

Solutions for Business Owners

Saving Tax on Passive Corporate Income



Wealth Without Worry

West End
wealth planning

 Investment
Planning Counsel®
IPC SECURITIES CORPORATION

CIPF
Canadian Investor Protection Fund
MEMBER

Saving Tax on Passive Corporate Income

There are advantages for a business owner to allocate surplus corporate dollars to a corporately owned investment account vs. withdrawing these funds to contribute to non-registered personally held investments. These include;

1. Significant tax deferral (15% corporate tax rate on small business income)
2. Preferred tax rate when funds are withdrawn
3. Potential estate tax benefits

Corporate investing has two major tax issues which can greatly reduce the after-tax benefits. First, is the high corporate tax rate of 50.17% charged on passive income and second, the refundable tax charged yearly on all income and the taxable portion of realized capital gains. The refundable tax essentially eliminates the huge long term benefit of compounding.

Fortunately, the effects of the 50.17% tax rate and refundable tax can be mitigated substantially by structuring the corporate portfolio to generate deferred capital gains instead of interest income, net rental income or eligible dividends. Generating deferred capital gains benefits the investor because the refundable tax is not charged since there is no income. It also allows the 50% tax-free portion of the capital gain to be withdrawn out of the corporation using the capital dividend account [CDA] on a 100% tax-free basis.

The chart below compares how much after tax dollars end up with the investor personally after 25 years of a \$1,000,000 initial investment by generating interest income, net rental income, eligible dividends, and deferred capital gains within a corporately owned investment account.

\$1,000,000 Initial Corporate Investment over 25 Years

	Generated in Corporate Investment Account		
	Interest & Net Rental Income ⁽¹⁾	Eligible Dividend Income ⁽¹⁾	Deferred Capital Gains ⁽¹⁾
After-Tax Personal Value in 25 Years ^(2&3)	\$1,121,364	\$1,390,028	\$2,035,498
% Increase vs. Interest & Net Rental Income		+23.95%	+81.51%

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

(1) Rate of return of 4% per year for all 25 years

(2) At the end of year 25 the entire investment is liquidated and paid to the shareholder

(3) The after-tax value to the shareholder includes corporate non-refundable tax and personal tax on the dividend. The refundable tax is included and calculated by tracking it each year and the corporation received the appropriate refund in each scenario which was paid to the shareholder.

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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