

Strategic Planning

Session IV

The Philanthropic Review: The Case

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PearTree

- Mark Smith, age 65, married to Judy, 63 is looking to plan his philanthropy, both short-term and long-term
- They have 4 children, ages 35- 26 and 3 grandchildren
- They would like to make a few significant donations in the next year
- They will consider testamentary gifts but would like the preponderance of their estates to go to their children

- Mark owns all the (100) Common shares of MJ along with 1.5 million Class A preferred shares redeemable for \$1 each (PUC \$100; ACB \$100) and 750,000 Class B preferred shares redeemable for \$1 each (PUC \$1; ACB \$750,000)
- MJ owns \$1m of marketable securities (ACB \$600,000) and all the issued shares of 2 companies, Opco and Realco (nil ACBs)
- RDTOH in MJ \$94,000

- Mark started the company in 1995. Opco produces various tools sold to Canadian retailers
- It earns ~\$700,000 a year; all active
- A competitor has offered Mark \$10m for the shares of Opco, the sale to take place the end of 2021 or beginning of 2022

- Holds real estate
- 53 apartment units; cost \$200,000; UCC \$95,000; FMV \$1m
- Land- ACB-\$200,000; FMV \$1.2m (up for sale)
- Income taxed as property income
- RDTOH \$85,000

- The 4 children live in Toronto; not involved in the business; all work- not wealthy
- Eldest grandchild is “special needs”. Mark and Judy help out
- Mark’s brother Steve (age 72) did work in the company. He is unmarried without children. He lives off \$90k of pension income and \$20k of investment income

- Steve has \$1m of securities (ACB \$600,000)
- He winters in Florida. He complains that his cash flow is tight; taxes are too high and he is bothered by the \$20,000 annual premiums he pays on a term to 100 \$500,000 insurance policy on his life. He has informed his agent that he might give up the policy. His present mortality is 17 years

Personal Balance Sheet



Assets	Mark	Judy
MJ shares	\$13.2m	
Securities (ACB)	\$1.5m (1m)	\$1.5m (1m)
RRSPs	\$1.2m	\$750,000
Residence-Toronto	\$4m	
Last-to-die insurance policy, purchased Feb/16; face value \$100,000; term to 100; premium \$7,000; based on joint mortality of 24 years		
Salary	\$350,000	\$100,000
Dividend MJ	\$100,000	
Klee painting	\$200,000 (cost \$50k in 2015)	

Personal Balance Sheet – Mark and Judy Securities



Common Shares	Quantity	Market Price	Cost	Market Value
ARC Resources Ltd	500	\$16.70	\$6,756	\$8,350
Altagas Ltd	4000	\$30.90	\$126,578	\$123,600
Agnico Eagle Mines Ltd	4000	\$36.37	\$119,876	\$145,480
Agrium Inc	300	\$123.67	\$29,653	\$37,101
Alimentation Couche-Tard	8000	\$60.91	\$357,002	\$487,280
Inc-CI-B Subordinate				\$0
ATCO LTD-CL I NON-VTG	240	\$35.70	\$12,456	\$8,568
Brookfield Asset	500	\$43.65	\$14,156	\$21,825
Bank Of Montreal	5000	\$78.08	\$163,968	\$390,400
Bank Of Nova Scotia	4000	\$55.97	\$123,876	\$223,880
BCE INC COM NEW	1000	\$53.46	\$45,679	\$53,460
Total			\$1,000,000	\$1,499,944

Personal Balance Sheet - MJ Securities Holdings



Common Shares	Quantity	Market Price	Cost	Market Value
ARC Resources Ltd	500	\$16.70	\$6,756	\$8,350
Altagas Ltd	4000	\$30.90	\$126,578	\$123,600
Agnico Eagle Mines Ltd	4000	\$36.37	\$119,876	\$145,480
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Bank Of Nova Scotia	4000	\$55.97	\$123,876	\$223,880
BCE INC COM NEW	1000	\$53.46	\$45,679	\$53,460
Total			\$642,998	\$1,012,664

- PUC- paid up capital or sometimes stated capital. The amount that shares are issued for by the company and this amount appears on the balance sheet. This number affects the taxation on redemptions or buy-backs
- ACB- Adjusted cost base- the tax cost which we need to know to calculate the capital gain on disposition
- RDTOH-Refundable Dividend Tax on Hand- an accumulation of some of the taxes paid by a company on investment or passive income and taxes paid on Canadian dividends received. When the company pays out a taxable dividend it can recover these taxes paid as a dividend refund (38.33% of dividend potentially refundable)
- Active vs property income- Passive income is earned by the ownership of an asset, bond, share, building. In the corporation this income is taxed at a high rate but some of the tax is recoverable. Active income is taxed at lower rates in the company and even lower rates if a small business.
- Last-to-die- an insurance policy on more than one person. The premiums are paid and the policy pays when the last person dies.
- Capital dividend account- non-taxed items in a company, 50% of capital gains, insurance on death proceeds enter this account. Dividends paid out of this account are tax-free to the shareholder