WOOD GUNDY

THE GROWING BUSINESS

A growing business is typically 10-15 years old with increasing cash and assets and decreasing debt. A business at this stage is able to retain earnings for reinvestment into the business as expenses remain stable and revenue increases. Key employees and trusted senior executives are crucial to the success of the company. To effectively manage your growing business and experience continued success, important considerations include executive benefits, tax minimization strategies, financing business expansion, estate planning, and financial and retirement planning. Implementing the following options can help your business remain competitive.

Executive benefits

Many growing businesses have key employees and executives that directly contribute to the success of the business. Retaining these key employees is of great importance. The following strategies can add to employees' total compensation packages and lead to stronger employee retention.

Pension plan benefits

Individual Pension Plans (IPPs) are employer-sponsored defined benefit pension plans that can help to maximize retirement benefits for an employee. In some cases, the amount that can be contributed to an IPP may be greater than that which can be contributed to a Registered Retirement Savings Plan (RRSP). IPPs can be established by a corporation for its owner, managers, key executives or staff, as long as the plan member is an employee of the sponsoring company and meets specific criteria. The employer determines which employees will be provided with an IPP.

Individual Pension Plans can be a worthwhile retirement savings vehicle for employees who are over 40 years of age and earn T4 remuneration.

With a defined benefit pension plan, pension income is generally calculated according to a formula based on a number of factors including years of service and salary levels. The employer is responsible for providing this guaranteed income stream regardless of the investment returns on the pension plan contributions.

Employee retention

By incorporating employee retention benefits such as a Retirement Compensation Arrangement (RCA) into your plans and those of your most valued employees, your business can benefit from tax deductions while increasing tax-deferred retirement savings. As a business owner, offering your key employees an RCA can provide a competitive advantage to their total compensation package.

A Retirement Compensation Arrangement provides supplemental "pension" benefits. The employer makes tax deductible contributions on behalf of employees to provide retirement income. Contributions to an RCA are deductible as a business expense to the business and are not taxed in the employee's hands until benefits are received in retirement. However, half of all contributions and income earned in the RCA must go into a refundable tax account at Canada Revenue Agency (CRA). This account is non-interest bearing, which will reduce the overall rate of return on the employer's RCA contributions. When withdrawals are made in retirement, the refundable tax will be reimbursed to the trust at a ratio of $1 for every $2 of benefits paid out of the trust.

Tax minimization strategies

Establishing a holding company

A holding company is a parent corporation that owns enough voting stock in another company (for example, your business) to control its board of directors, thereby controlling its policies and management. Generally, the holding company itself does not produce goods and services, but exists only to hold shares of another company. Most importantly, a holding company is a company that is interposed between the owner and the active business, which allows profits to be flowed up to and protected in the holding company.

Benefits of a holding company include the ability to take advantage of estate freezing strategies. An estate freeze can be implemented to reduce the amount of taxes that are payable on the transfer of assets to a beneficiary. Freezing a company's share value for the original shareholders (for example, a parent) ensures that future increases in the fair market value of the company pass to the next generation.

Tax-exempt life insurance

Many companies hold a portfolio of interest-earning investments that generate taxable income. One strategy that allows for tax deferral of gains as well as a tax-sheltered death benefit is a tax-exempt life insurance policy. The corporation deposits payments into an exempt life insurance policy that are in excess of life insurance premiums, but within the limits specified by the government. Any surplus funds above the premium amount are invested within the policy. Any investment income will not be taxed as long as it remains in the plan. The Income Tax Act allows funds held in a tax-exempt life insurance policy to grow on a tax-deferred basis, much like funds held in RRSP accounts. Upon death of the policyholder, the death benefit is paid to beneficiaries on a tax-free basis in addition to the face value of the policy.

Investment solutions for your growing business

Portfolio Partner®

Portfolio Partner is an ideal service for owners of a growing business who are looking to employ a tailored investment strategy with the predictability of one 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®, fully integrating investing, banking and borrowing transactions in one easy-to-access account.

CIBC Wood Gundy Investment Consulting Service™

Investment Consulting Service gives you freedom from day-to-day investment decisions, allowing you more time to focus on growing your business. With the investment expertise of many of the world's leading investment managers, you can be confident that this investment solution will help you to achieve your long-term financial goals.

Estate planning

Estate planning enables you to plan for tomorrow. No matter what stage of life you're in, an estate plan can help simplify the transfer of assets to the next generation and protect your beneficiaries. A carefully crafted estate plan provides for the wellbeing and security of your beneficiaries upon your death. No matter what your financial situation may be, estate planning can help you protect your assets, minimize excess tax or transfer costs and bypass probate (probate may not be applicable in some provinces).

Corporate estate bonds

Corporate estate bonds can be beneficial to a private Canadian corporation whose owner is over the age of 45, in good health and has surplus funds to invest. To create a corporate estate bond, the corporation uses excess funds to buy a universal life insurance policy with the business owner as the insured party and the corporation as the beneficiary. The funds in the policy grow on a tax-deferred basis and upon death, the corporation receives the life insurance proceeds free from tax, plus a credit to its capital dividend account which can then be paid out to your estate tax free. This strategy may lower the amount of tax payable by the corporation and potentially increase cash value in the company.

Family trusts – living trust strategies

A living trust, as the name implies, is set up and takes effect during your lifetime. The settlor transfers funds into the trust property, which is then managed by a trustee for the benefit of the beneficiaries. Advantages of living trusts may include income splitting, estate freezes with a family business, avoidance of probate costs (probate may not be applicable in some provinces) and confidentiality, as a trust agreement is a private document. However, tax may be payable upon property being transferred to the trust.

In past years, living family trusts were used for the purpose of income splitting. However, the government introduced attribution rules to limit income splitting. When the settlor transfers assets to a living trust for the benefit of a spouse or a child under the age of 18, income paid out or designated by the trust to the beneficiaries will be attributed back to the settlor for tax purposes.

Buy/Sell agreements

As a business owner, ensuring the prolonged existence of your company is important, yet is often overlooked as part of a business plan. While business partners usually believe they will be in the business together well into the future, this is not always the case. There are numerous situations that can impact the success of your business that deserve careful consideration.

Your business can be disrupted if one partner dies or leaves due to disability, retirement, bankruptcy, divorce or an unresolved dispute between business owners and shareholders. To avoid this, consider implementing a buy/sell agreement.

Buy/sell agreements can cover the terms of ownership and the operation of your business. They provide a guaranteed buyer for the business, may guarantee a fair selling price and minimize disruption to business operations, providing you with peace of mind that the future of your business is well planned and documented.

Funding a buy/sell agreement through insurance can provide a financing guarantee from the beginning. With life insurance, the cash value of the policy can be used for funding a buyout due to the retirement or disability of one of the shareholders. As well, upon death of a shareholder, the proceeds are generally exempt from tax. Buy/sell agreements can also be funded with accumulated savings, borrowed funds or through installed payments to heirs by buyers upon death of a shareholder.

Once a buy/sell agreement is implemented, it should be reviewed on a regular basis to ensure proper funding as the business continues to grow and shares increase in value.

Financial and retirement planning

As the owner of a growing business, you have put years of hard work into building and developing your company. Now that your business is flourishing, it is important to take steps to ensure you are ready for retirement, regardless of the stage of life you are in today. The financial planning process can identify needs and recommend appropriate strategies to meet your retirement goals, giving you peace of mind that your financial future is taken care of. As a majority of your assets may be held in your business, it is necessary to develop a plan that takes this into account and determines how you can use these assets on a tax-effective basis for retirement.

Financing business expansion

As your business continues to grow, you must evaluate the financial benefits of such an expansion, and whether your cash flow can support the additional investment. It is important to determine where and how you will get the funds to pay for additional inventory, new facilities or equipment. The ideal situation would be to expand only when you have already proven that demand exists for your products or services, as proven by your bottom line. If you need additional capital, make sure that the new venture will be profitable enough to allow you to earn money and repay loans. Your CIBC Wood Gundy Investment Advisor can put you in touch with a CIBC Small Business Representative who can offer you a vast range of borrowing solutions to supplement the growth of your business.

We're here to help

To ensure the continued success of your growing business, the financial planning, tax minimization, estate planning and employee retention strategies discussed above should be carefully considered. To learn more about these options and how they may be advantageous to your growing business, contact your CIBC Wood Gundy Investment Advisor.

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