $500k/yr. He has begun to save some retained earnings, as well as max his RRSP & TFSA. Currently owns a $700k condominium with his fiancée. There is a $400k mortgage remaining.

* Insurance scenario assumes standard non-smoker rates, results will vary based on health and other factors.

TriDelta Private Wealth

Strategy 3B: Young Entrepreneur

- Objectives:
  - Invest retained earnings as efficiently as possible.
  - Manage assets with moderate to low risk
  - Extract as much capital from the corporation as possible at low tax rates.
  - Fund a comfortable retirement before 60.

TRIDELTA
Private Wealth

Strategy 3B: Young Entrepreneur

- Invest $80k/yr. for 20 years into a $2.5MM Joint Last to Die policy with his 60 year old father.
  - Assuming his father dies in year 25, his corporation will collect $3MM tax free. $1.6MM of that will be able to roll out of the MPC completely tax free.
  - **Saves approx. $720k** in taxes, in addition to the tax free growth of the $1.4MM left inside the MPC.
  - Tax-equivalent of 12.2%/yr.
  - Entrepreneur will then be left with the policy on his own life, which can be used for further tax-sheltering.

* Insurance scenario assumes standard non-smoker rates, results will vary based on health and other factors. Investment return of 5.5% assumed.

TriDelta
Private Wealth

Tax Benefits of Insurance within Corporation

1. Tax-exempt capital growth
2. Tax-free payment at death saves estate from forced sale of other assets
3. Tool to take funds out of corporation tax-free
4. Policy premiums funded by corporate assets
5. High tax-equivalent returns – typically 10% – 18% depending on mortality
6. Portfolio Diversifier: known tax-free payout; unknown is timing

TRIDELTA
Private Wealth

Strategy 4 – SR&ED Credits for Doctors

- Scientific Research & Experimental Development credits
  - ✓ goes back 30 years.
- Formal research, product research, patient research all can qualify.
- This is not a grant – doctors are entitled to this money under the Income Tax Act.
- You must be incorporated and earn T4 income.
- T4 Income * % of time on research*68%= SR&ED Credit.
- Annual with ability to go back 1 year.

TRIDELTA
Private Wealth

Strategy 5 – Individual Pension Plan

- Contribute to a Defined Benefit Pension plan for you and/or a working spouse.
- Higher contribution limits than RRSPs
- Retroactive Contributions and Terminal Funding allowable to top up shortfalls.
- All Contributions, Management Fees, Actuarial fees are fully tax-deductible to the Corporation.
- Convertible to a LIRA prior to annuitization.

TriDelta
Private Wealth

How TriDelta Can Help You

- We can answer your questions one on one – about your personal situation.
- Build a Retirement and Estate Plan that incorporates your goals and assets in a co-ordinated strategy for your life and next generation
- Investment Management – Build an investment plan that is tax efficient, cash flow efficient for your needs and reduces volatility
- Save you taxes – leave no stone unturned
- Provide greater peace of mind so you can focus on making the most of your retirement

TriDelta
Private Wealth

How to Reach Us

Ted Rechtshaffen
President and CEO
416-733-3292 x221
tedr@tridelta.ca

Lorne Zeiler
VP, Portfolio Manager
416-733-3292 x225
lorne@tridelta.ca

Asher Tward
VP, Estate Planning
416-733-3292 x222
asher@tridelta.ca

www.tridelta.ca

TRIDELTA
Private Wealth