WOOD GUNDY

THE DEVELOPING BUSINESS

A developing business is generally six to ten years old, financially increasing in cash and assets, but with less profits going back into the business. The primary focus in this stage of the business is on running itself with a more formal structure to handle increased sales, customers and a growing employee base. Managing the growth of your business may require the addition of benefits and insurance solutions, as well as securing and retaining talent so you can stay competitive. Take some time to consider the following options.

Key person insurance

Most businesses have an employee that is critical to the ongoing success of the business. This person may be a key decision maker, a top sales person, or perhaps a person who has built and maintains solid relationships with the company's suppliers. The death or disability of a key person could significantly impair the growth or stability of the business. To reduce the impact this would have, some businesses purchase key person insurance to protect against the potential loss of these top employees. If a key person dies or becomes disabled, and therefore unable to work, an insurance benefit could provide the business with the financial means to survive the impact and remain viable.

Group benefits

Quality employees are essential to the success of a business, and it is important to find ways to attract talent and keep them for many years. A properly designed group benefits plan can offer employees the security they are seeking and help a business gain the competitive edge over its competitors. A group benefits plan can be customized according to a business's needs. Companies can choose from wide range of benefits such as medical, dental, long and short term disability, group life insurance and many more. Depending on the Group Benefit plan the employer uses, it may be a tax deductible business expense to the employer and a non-taxable benefit to the employees.

Health and Welfare Trust

Health and Welfare Trusts (HWTs) may be useful for small employers who may have difficulties obtaining traditional group insurance benefits due to their size. They provide a way to pay for employee medical and dental expenses with pre-tax dollars, typically covering sickness or accident insurance, life insurance and private health services. The employer, and sometimes the employees, contribute to a trust to pay for these benefits. The HWT must be in the nature of insurance, a requirement that may be met by purchasing a critical illness insurance policy. Employer contributions to HWTs are tax deductible, and also include the possibility of buying life and wage replacement insurance for employees without creating a taxable benefit. If an employee leaves, the trust can transfer ownership of the policy to the individual, subject to possible tax consequences. HWTs can be a cost-effective way to provide additional benefits to a management team, and may act as an enhanced benefit plan at a fixed cost for the employer.

Shareholders' agreements

A shareholders' agreement is an arrangement created specifically for the business, usually defining the operation of the corporation, and the privileges, protection and obligations of its shareholders. In general, a shareholders' agreement must be unanimously agreed to by all shareholders to be effective. It can be used to establish the ongoing rights and responsibilities of shareholders, and provide instructions regarding the roles and responsibilities of business partners and involved family members during certain events.

As a crucial step in the business planning process for small businesses, shareholders' agreements are intended to act as a mechanism for protection in the event of a disagreement between shareholders.

Cash management

A developing business requires well-organized cash management. A CIBC Wood Gundy Investment Advisor can put you in touch with a CIBC Cash Management Specialist, who can offer a full range of receivables, payables and treasury management services that cater to business cash management needs. Payments received from your customers and made to your suppliers are efficiently processed to optimize your cash flow position and to ensure the effective management of your business' operating and investment funds.

Critical illness and disability insurance return on premiums

Critical illness and disability insurance for employees also allow for the option to add a return of premium benefit to them. This feature is designed to return any premium payments that are paid in the event that the insured does not suffer a critical illness or disability, as defined by the policy. Generally, there are two types of return of premium: return of premium on death, and return of premium during life. The benefit of having the return of premium option is the possibility of refunded premiums if the insured does not develop a critical illness or disability. There are, however, possible tax implications with this option as the Canada Revenue Agency (CRA) may consider some return of premium benefits to be taxable.

Capital accumulation plans

- **Group RRSPs:** A Group RRSP is a collection of individual Registered Retirement Savings Plans (RRSP) established by a company for its employees. For employees, the biggest difference between contributing to a group RRSP versus an individual RRSP is that the contributions can be deducted at the source, and are generally contributed with pre-tax income. They may also be pooled to obtain lower investment management fees. Employers may encourage employee contributions by matching them by a certain percentage. Contributions to a group RRSP are owned by the employee, who can choose what to do with them — transfer to another registered plan, redeem and/or add to them. Employers can maintain a degree of control by restricting withdrawals during the term of employment. A group RRSP does not guarantee a specific amount of income when an employee retires. There are also typically lower administration costs to the employer for administering group RRSPs compared to pension plans.
- **Employee Profit Sharing Plans:** Employee Profit Sharing Plans provide employees with the opportunity to receive a share of company profits. The employees' share of the yearly profits is placed in a trust fund and allocated to the participating individuals, along with their share of the accumulated interest in the fund for that year. The allocation may be in proportion to the employee's earnings, length of service or some other formula. The profits typically remain in the trust account until the participant's employment is terminated; however, some plans may allow cash withdrawals by the employee while still employed. Employees may also make contributions to this fund, however, these contributions are not tax deductible.
- Although a participant may not normally receive a distribution from this trust fund until retirement or until employment is terminated, the employee is taxed each year on his or her share of the profits, the interest accruing in the trust, and any realized capital gains.
- **Deferred Profit Sharing Plans:** A Deferred Profit Sharing Plan is similar to an Employee Profit Sharing Plan as it is funded by the annual profits of a company for the benefit of employees. However a Deferred Profit Sharing Plan is a registered plan, and taxes on employer contributions and investment income are deferred until the plan member receives the benefit out of the plan. Employee contributions are not permitted. Deferred Profit Sharing Plans are also subject to greater regulation and control compared to Employees Profit Sharing Plans.
- **Defined Contribution Pension Plans:** The difference between a Defined Benefit Pension Plan and a Defined Contribution Pension Plan is that with a defined contribution plan, the employee knows the amount of contributions that will be placed into the pension plan, whereas with a defined benefit plan, the retirement income is defined regardless of the investment returns. In a defined contribution plan, an employer chooses the amount they will contribute, as a fixed amount or a percentage of the employees' earnings. After a certain period, as defined by the plan's employer, the contributions become part of the employee's pension fund. All contributions are locked in under pensions law; however, in some cases, any voluntary contributions made may be redeemable. When employees retire, the accumulated proceeds are used to provide an annual income through a life annuity or another registered product (depending on provincial pension legislation). These plans also have the option of portability.

Portfolio Partner®

CIBC Wood Gundy Portfolio Partner is an ideal service for business owners who are looking to employ a tailored investment strategy with the predictability of a single fee. You will have access to preferred interest rates on Canadian and U.S. cash balances and margin loans, and will also be entitled to one complimentary Asset Advantage Account® which provides integrated investment, banking and borrowing transactions in one easy-to-access account.

Small business deduction

If incorporated in Canada and controlled by individuals and/or corporations who are Canadian residents, a corporation may qualify as a Canadian Controlled Private Corporation (CCPC), and could be eligible for a small business deduction. This is a deduction intended to provide small businesses with more after-tax income for reinvestment and expansion, in recognition of the higher cost of capital for smaller corporations. The deduction may be up to 20.25 percent (depending on the province) of the lesser of the following three amounts: the corporation's active business income, taxable income, or the small business limit for the year.

We're here to help

Attracting and retaining quality employees, and keeping up with the demands of your customers are essential to the success of your business. If you are considering using any of the options above to help manage the growth of your business, contact a CIBC Wood Gundy Investment Advisor.

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