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# Three strategies for corporations with the new post-budget rules

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Given that earning up to $50,000 of annual passive investment income will not be punitive, strategies that minimize income generated on a corporately owned investment portfolio, while still growing the capital are increasingly important. Here are three examples of possible approaches worth considering:

**1. Purchase investments that don't generate interest, dividends or capital gains.** What? Is there such an investment? There are two:

- Stocks that don't pay dividends. If well chosen, these investments will appreciate and only trigger a capital gain when sold. Capital gains are only 50% taxable, meaning that a $100,000 capital gain generates $50,000 in passive investment income. Crystallize capital gains from time to time to stay under the $50,000 realized income threshold.
- Own an investment fund that limits or avoids realized income distributions. Until the 2015 and 2016 federal budgets there were lots of these available in the form of corporate class mutual funds. Savvy investors bought them in droves which got the attention of CRA who then implemented tax legislation that effectively neutered the strategy. There still remains one mutual fund company that has a proprietary structure that allows for the deferral of realized capital gains, even though the funds own interest and dividend generating securities.

Your investment advisor should be bringing this opportunity to your attention.

**2. Individual Pension Plans and Retirement Compensation Arrangements.** The budget changes, combined with the integration between dividends and income, may lead to accountants recommending a more traditional T4 compensation model going forward. This will allow professionals to utilize IPPs and RCAs where funding room is determined by T4 earnings and not dividend compensation. These structures allow professionals to relocate corporate assets to a creditor proofed vehicle designed to fund retirement thus reducing the amount of passive assets generating taxable income.

**3. Life insurance.** For those who have or will accumulate more retained earnings in their corporation than they will need during their own lifetime, redirecting some of those assets to a life insurance policy can solve the passive income problem while enhancing the professional's estate value for beneficiaries.

The financial services industry will be enthusiastically marketing such solutions to incorporated professionals and small business owners. The strategies will not be optimal in all circumstances so it is important to be cautious when considering your options. As always, refer to a trustworthy financial planner and accountant for advice.

## Medical Post incorporation rules primer

**Income sprinkling:** Doctor, you can can still split income with your spouse through the payment of dividends—income sprinkling—from your medical corporation if you're 65 years or older. If you are not 65, you can still income sprinkle to family members if the individual you're paying is 18 years or older and currently works 20 or more hours a week in the medical corporation (or worked that much in any five previous years).

**Passive investment:** Doctor, if you are accumulating investments in your medical corporation on a yearly basis, the total amount of passive investment income (interest, dividends or capital gains from investments) will increase. In the 2018 federal budget, Ottawa declared that starting in 2019, medical corporations with over $50,000 in passive investment income annually will begin to lose the small business deduction tax rate (9% federally in 2019) and be eliminated completely once passive investment income is over $150,000 annually.

*Rona Birenbaum is a certified financial planner in Toronto and founder of Caring for Clients (www.caringforclients.com). This information is of a general nature and should not be considered professional tax advice. Its accuracy or completeness is not guaranteed and Queensbury Strategies Inc. assumes no responsibility or liability.*