The TaxLetter®

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ESTATEPLANNING

Spring Cleaning

Planning Calendar

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(This is the first of two articles on Spring Cleaning. The second will appear in the next issue of The Tax Letter*).*

It's hard to believe that March is already here, so it's time to (at the very least) think about putting away the boots and snow shovels. This is also a time of year for renewal and the annual ritual of spring cleaning, getting rid of old stuff, getting started and catching up on tasks to be done.

The same is true when it comes to your financial needs. To help you along, we've assembled this calendar of financial reminders and recommendations that will take you through 2019 and into 2020.

Yes, the deadline for 2018 RRSP deposits officially ends on March 1st, but you should consider getting a jump on your 2019 savings now.

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MARCH
Individual Pension Plan (IPP)

If you are a business owner or incorporated professional like a doctor, dentist, lawyer or accountant, consider the tremendous benefits available to you with an Individual Pension Plan (IPP) instead of a more traditional RRSP. IPPs are available to business owners and incorporated professionals only. Unfortunately, T4 employees (most Canadians) don't qualify.

Simply put, an IPP allows you to shelter up to 65 per cent more than allowed under an RRSP and provides the flexibility to shift from a defined benefit plan to a defined contribution plan depending on the cash flow needs of your business.

An IPP offers some great tax deductions for your corporation, allowing it to deduct the deposits it makes on your behalf, and enjoys significantly better creditor protection, greater access to a wider variety of investment vehicles, and the ability to transfer those savings to your family on a tax-free basis.

My TaxLetter® from January 2015, "Incorporated professionals and business owners should consider an Individual Pension Plan (IPP)" explains why to use an IPP instead of a traditional RRSP to enjoy higher contribution limits, better returns, and wealth transfer to family members on a tax-free basis.

We've been hearing from many more business owners and incorporated professionals (including accountants) than ever before, as more people become aware of IPPs. Don't hesitate to contact us for a consultation and a no-obligation illustration of the advantages.

APRIL
Personal Tax Deadline

April 30th is a date familiar to most tax paying Canadians: it's the deadline to file personal tax returns for all family members. Depending on your income bracket, if you earn more $220,000 annually and live in Ontario, your earnings will be depleted by up to 54 per cent. Your completed tax return will reveal how interest, stocks/dividends and capital gains have affected your taxes. This is a good time to seek a second opinion on your investment portfolio, and ensure it is structured in a manner that minimizes the tax grind.

Charitable readers take note

Donating cash is the least efficient way to be generous.

If you donate money personally, you will enjoy tax savings of about half your donation, but if you donate corporately, you can enjoy a full, 100 per cent corporate deduction.

A corporation using marketable securities for a donation doesn't pay capital gains tax.

Make your largest charitable donation this year if you are about to sell your business.

Bear that in mind because taxes can take a big chunk out of your savings in the years to come. For example, about half of your RRSP/RRIF savings end up going to taxes; as do 45 per cent of your holding/operating company assets and about 25 per cent of your accumulated capital gains from investments, real estate and business equity.

Get that second opinion on your portfolio. While 2018 was a very bad year for most investors, the vast majority of our clients did well, and no one lost any money.

MAY
Review Life and Disability Insurance

We usually find that most high earning professionals with a disability plan at work are seriously underinsured and wouldn't be able to pay their mortgage and other living expenses if they became ill or disabled. High limit disability insurance coverage is now available to provide as much as $2 million annually in tax-free disability benefits.

Give us a call and one of our professionals will help ensure you have the proper coverage.

JUNE
Passive Income Rules for Canadian controlled private corporations

Are you in compliance with the new tax rules on passive investment income? If your company earns more than $50,000 of annual passive income, you will lose all or part of your small business deduction and then get highly taxed for every dollar of passive income above that.

There are several ways to mitigate the passive income problem, save the small business deduction and preserve your money in compliance with the new rules.

My TaxLetter® article from Dec 2018 "Passive Income Strategies – Get Proactive" presents 4 ways an incorporated business can mitigate new tax rules, preserve the small business deduction and save hard-earned money.

The Final Four

Protecting your money from taxes has become more difficult. There are now just four tax-exempt sources to preserve your money for the next generation: your home, TFSAs, lottery winnings and life insurance. The proceeds of tax-exempt life insurance can be used to pay taxes and other costs at death, provide you with the means of giving tax-effectively to charity while you are still around and provide for a guaranteed mechanism in shareholder agreements to make sure your family gets their share of your hard fought "sweat equity".

Corporate-owned life insurance (COLI)

COLI is like a Tax-Free Savings Account (TFSA). But unlike a TFSA, to which you can only deposit a maximum of $6,000 as of 2019, you can save an unlimited amount tax-exempt with this life insurance. Your company can also take out passive income tax-efficiently and not be subject to the recent new tax rules on passive income.

My TaxLetter® article of May 2018 "Corporate-Owned Life Insurance, Liberate your Profits" explains why business owners buy corporate-owned life insurance, and how they use leverage arrangements to acquire it, allowing them to keep their own money working in their business or investment portfolio.

Contact us to discover how Individual Pension Plans, shared-ownership critical illness insurance, tax-exempt corporate-owned life insurance and leveraged life insurance will allow you to spread income to spouses and children in a tax-friendly manner in compliance with new tax rules.

JULY
Be Philanthropic

Reflect on your charitable activities. Most people are not aware of the financial benefits available to them just for being charitable.

My TaxLetter® article from Oct 2017 "CPP Philanthropy™ - Charitable Giving and Tax Savings" describes several ways to use government supplied funds to make large charitable gifts, eliminate taxes and leave more for your family.

Finances and taxes aside, set an example for your children and grandchildren. We are available to discuss giving options that will save you money in substantial ways.

My recent TaxLetter® article (Jan 2019)" Be Philanthropic, Improve Your Own Finances", describes several giving strategies and explains the accompanying financial benefits available to generous people.

AUGUST

Shareholders Agreements

Most business partners, even those with well-crafted Shareholders Agreements, don't have adequate insurance in place to provide the funds they will need to buy out a partner's share upon death or disability.

An essential part of any good shareholder agreement is the buy-sell provision to give all shareholders peace of mind.

Some shareholders' agreements are poorly constructed, beneficiaries are incorrect, out of date and some are still in draft form, they've never been signed.

Estate Freeze

Consider a flexible estate freeze that lets you transfer the future growth in value of your business to future generations. The freeze crystalizes the tax liability of the older generation and then uses inexpensive life insurance to provide the funding for the inevitable tax bite that will come especially with the growth of the estate. ❑

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.
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Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html
The 2019 Toolkit now includes:
Estate Directory
Estate Planning Checklist
Executor Duties Checklist
Business Owners Planning Guide
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