Strategic Giving
Session III
The Corporation

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The Canadian Corporation – Basics

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- A private Canadian operating company- OPCO
- Often has a lower tax rate- small business deduction- incentive for Canadians to run businesses in companies.
- If OPCO is owned by a parent company, HOLDCO, OPCO can pay tax-free dividends to HOLDCO
- To diversify, excess cash in OPCO is sent to HOLDCO to invest, lots of HOLDCOs

Corporate Investment Income

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- Dividends from Canada public- special tax- refundable (a)
- Dividends from US public- taxable income
- Interest income- taxable income
- 50% of capital gains- taxable income
- Taxable income- high rate 46-53%- 28% refundable (b)
- When taxable dividends paid- about 38% is refundable from a and b.
- Called integration- the same net tax earned by the company or individual

Capital Dividend Account CDA

- Tax-free amounts

  1) Insurance proceeds on death

  2) The other 50% of capital gains

  3) 100% of the gain on a gift of marketable securities

- Goes into CDA
- Tax-free dividends

Estate Planning

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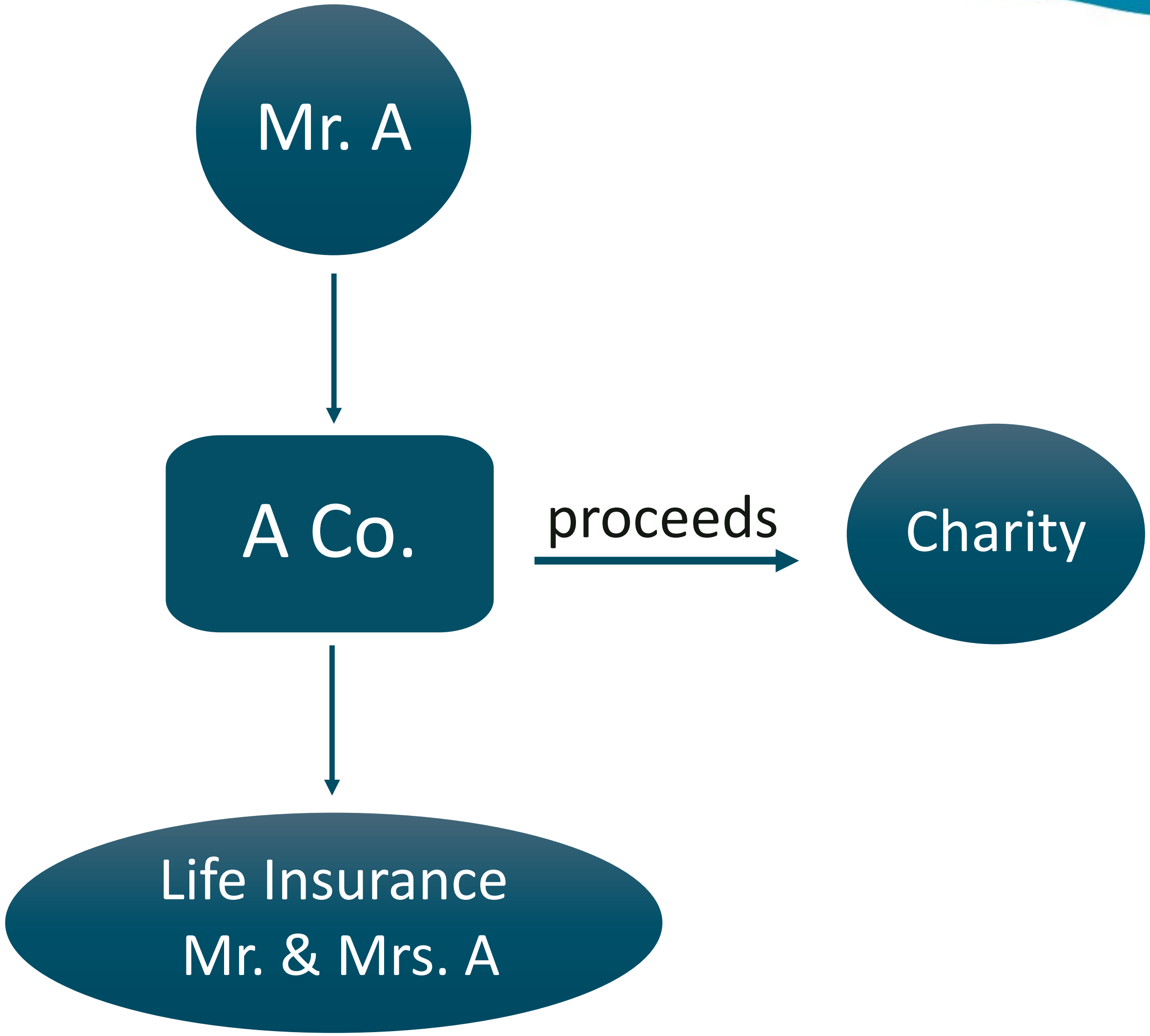

Taxable Income:	$1,000,000
Will Gift:	$1,000,000
Tax:	$0.00
Tax Saving	$480,000
Insurance Cost	?

Estate Planning - Illustration

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- Corporation to purchase $1,000,000 life insurance policy on last to die basis
- On last to die, donors leave $1,000,000 in their wills to A
- At the second death, the corporation will receive $1,000,000 tax free
- The corporation will remit $1,000,000 tax free to the estate to pay will gift
- The deceased final tax return will utilize a $1,000,000 tax receipt from A, saving $480,000 of tax

Estate Planning - Illustration

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Year	Premium	PV at 4.5%
1	$ 37,200	$ 37,200
2	$ 37,200	$ 35,598
3	$ 37,200	$ 34,065
4	$ 37,200	$ 32,598
5	$ 37,200	$ 31,194
6	$ 37,200	$ 29,851
7	$ 37,200	$ 28,566
8	$ 37,200	$ 27,336
9	$ 37,200	$ 26,158
10	$ 37,200	$ 25,032
11	$ 37,200	$ 23,954
12	$ 37,200	$ 22,923
		$ 354,476

Present value of financial considerations

Life expectancy based on life insurance tables

- Estate savings $ 480,000
- 12 years at 4.5% $ 283,039

Estate Planning - Illustration

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• The cost of life insurance, at present value is	$354,476
• With no life insurance purchase, the corporation would transfer to the estate $354,476 on which the estate would pay 24% tax, leaving the estate with	$269,402
• The estate will save $480,000 on the deceased final tax return which, at present value represents	$283,039
• The net cost of creating $1,000,000 of charity is a saving of	$13,637
• Add in marketable securities angle	

Marketable Securities Corporate Gifts

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<u>Example:</u>

Holdco makes a gift of $500,000 worth of securities to A.

Adjusted cost base = $100,000

Capital Gain = $400,000

<u>Tax Implications:</u>

Since for Federal and provincial tax purposes there is no taxable capital gain, the full $400,000 flows through to Holdco's CDA and can be paid out tax free to the shareholders of Holdco.

Net Cost of a Corporate Security Gift

- Receipt of $500,000 saves $250,000 of cash tax
- Extra CDA is $200,000- to get the shareholder $200,000 after tax, pay a $320,000 dividend
- Savings $120,000 plus $250,000; cost of gift $130,000 or 26%

Securities- Remember Dev

- The high tech public company wonder
- When a private company goes public the shareholders convert their private company shares into public company shares- a tax rollover. So usually low ACB.
- So big gain exempted on gift; and very big CDA.
- Perhaps gifts and sells shares in HOLDCO
- And removes cash in HOLDCO with CDA

June, Age 89, Old HOLDCO

- Inherited the HOLDCO from her husband
- Lots of investments within; done well in the stock bull market; just lets things grow; does not need funds from HOLDCO
- HOLDCO is worth \$5m; at death assuming \$0 ACB will have a \$5m gain, \$2.5m taxable, \$1.25m tax.

HOLDCOs Securities

- HOLDCO donates the $500,000 of securities
- Besides the norm- tax deduction, no capital gains tax what else has happened
- After the gift HOLDCO is worth $4.5m; pay out the CDA of $400,000 as a tax-free dividend; HOLDCO is worth $4.1m. If June passes away the tax bill has been reduced by $225,000!!!!!!!
- We are combining estate and gift planning
- We will come back to Jane

Mining Flow-Throughs - Corporate

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- Usually not exploration; often development write off- not 100%- is 30% over a few years
- The value achieved is via the CDA
- When the corporation sells and gifts the shares a capital gain is realized. 50% of the gain enters the CDA. Cost of donation low because of value of CDA.
- Corporate good because companies can have lots of income
- Not good if CDA has little value to the company

Gifting Private Company Shares

1) June preferred shares- estate planning

2) Super capital gains exemption shares

3) The transaction- cumulative preferred shares

Back to June

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- Owns shares of HOLDCO; looming estate tax
- What if she annually donates some shares
- with the shares redeemed immediately
  - For every $100 of shares donated, $50 of taxable capital gains realized; $50 of excess receipt applies against personal pension income
  - of course eliminates estate taxes on shares donated

June Preferred Shares

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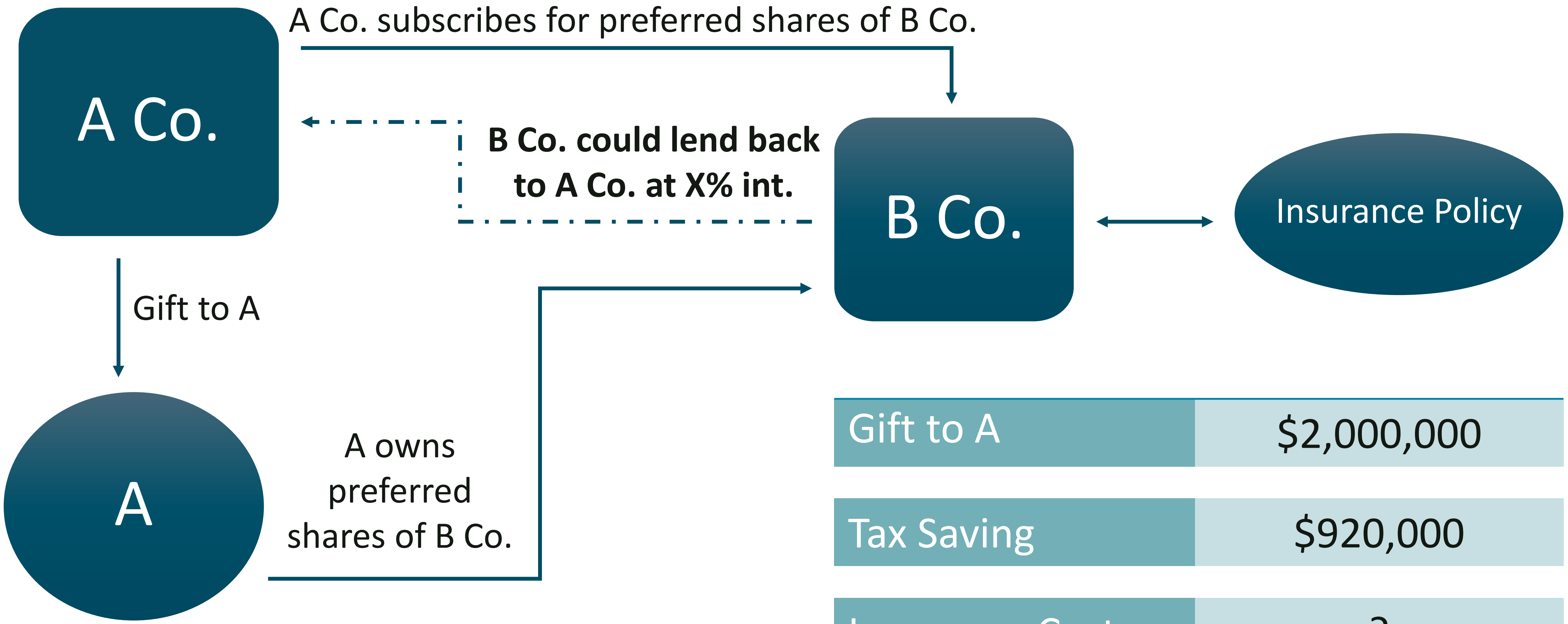
- Donate $100,000 shares
- Receipt $100,000 Tax Cap Gain $50,000
- Save tax on $50,000 or $25,000
- Shares redeemed for $100,000
- Estate taxes saved $25,000
- Redemption could yield a dividend refund

Super Capital Gain Shares

- Small businesses and farms
- Capital gains exemption
- Crystallized- created the capital gain
- Often donor owned say $750,000 of preferred shares- full ACB
- If redeemed taxable dividend
- Donated no gain; full receipt; save 53%
- Redeemed – dividend refund- 38%

Cumulative Preferred Shares



Gift to A	$2,000,000
Tax Saving	$920,000
Insurance Cost	?

Preferred Shares- Illustration

Cash Flow for Donor	Gift of preferred shares	$ 2,000,000
	Insurance premiums	$ (402,882)
	Tax savings	$ 920,000
	Net cost for donor	$ 517,118
Benefit For Estate	CDA benefit – tax savings on taxable dividend	$ 218,638
Total Net For Donor’s Family	Life expectancy 25 years, interest 4.5%	$ 735,755

Preferred Share Value

- Cumulative preferred
- Annual dividends to A
- Dividends can yield a dividend refund

Steps

1) A transaction happens in HOLDCO

2) Search for parent company, subsidiary, sister company. SISCO

3) Ensure SISCO has authorized capital of cumulative preferred

4) HOLDCO invests in cumulative preferred of SISCO

5) Before year end HOLDCO donates preferred to A.

6) Independent valuator values preferred; based on valuation A issues receipt to HOLDCO.

6) Annually SISCO pays dividends to A; PICK A PERCENTAGE

7) SISCO or HOLDCO takes out insurance

8) At death, using insurance proceeds SISCO redeems shares owned by A.

Gifting Private Company Shares

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- To receive a receipt

  1) if monetized

  2) or gifted to a public charity at arms length with donor; cannot be on the board

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See you!!!

October 26, 2021

10:30 am EST