SUCCESSION STRATEGIES

Susan Latremoille
Director, Wealth Management
Richardson GMP Limited
Co-Author, *Who Will Take Over The Business*

Tax Implications of Succession Planning

Several elements need to be considered as part of any examination of succession planning, ranging from estate freeze to capital gains exemption and family trusts.

WHAT IS AN ESTATE FREEZE?

In general terms, an estate freeze is the process of freezing the value of an asset at its current value, while future growth and the tax liability associated with that growth – is transferred to future generations. Typically, capital gains will be taxed in the hands of the beneficiary of the freeze, usually the children.

CORPORATE ESTATE FREEZE

A Corporate estate freeze involves exchanging exisiting common shares for preferred shares that are redeemable for the fair market value of the company at thetime of the freeze. The value of the corporation, at the date of the estate freeze, is refelcted in the value of the preferred shares.

New common shares with nominal valuewill be bought by family members directly or through a newly established family trust, such that any future growth in the company's value will be relfected in the newly issued common shares.

The tax liability associated wit the growth wil be taxed in the hands of the new owners on eventual disposition or upon the new owner's death.

Typically, the exchange of shares can be carried out on a tax-deferred basis.

However, there may be circumstances where it is beneficial to elect that the transfer occur at a value that would generate a capital gain in order to utilize your capital gains exemption.

CAPITAL GAINS EXEMPTION

In general, the capital gains exemptions is an exemption from tax up to $750,000 of capital gains on the disposition of qualified small business corporation shares. Implementing an estate freeze may provide an opportunity to access additional family members' capital gains exemptions and to save as much

As $170,000 per family member in additional taxes.

The federal budget, announced on March 21, 2013, proposes to increase the Lifetime Capital Gains Exemption for qualified small business corporations, and qualified farm and fisihing property to $800,000, beginning in 2014. This new liit will also be indexed for inflation for tax years after 2014.

HOLDING COMPANY

Depending on the fact situation surrounding an estate freeze, a holding company (Holdco) may be incorporated into the corporate estate freeze plan to provide for additional flexibility. Some of the more typical reasons for setting up a Holdco are as follows:

- to receive non-business assets from an operating company to ensure it remains eligible for the capital gains exemption;
- to receive dividends tax-free and provide additional flexibility in the timing and nature of eventually dispersing these funds; and,
- to transfer certain assets of the company in order to split the company into multile companies to provide separate businesses for multiple children.

FAMILY TRUST

Trusts are typically used in conjunction With an estate freeze to provide maximum flexibility, control and creditor protection over the transferred assets. Trustees may use their discretions to distribute income and capital to certain beneficiaries. IN addition, trusts are often used in an estate freeze to ensure the ongoing qualification for a small business corporation by extracting non-active business assets. There are many complex rules that affect trusts as well as their beneficiaries. It is recommended that you contact your tax and legal ramifications.

For more information on wealth management advice, contact The Latremoille Group –helping successful business owners plan their financial futures and manage their wealth. Please email Susan.Latremoille@richardsongmp.com or call 416-969-3026

The text above is an excerpt from an article produced by the Tax & Estate Planning Group at Richardson GMP Limited. This publication is intended for informational purposes only and is not intended to constitute investment, financial, legal or tax advice. You should seek advice regarding your particular circumstance from your personal tax and/or legal advisors.