



WelchGroup
Consulting

Tax Planning For Business Owners

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BUSINESS JOURNAL

Welch LLP



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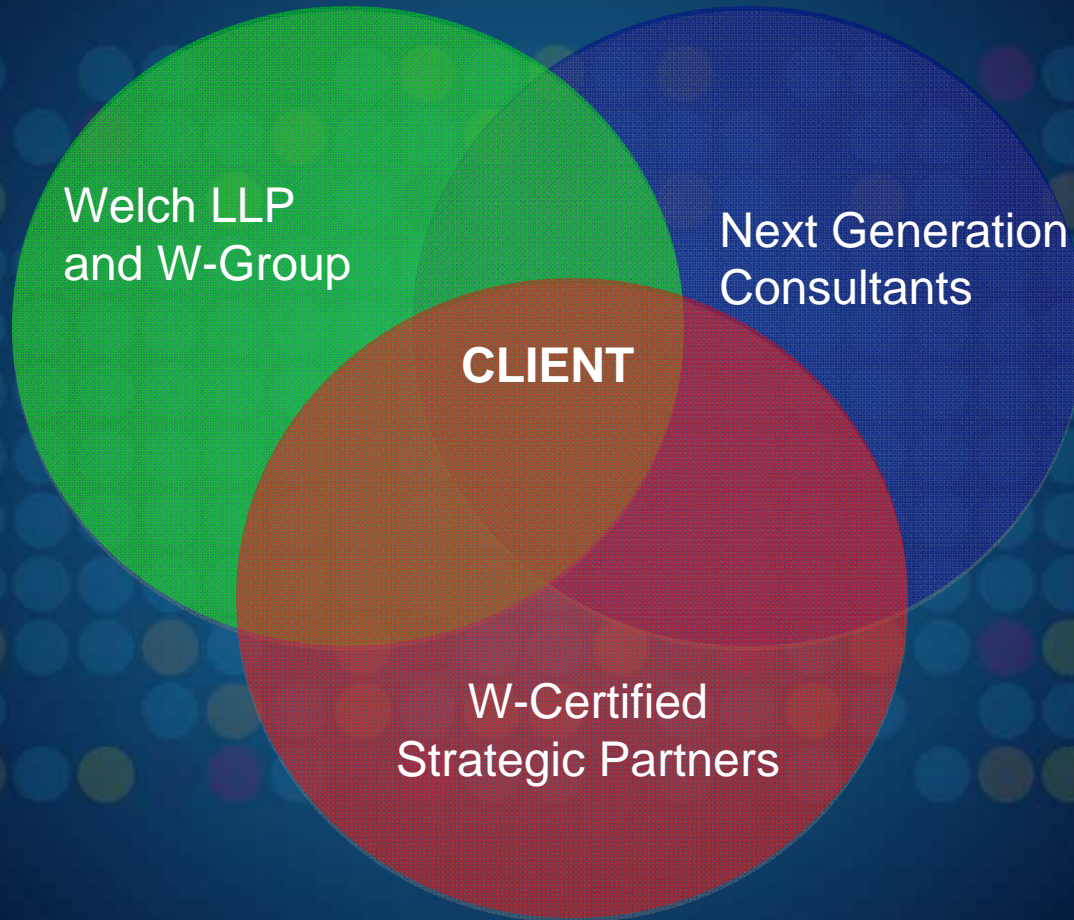


PERLEY-ROBERTSON,
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www.perlaw.com

- Founded in Ottawa in 1971.
- One of the largest independent, full service law firms in the National Capital Region.
- Practice areas include:
 - Business Law, International Arbitration, Intellectual Property, Litigation, Real
 - Estate, Personal Legal Needs, Technology, Life Sciences, Immigration,
 - Government Relations, Labour and Employment Law and Police Law
- Business Law Group - responsive, flexible and practical support for legal matters in the areas of:
 - Corporate and Commercial, Financing, M & A, Tax, Insolvency, Immigration,
 - Structure Planning, Succession Planning
- Gregory Sanders (Head of the Tax Law Group)

WelchGroup Consulting: one-stop-shop for SMEs



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Advisory

- Governance
- Business and Strategic Planning
- Succession Planning
- Forensic Accounting
- Risk Management

Support

- Virtual CFO
- HR Support
- Branding and Marketing
- IT Consulting
- Tax Recovery Services

CLIENT

Assessment

- Investment Strategy Assessment
- Insurance Strategy Assessment
- Banking Assistance

“Begin with the end in mind”

Stephen Covey



Typical Structure:

- Common structure
 - We see various variations
- Minimal current and long-term tax reduction opportunities
- Does not embody proactive planning



Issues

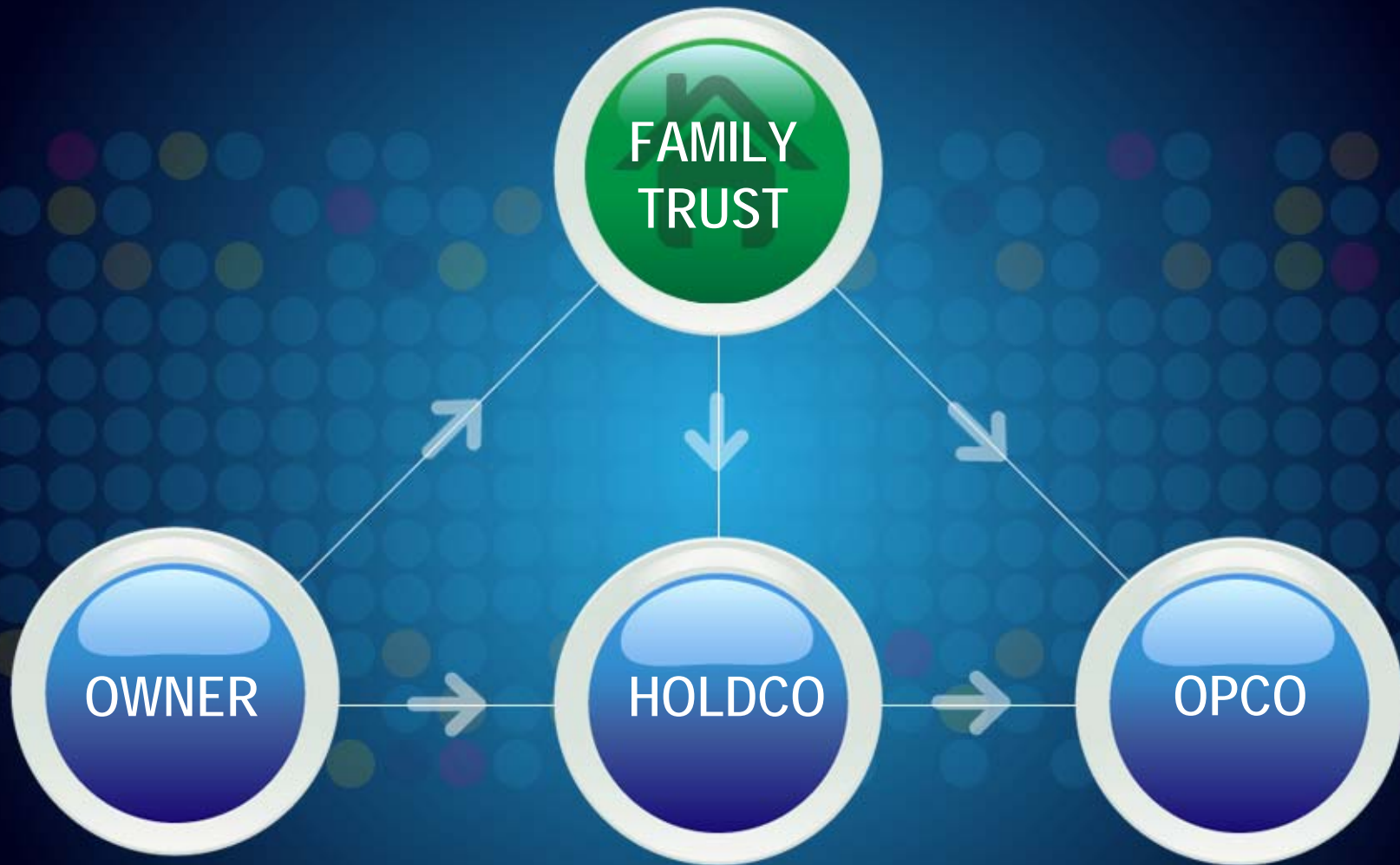
- Assume that there is an exit – because the principal dies:
 - Possible full taxation of corporate value at death
 - If shares have a value of \$3 MM tax would be approximately \$700,000
 - No \$750,000 capital gains exemption
 - Liquidity issues for estate
 - Potential for double taxation

Typical Structure:

Few Options, Not Proactive



Proactive Plan:



Proactive Plan:

1. Principal may generally still control corporate group
 2. Family members participate in ownership
 3. Principal may be a key decision maker in respect of trust
 4. Principal may also be a beneficiary of trust
- Important to note that we are passing on future growth to the trust - current value belongs to the principal

Trust Benefits

- Trust provides a flexible means of including family members in the ownership mix
- Income splitting opportunities arise by virtue of trust
- We can access capital gains exemption of family members
- Terminal tax liability of principal will not increase
- We may be in a position to claw back the principals terminal tax exposure

Transaction Planning

- A proactive ownership structure allows for the minimization of tax in the event of sale
- Capital gains exemption of family members may be accessed
- Assuming that the principal has a spouse and two children – then \$3 MM of gains may be sheltered by the capital gains exemption

Transaction Planning

- Minimize tax in the event of sale
- Access family members' capital gains exemption
- Example: a spouse and two children = \$3 MM of gains may be sheltered



VALUE



TAXES

Surplus Stripping

- Tax regime allows for a deferral of tax on corporate retained earnings
- For example, assume that Opco has \$2 MM of safe income and is being sold for \$5 MM



\$5MM Sale Price

\$2MM Safe Income

Surplus Stripping

- In advance of the sale, we may be permitted to extract \$2 MM from Opco and only pay tax on a \$3 MM gain
- Represents a tax deferral of \$460,000

\$3MM Taxable Gain



\$2 MM flows to Holdco tax-free \$460,000 of tax is deferred

Transaction Planning

- Subsequent to capital gains exemption and safe income planning
- The remaining gain will be taxed at 23%
- Via transaction planning we can defer a substantial portion of such tax, i.e. $\frac{1}{2}$
- A portion of proceeds flow to a holding company, tax may be deferred until corporate dollars are required for personal use

Get Organized

- The key to minimizing tax is being proactive
- Planning is customized for principal and family
 - Addresses specific situation
 - Objectives
- We can assist in designing and implementing a tax effective structure
- Benefit from current tax savings
- Reduction of the tax hit at the time of exit
- Peace of mind

Thank you. Questions?

