



Di Iorio Family Wealth of RBC Dominion Securities

Think bigger. Act bolder. Invest better.

4 Key Wealth Management Strategies for Business Owners

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Everything we do is centered around making our clients, and everyone around us into better investors. While portfolio management and investment selection is a key part of this, so too is creating the optimal structure within which to invest your assets.

Any good Wealth Management planning should take into account the various structures and strategies available to an individual, and recommend the ideal solutions to maximize future value down the road.

One subset of strategies that we often deal with are those that pertain to business owners. We've decided to devote this blog to exploring four key wealth management strategies available to business owners:

1. Invest in a holding company

This one is quite straightforward. Instead of taking out all profits earned by a business as T4 income, incorporated business owners are able to flow money from their operating company into a holding company tax efficiently. This not only reduces tax burden, but also allows a business owner to accumulate assets in a separate entity, segregated from their personal and operating company holdings. Though tax rates on investment returns are now very consistent between holding company and personal assets, there are numerous other advantages, including:

- Holding companies file their own tax returns, which means the income from a holding company does not impact personal tax returns. Because of this, an individual can still theoretically collect certain benefits, avoid pension clawbacks, etc.
- Holding companies allow for avoidance of US situs asset estate taxes, which as explored in our [Behind the Number Podcast - Episode 3](#), can become a problem for clients with significant worldwide assets
- Generating capital gains in a holding company can create Capital Dividend Account (CDA) room, allowing for funds to be withdrawn personally with no additional taxes

2. Convert your RRSP into an IPP (Individual Pension Plan)

An IPP in many ways can be thought of as an enhanced RRSP. Both structures fall under the pension plan act, and allow for savings to grow on a tax-deferred basis to benefit an individual's retirement. Just like an employee of a large corporation can participate in a company pension plan, so-too can a business owner by replacing their conventional RRSP with an IPP. Here are the some key advantages:

- Higher yearly contribution limits
- The ability to go back in time and recapture unused past service contributions
- Having an operating company contribute directly into the plan using pre-tax dollars
- Creditor protection
- A prescribed rate of return of 7.5% - if the investments fail to meet the prescribed return, the company can make up the shortfall through additional tax-free deposits

3. Generate capital gains to minimize taxes, and maximize the CDA (Capital Dividend Account)

A common misconception is that a holding company should be invested in more income-producing investments. While there is nothing wrong with generating dividends and interest in any type of account, the reality is that interest and dividend income are inferior to capital gains on an after tax basis. Here are a few things to know about capital gains & the CDA:

- Creating capital gains in a holding company is not only tax effective, but it also creates a credit in the Capital Dividend Account of the company.
- This account allows shareholders to distribute capital dividends from their holding company tax-free
- When a company generates capital gains, 50% of these are included in taxable income, as these gains are accumulated, so is CDA room
- Other types of dividends paid from a holdco to an individual would incur taxes, only capital gains provide this benefit

4. Use corporate funds to buy life insurance

Outside of registered plans, there aren't many ways to grow investments in a tax-advantaged manner. One exception: Life Insurance. There are benefits to investing within a Life Insurance policy personally, but there are additional benefits for doing so corporately. These include:

- A generally lower tax-burden on funds paid to a holdco from an operating company (vs. receiving the funds personally), allowing insurance premiums to be paid from a higher net base of funds
- Proceeds from life insurance can flow mostly tax free through the aforementioned CDA account to estate beneficiaries
- Even if choosing to access cash value within a policy, this cash value can accumulate returns on a tax-deferred basis similar to an RRSP

In this post we've reviewed four strategies which are directly linked to efficient use of investment capital. However, there are many other planning opportunities pertaining to things like the sale of a business, or the transition of a business to the next generation. A couple examples of these are:

- The use of a Family Trust to multiply the capital gains exemption upon a sale
- The use of Estate Freezes to delay taxes payable and compound more assets over time

Many business owners are relying on monetizing their business to fund their eventual retirement, but this does not have to be the case. Optimizing investment structures today can help to maximize the future value of capital which can be accessed independently of any future sales.

While we have touched on many of the general aspects of these strategies, there are often complexities that can come along with them which require careful planning and professional advice. If you are a business owner, and you are interested in learning more about anything discussed in this blog, feel free to reach out to us directly at any time.

Sincerely,
Di Iorio Family Wealth

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