Solutions for Business Owners

Should I Invest in my RRSP or a Corporate Investment Account?

Wealth Without Worry

West End wealth planning

Investment Planning Counsel®
IPC SECURITIES CORPORATION

CIPF
Canadian Investor Protection Fund
MEMBER

Should I Invest in my RRSP or a Corporate Investment Account?

My clients, lets call them Fred and Wilma, run a successful mortgage brokerage practice and earn good six-figure income. Their investments, along with a number of rental townhouses, mortgages and Mortgage Investment Corporation's (MICs) are for the most part owned by their companies. The mortgages and MICs generate interest income and their townhomes net rental income both of which are taxed the corporate tax rate of 50.17% for passive income.

Fred and Wilma have close to $300,000 of unused RRSP contribution room plus an Individual Pension Plan (IPP) to which they have contributed to only once during the last number of years. During a recent review meeting I asked the client why they are not contributing to their registered plans.

Being in the mortgage business, they have invested in what they know: mortgages and real estate. And like most business owners, they wish to keep their surplus corporate cash within their corporation to take advantage of the 15% small business tax rate. Why wouldn't you want to keep $.85 of every dollar of profit vs. as little as $0.4647 if the same dollar is withdrawn at the 53.53% top tax rate in Ontario?

I showed a recent National Post article which compared the personal after tax dollars generated by contributing to an RRSP or IPP vs. within a corporate owned investment. This detailed analysis showed how the RRSP or IPP produced greater after-tax dollars in your pocket unless the corporate investments generated 100% deferred capital gains. Earning realized capital gains within the corporate account produced similar results to an RSP/IPP while earning eligible dividends, interest and net rental income produced far less after-tax dollars in you pocket.

There are two major difficulties, however, in generating 100% deferred capital gains within a corporation. First, this would likely require owning essentially an all equity portfolio which, from a risk perspective, may not be suitable for most investors (there are some exceptions). Second, to defer capital gains, the investments cannot be sold to for many years and even decades. This may be difficult for most investors.

Remember to always consult an professional Advisor well experienced with the tax and investment implications of corporately owned investment account before implementing any strategy.

West End Wealth Planning, Part of IPC Securities Corporation

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Our Personal Wealth Management Strategy

Wealth Without Worry

Helping our clients to *"not"* consistently worry about their financial situation or make costly financial mistakes, is just part of our Personal Wealth Management Strategy.

Our all-encompassing process helps you to make intelligent financial decisions and guides the integration of your investments, tax minimization, asset protection, estate, and retirement strategies.

To provide you with a better understanding about how your financial decisions are effecting your current and future wealth, we will cover the cost of a professional assessment on your overall financial and investment strategies.

To Schedule a Financial & Investment Risk Assessment

Call us @ **416-640-9990 extension #4**

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