

BUSINESS OWNERS: FOR 2021 — REVISIT YOUR TAX PLAN

For many business owners, the current business environment has been challenging. During these difficult times, there may be tax-planning opportunities available to help ease some of the discomfort. Here are three areas that may be worth revisiting:

Remuneration Strategies

This may be a good time to consider revisiting your remuneration strategy. With the ongoing pandemic, for those who may be beneficiaries of government Covid support benefits, the timing and type of income (salary vs. dividends) may have an impact on benefits received.

In general, the right mix of salary and dividends may impact the amount of corporate and personal taxes payable. If you aren't in need of immediate funds personally, it may make sense to leave excess cash in the company to defer taxes, especially if your company is entitled to claim the small business deduction. If you need to draw funds, there may be an opportunity to consider paying reasonable salaries to family members to take advantage of income-splitting opportunities. Also consider whether or not retirement savings strategies such as an Individual Pension Plan and/or a Retirement Compensation Arrangement may be beneficial for you and/or your key employees.

Business Succession Planning

If the current market conditions have temporarily caused the value of your business to decrease, and you are looking to plan for your business' succession, it may be an ideal time to consider an estate freeze. In general, this involves you locking in (i.e., freezing) the value of your interest in the business today and passing on the future growth in the value of the business to another party (usually to the next generation and through a family trust). A freeze may allow you to multiply the capital gains exemption, provide income-splitting opportunities and cap the tax liability of your shareholdings upon death. As economic conditions improve, the increased value of the shares will be passed on to the next generation.



Insurance Strategies

There may be benefits to owning a life insurance policy in your corporation. If you own life insurance personally, you may wish to consider transferring the policy to your corporation, although taxes may result from this transfer. There are two primary benefits of holding insurance in your corporation. First, you may be able to pay the premiums with "cheaper" corporate dollars (i.e., income that has been subject to tax at corporate rates that are lower relative to personal tax rates). Second, if you have surplus cash accumulating in your corporate structure, insurance may be an effective way to eventually distribute the money to the company's shareholders. When insurance is held corporately, generally all or most of the death benefit (depending on the policy's adjusted cost basis) is added to the Capital Dividend Account and may be distributed as a tax-free dividend. This could allow the funds to leave the company at significant tax savings relative to the tax rates on dividend income.

Seek Advice

With any of these strategies, the advice of your professional tax and legal advisors will help determine whether these may be appropriate for your particular situation.



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