

## Getting Your Financial House In Order

For professionals and business owners, the task of planning for your financial future can sometimes seem overwhelming. All of the pieces of your financial picture (legal, accounting and investments) need to come together in a seamless package that will help you meet your goals during all of the phases of your life, and also help protect the value of your estate for your heirs. Putting a plan in place can provide you with peace of mind and ensure that you have taken advantage of all of the opportunities that are available to you to help reach your goals. Implementing certain strategies now can help you maximize the wealth that you have created. Having helped numerous individuals through this process, we have included a number of important strategies in this article to provide you with an array of valuable legal, tax, investment and estate planning options to consider.

### Legal Planning

#### ***Wills and Powers of Attorney***

Preparing a Will and Powers of Attorney may seem like basic legal planning to most, but you would be surprised at the number of people who either do not have, or have not updated their Wills and Powers of Attorney to reflect their current circumstances. Ensuring that you have a valid Will and Powers of Attorney for personal care and property will allow you to have a clear plan around how your assets can be used and distributed if you become unable to make any financial or personal care decisions due to illness or an unforeseen circumstance. Without these documents, the government may appoint an individual who will have full discretion (subject to succession law) around how your assets will be distributed, which may not align with your personal wishes.

#### ***Multiple Wills***

Having properly drafted Multiple (different) Wills for personal, corporate and real estate assets may help provide you with substantial tax savings as it provides a vehicle for some of your assets to avoid probate, and in turn, avoid paying substantial probate fees or estate administration tax. If all of your assets are contained within one Will, it may be worth having a discussion with your lawyer and accountant around the benefit of this strategy. The small cost of preparing another Will, could save your estate substantial costs down the road.

#### ***Testamentary Trust***

An extremely simple addition to a Will that can provide some powerful tax planning is the addition of a Testamentary Trust. The trust comes into effect only upon death, and provides a separate taxable structure for your heirs to allow them to draw on those assets as tax efficiently as possible. Whether you want to leave capital to a family member who is in a high tax bracket, allowing them to draw on the income at a lower rate, or a family member who needs to keep their income down to avoid losing pension income or other types of benefits, a Testamentary Trust might be worth looking at. With proper tax planning, income can be taxed in the hands of the Trust and/or the beneficiaries.

### Tax Planning

#### ***Holding Company***

Creating a holding company can provide you with numerous tax planning opportunities. It can not only provide you with creditor protection for your capital, but also some valuable tax planning strategies. It's preferable to implement these plans while the business is solvent and there are no pending claims against it. Once claims have been filed, it is often too late to move assets beyond the reach of creditors. By creating a holding company, you can move retained earnings from the operating company by paying tax-free inter corporate dividends to the holding company. The holding company can then reinvest these dividends and build up assets where they may be safe from creditor claims. Income in the operating

company may then be subject to a lower tax rate using small business tax deductions. The use of Life Insurance within the holding company can provide you with valuable tax strategies. By using surplus cash in a holding company to purchase any tax-exempt permanent product such as a whole life or universal life insurance policy with the operating company named as the beneficiary, you will be able to accumulate funds sheltered from tax inside the policy. Upon death, proceeds pass tax-free to the operating company and increase its capital dividend account. This can provide an opportunity for tax-free dividends to be passed on to your estate or heirs. This strategy will be discussed in more detail in the Corporate Estate Bond example.

#### ***Estate Freeze***

An Estate Freeze can be used to lock in the value of your company shares and provides a means to pass along future growth of the company to the next generation of family or business partners. It allows you to redeem your common shares in exchange for special shares of the same value, then issue common shares to the individuals who will be taking over the company. The future growth of the company would then be taxable in the new common shareholders' hands. The special shares can be structured to provide income for your retirement and allow you to retain certain voting privileges over the company. Locking in the value of the company may also allow you to quantify your estate liability, and in turn organize a means to cover that liability (financing or insurance proceeds) to preserve the value of your estate.

#### ***Family Trust***

A Family Trust is often used in conjunction with an Estate Freeze as together they can provide a means to provide tax savings and control over your family assets. If structured properly, a Family Trust can allow you to flow funds through to your chosen beneficiaries at the discretion of the trustee, and also provide a means to multiply available tax credits and capital gains exemptions.

***Questions or comments?***

***Email us at***

***office@logankatz.com***

***or call 613-228-8282 ext 0.***

## Getting Your Financial House In Order

### Investment Planning

As a business owner or an incorporated individual, there are some extremely advantageous strategies that are available to help you grow your investment assets.

#### Individual Pension Plans (IPP)

As the name implies, an Individual Pension Plan is a personal pension plan that is set up by your corporation and can be extended to cover your family members. An IPP is basically a defined benefit pension plan, where an actuary determines your available contribution room based on past service to the company, which then defines the investment income that you are entitled to in retirement. From that information, contributions would then be required to meet that income calculation. The major benefit of IPP's over regular retirement savings strategies e.g. (RRSP) is that they may allow you to contribute substantially more money towards your retirement, which would then be able to grow in a tax-sheltered environment.

#### Example for illustrative purposes.

Business owner age 55  
Earning \$122,222 per year  
Retiring at age 65  
With past service from January 1, 1991  
Based on actuarial calculations, the above individual would be able to buy-back past service of approximately \$530,007 into the IPP, which would likely include an RSP transfer and a company contribution. The company would then be required to contribute the following amounts to the plan. The table below shows available RRSP contribution limits.

Annually

|      | IPP       | vs. | RRSP      |
|------|-----------|-----|-----------|
| 2009 | \$ 30,529 |     | \$ 21,000 |
| 2014 | \$ 43,826 |     | \$ 27,254 |
| 2019 | \$ 60,690 |     | \$ 35,620 |
| 2024 | \$ 71,301 |     | \$ 46,554 |

As you can see, the amount of capital that can be contributed to the IPP is substantially more than the available RRSP contribution room.

With comparable growth rates, the individual would have a substantially higher available income at retirement. If they were to retire at age 65, the IPP would provide an income of \$129,998 vs. an income of \$82,572 from the RRSP or approximately 57% more income! If your goal is to maximize your retirement income, an IPP might be a valuable strategy for you.

#### Corporate Class Shares

Corporate class shares are a fund structure where a single taxable Canadian corporation holds various underlying portfolios. Two benefits are created for the shareholders of this structure. The first is a roll-over position that allows switches between portfolios without triggering a deemed disposition, thus benefiting the investor by deferring capital gains. The second converts most of the interest or foreign dividends into deferred capital gains. Only dividends or capital gains may be distributed from the corporate class shares. Thus the goal of minimizing, if not eliminating, taxable distributions is achieved.

There are a couple of effective planning strategies using corporate class shares. A private corporation's capital dividend account may be increased by the non-taxable portion of capital gains resulting from the disposition of eligible capital property. Therefore, an amount equal to 50% of all capital gains realized by the corporation on the disposition of shares of a corporate class (which may be higher than that of the mutual fund trust counterpart as interest and foreign dividends are effectively converted to deferred capital gains) is added to the capital dividend account.

The second opportunity is the attribution rules applied to capital gains and minor children. Unlike income-producing assets, capital gains realized on the disposition of property by a minor does not attribute to the transferor. It is therefore advantageous to invest in assets, such as corporate class shares that generate capital gains as opposed to interest or foreign dividend income. Purchasing corporate class shares is a simple and easy change that can lead to significant tax savings.

### Estate Planning

Everyone has different plans for their estate. Whether it is to ensure the most efficient transfer of wealth to your heirs, or to provide charitable donations to your desired causes, having a comprehensive estate plan can ensure that your goals are achieved. The cornerstone of any estate plan is proper tax planning and your accountant can be a huge resource to you, ensuring that your assets are structured to maximize any deductions that may be available to you. Once this has been achieved, there are strategies that can allow your capital to provide the best after tax return to your estate.

#### Corporate Estate Bond

The Corporate Estate Bond strategy can be worthwhile if you have any unregistered capital or more specifically an operating company or holding company with retained earnings or surplus cash, and ultimately have the goal of maximizing your estate for your heirs.

The basis of the Corporate Estate Bond strategy is to deposit amounts into the policy in excess of what is required to pay the policy charges creating cash value. The cash value accumulates on a tax-deferred basis that may increase the death benefit payable under the insurance policy. There are some major advantages to this strategy over and above having your investments in regular taxable investments (GIC's, stocks, etc.).

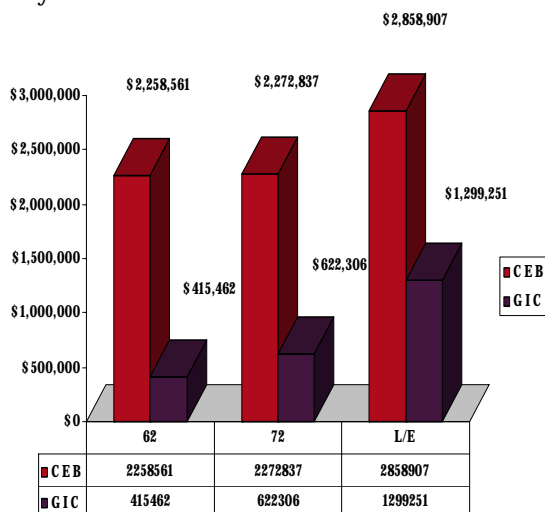
The Corporate Estate Bond provides you with tax-sheltered growth, reduction of your current and future taxes, and the ability to move funds out of the corporation tax-free upon death.

#### Example for illustrative purposes.

Couple John & Anne  
Age 52 & 47  
Corporate tax rate of 35%  
Investment of \$50,000 per year for 10 years - GIC vs. Overfunded Participating Account  
5.6% rate of return

## Getting Your Financial House In Order

Below is a graph of the approximate net estate value of the Corporate Estate Bond (CEB) vs. a taxable GIC at John's age 62, 72 and life expectancy.



As you can see, having the capital grow in the tax-sheltered environment of the Corporate Estate Bond vs. the taxable GIC, and also having the proceeds flow from the corporation through the Capital Dividend Account instead of having them going through regular probate and estate costs, would provide your estate with an increased value.

Getting your financial house in order may seem like a daunting task, but working with someone who can help you bring together all of the aspects of a successful plan can provide you with peace of mind that your assets are structured to meet your goals. We will be discussing all of the concepts discussed in this piece in more detail at the **Logan Katz breakfast seminars on October 15th**. We look forward to seeing you there.

*Logan Katz LLP acknowledges the generous contribution of this article by Fraser Sutherland and Dennis Shaw, Investment Advisors at CIBC Wood Gundy in Ottawa, Ontario. Logan Katz and CIBC Wood Gundy advise readers to seek advice regarding particular circumstances from personal tax and legal advisors.*

*Calculations and projections included in the article are for demonstration purposes only. They are based on a number of assumptions and consequently actual results may differ, possibly to a material degree.*

*Given the complexities involved, specialized tax and pension advice must be sought to ensure an Individual Pension Plan (IPP) is appropriate to individual situations. An IPP strategy must be considered within the context of a comprehensive financial and estate plan. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and Member CIPF.*



### Small Claims Court—Changes to Amounts Claimed

*As of January 1, 2010, the Small Claims Court monetary jurisdiction will be increased from \$10,000 to \$25,000.*

The Small Claims Court can handle any action for the payment of money or the recovery of possession of personal property where the amount claimed currently does not exceed \$10,000\*, excluding interest and costs such as court fees. This includes the value of all goods that the plaintiff is asking for in total, no matter how many defendants there are.

If the amount of your claim is more than \$10,000\*, you can still choose to use Small Claims Court. However, you will have to give up the money over \$10,000\*, as well as any future right to get this money in any other court.

You cannot divide the amount of money you are claiming into separate cases. You cannot, for example, divide \$10,500 into a \$10,000 claim and a \$500 claim in order to have the total amount dealt with in two cases.

Examples of claims that can be filed in the Small Claims Court include:

#### Claims for money owed under an agreement:

- Unpaid accounts for goods or services sold and delivered
- Unpaid loans
- Unpaid rent
- NSF cheques; and

#### Claims for damages:

- Property damage
- Clothes damaged by a dry cleaner
- Personal injuries
- Breach of contract

Small Claims Court is an easy and inexpensive means to initiate legal proceedings against another party.

\* Amount to increase to \$25,000 as of January 1, 2010.

### This 'n That at Logan Katz

#### Logan Katz in our Community

Logan Katz was honoured to be the major sponsor of the annual golf tournament hosted by *Association pour l'intégration sociale d'Ottawa* (Ottawa Social Integration Association), an organization that provides services to people with intellectual disabilities and to their families. The sold-out event raised in excess of \$30,000 for the cause.

#### More Than Just Accountants!

While most of us spend our summer holidays relaxing on the beach or reading a book on a cottage dock, Logan Katz's Anthony Sarmiento spent two weeks of his summer holidays taking on the incredible challenge of cycling from Castlegar, B.C. to Vancouver. In total, Anthony cycled 860 kilometers while savoring breathtaking scenery on BC's Kettle Valley Railway Trail.

#### Fond Farewell!

It is with a lot of sadness that Logan Katz will be bidding farewell to Janeta Odstrcilik who has decided to begin an exciting adventure in Vancouver. Born and raised in Ottawa, Janeta decided to fulfill her long-standing dream of living near the ocean. We wish her the very best. We know that those who have been serviced by Janeta will also be sad to see her leave.

#### Breakfast Seminars

Our 2009-2010 season is underway, we are still looking for new topics and speakers for our Breakfast Seminar Series, if you have a suggestion please feel free to contact Michelle Gibbons at mgibbons@logankatz.com or by phone at 613-228-8282 ext. 0.