CORPORATE WEALTH PLANNING

Protecting Business Profits & Corporate Savings

Tax Strategies for Incorporated Professionals and Small Business Owners in Canada

1. The Passive Investment Tax Trap for CCPCs

Canadian-Controlled Private Corporations (CCPCs) enjoy the Small Business Deduction (SBD) on active business income (around 12.2% tax in Ontario up to $500,000). However, holding passive investment income inside the corporation triggers severe tax penalties:

• **50%+ Passive Income Tax:** Corporate passive investment returns (interest, non-eligible dividends) are taxed at over 50.17% in Ontario.

• **The $50,000 SBD Grind Rule:** For every $1 of passive investment income earned above $50,000, your company loses $5 of Small Business Deduction limit, increasing your tax rate from 12.2% to 26.5%.

2. Corporate-Owned Life Insurance as a Wealth Shelter

Corporate-owned participating whole life insurance allows business owners to deposit surplus retained earnings into an exempt asset class:

• **Tax-Free Growth:** Cash values grow completely tax-exempt inside the policy, bypassing the annual 50% passive tax drag.

• **Capital Dividend Account (CDA):** Upon payout, the net death benefit flows into the Capital Dividend Account, allowing 100% tax-free capital dividends to surviving shareholders or family heirs.

3. Shareholder Buy-Sell & Key Person Protection

• **Key Person Insurance:** Protects your company cash flow if an indispensable founder or executive suffers a critical illness or unexpected death.

• **Funded Buy-Sell Agreements:** Ensures the surviving business partner can buy out deceased shareholder shares from heirs without forced liquidation.

> **Professional Corporate Review**
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> Contact Phummie Mebson Financial Services Inc. for a corporate wealth audit tailored to your corporate structure.