Tax Strategies for Canadian Corporations

TriDelta Private Wealth

Key Questions for Canadians with Corporations

1. How can I get money out of my corporation efficiently?
2. Am I being tax smart or are there other things I should be doing?
3. How do the 2024 Federal Budget changes impact me?
4. Is there a risk of me outliving my money?
5. I know how much money I have, but will it allow me to do the things I want to do?
6. How can I ensure my Estate pays as little tax as possible?

TriDelta Can Help You Answer All of These

How can TriDelta help you?

- We can answer questions specific to your situation.
- We can identify the most applicable tax saving solutions for you and help put an action plan in place.
- We can build a financial plan that includes your Corporation to help you plan for the rest of your life and the next generation.
- We can implement any investment or insurance strategy outlined in the rest of this report.

The June 25th deadline for making decisions about your unrealized capital gains within your investment portfolio and/or investment properties is quickly approaching. Together we can ensure you take the best steps for your situation today and over the long-term.

Recent Changes in the 2024 Federal Budget

Beginning June 25, 2024, the capital gain inclusion rate is being increased from 50% to 66.7%.
This will have significant implications for individuals with Corporations and High-Net-Worth Canadians.

- Investments with unrealized capital gains after June 2024 will incur significantly more tax when sold.

- Reduction in Capital Dividend Account (CDA) credits from 50% to 33.3% on realized capital gains.
  - Thus, reducing your ability to take tax-free dividends from the Corporation.

- Investment properties held within the Corporation will also be subject to this increased tax when sold.

What Can Be Done?
4 Tax Strategies for Canadians with Corporations

1. Life Insurance
2. Individual Pension Plan (IPP)
3. Flow Through Shares
4. Tax Smart Investing

Life Insurance

Utilizing Permanent Life Insurance within a Corporation has now become far more beneficial to Canadians relative to the new Capital Gains regime. ***Here are a few benefits:***

- Convert Retained Earnings into Tax-Sheltered Investments.
- Circumvent the Passive Investment threshold which impacts the Small Business Deduction.
- Can provide 100% **certainty of returns** vs. Marketable Investments and Real Estate.
- Extract far more Retained Earnings from the Corporation TAX-FREE.
  - Under the new Capital Gains Regime, Capital Dividends on Portfolio gains and Real Estate are reduced by 1/3, while Capital Dividends on Life Insurance remain unchanged.
- Can provide **MUCH HIGHER** assets vs. competitive market returns over a long period duration in most circumstances.

Life Insurance

Case Study

- Assuming Insurance is owned by a Canadian Controlled Private Corporation (CCPC) after an Estate Freeze
- Insured Male 62 & Female 60 – Joint Last to Die
- Internal Rate of Return to Year 35 = 9.1% annualized
- Total Estate Assets = $1.93 million (+84%) more than investing at 6%.
- Provides a sizable advantage regardless of when you die.

Year	Deposit	Cumulative Deposit	Cash Value	Death Benefit	Capital Dividend (2nd)	CDA % (2nd)	Tax Savings via CDA @ 47.74%	Death Benefit Extracted	Alternative @ 6% Pre-Tax RoR Inside Corp	Cumulative Gains	Dividend Taxation @ 47.74%	Alternative Extracted	Total Advantage	% Advantage
5	76,800	384,000	61,761	3,110,808	2,749,267	88%	1,312,500	2,938,209	432,638	48,638	198,801	237,733	2,700,475	1136%
10	76,800	768,000	490,233	3,375,220	2,681,136	79%	1,279,974	3,043,864	959,059	191,059	427,451	546,915	2,496,949	457%
15	76,800	1,152,000	1,399,966	3,793,534	2,818,721	74%	1,345,657	3,328,158	1,599,592	447,592	692,419	943,033	2,385,126	253%
20	0	1,152,000	1,735,504	3,670,623	2,868,458	78%	1,369,402	3,287,669	1,946,336	794,336	802,775	1,207,198	2,080,471	172%
25	0	1,152,000	2,156,517	3,703,438	3,149,875	85%	1,503,750	3,439,167	2,368,243	1,216,243	937,054	1,528,627	1,910,540	125%
30	0	1,152,000	2,678,215	3,889,170	3,684,100	95%	1,758,790	3,791,270	2,881,607	1,729,607	1,169,250	1,850,923	1,940,347	105%
35	0	1,152,000	3,308,240	4,235,659	4,235,659	100%	2,022,104	4,235,659	3,506,252	2,354,252	1,392,905	2,301,957	1,933,702	84%
40	0	1,152,000	4,039,387	4,746,112	4,746,112	100%	2,265,794	4,746,112	4,266,302	3,114,302	1,665,041	2,850,763	1,895,349	66%

Individual Pension Plans (IPP)

- Contribute to a self funded 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.
- Convert Retained Earnings into Tax-Sheltered Investments, while earning a tax deduction.
- Circumvent the Passive Investment threshold which impacts the Small Business Deduction.
- Convertible to a LIRA prior to annuitization.

Flow Through Shares

Flow Through Shares involve government tax credits for mining and energy exploration but require investment in volatile junior mining or energy companies.

- This has been a common strategy for high income Canadians to help lower their annual tax bill.

The benefits of Flow-Through Shares will still be in place for high income Canadians and certain Corporations, but the capital gains increase may decrease the benefits for those with a higher income.

- Flow Through Share investors have a cost base of $0, and there is always a capital gain incurred. The increased inclusion rate for capital gains reduces the after-tax benefit of this investment but significant tax savings can still be possible.

The previously announced changes to the Alternative Minimum Tax (AMT) also impact individuals.

- For those that use Flow Through Shares, the positive impact on each dollar will be the same, but you will be a little more limited in how much you can invest before the AMT comes into play.

Tax Smart Investment Strategies

Striking a balance between investment income and growth is often a difficult task and can have significant tax considerations.

Prioritizing capital gains in Corporate investment accounts has been the norm. This is especially true for those eligible for the Small Business Deduction.

- The increased capital gains inclusion rate carries material tax consequences for these investment portfolios.
  - ➢ The increased inclusion means a reduction in your Capital Dividend Account, likely reducing your ability to remove money from the Corporation tax efficiently.
  - ➢ 66.7% of the gain is now counted towards your Adjusted Aggregate Investment Income (AAII) limit. This increase from 50% may reduce your access to the Small Business Deduction.

Structuring a plan with your advisor and accountant can result in significant tax savings and peace of mind.

Tax Smart Investment Strategies (Cont'd)

Today there are some interesting solutions which can play a role in limiting your tax burden and increasing your control over when to realize those taxes.

Lowering your investment income

- Focusing on stocks or other investments with the expectation for capital appreciation can allow you to defer tax on those gains until sold. **We recommend consulting with an investment professional to decide if it makes sense to realize any unrealized gains prior to June 25th**. You still have the option of buying it again if you like the investment.

No Income ETFs

- Corporate Class Total Return ETFs are a unique investment that can be used to buy the S&P 500 (or some other index) without the dividend yield you would incur normally.
    - These ETFs use Total Return Swap Contracts to replicate the performance of the index rather than actually owning it like you would the SPY ETF.
- Instead of being paid out and taxed as investment income, the dividend yield is added to the value of the ETF and treated as a capital gain when the investment is sold.

Tax Smart Investment Strategies (Cont'd)

Return of Capital (ROC)

- Some Real Estate Investment Trusts (REITs) and Alternative Investments are structured in a way that income is paid as return of capital. This form of investment income is tax-deferred and treated as a capital gain when the investment is eventually sold.
- There are also Corporate Class funds which are structured to distribute 100% return of capital.
  - High yielding structured notes contained in Corporate Class funds are available which yield 6+%.

Covered Call ETFs

- Covered Call strategies can be done on a variety of underlying investments and refers to a trading strategy used to generate income.
- These investments often carry a 10+% yield at current levels and the income is taxed as a capital gain.

Discount Bonds

- Bonds experienced significant declines in 2022. Today offers an opportunity to purchase bonds at a discount to par prior to their maturity in 1-3 years. This difference between the price purchased and par is taxed as a capital gain.

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