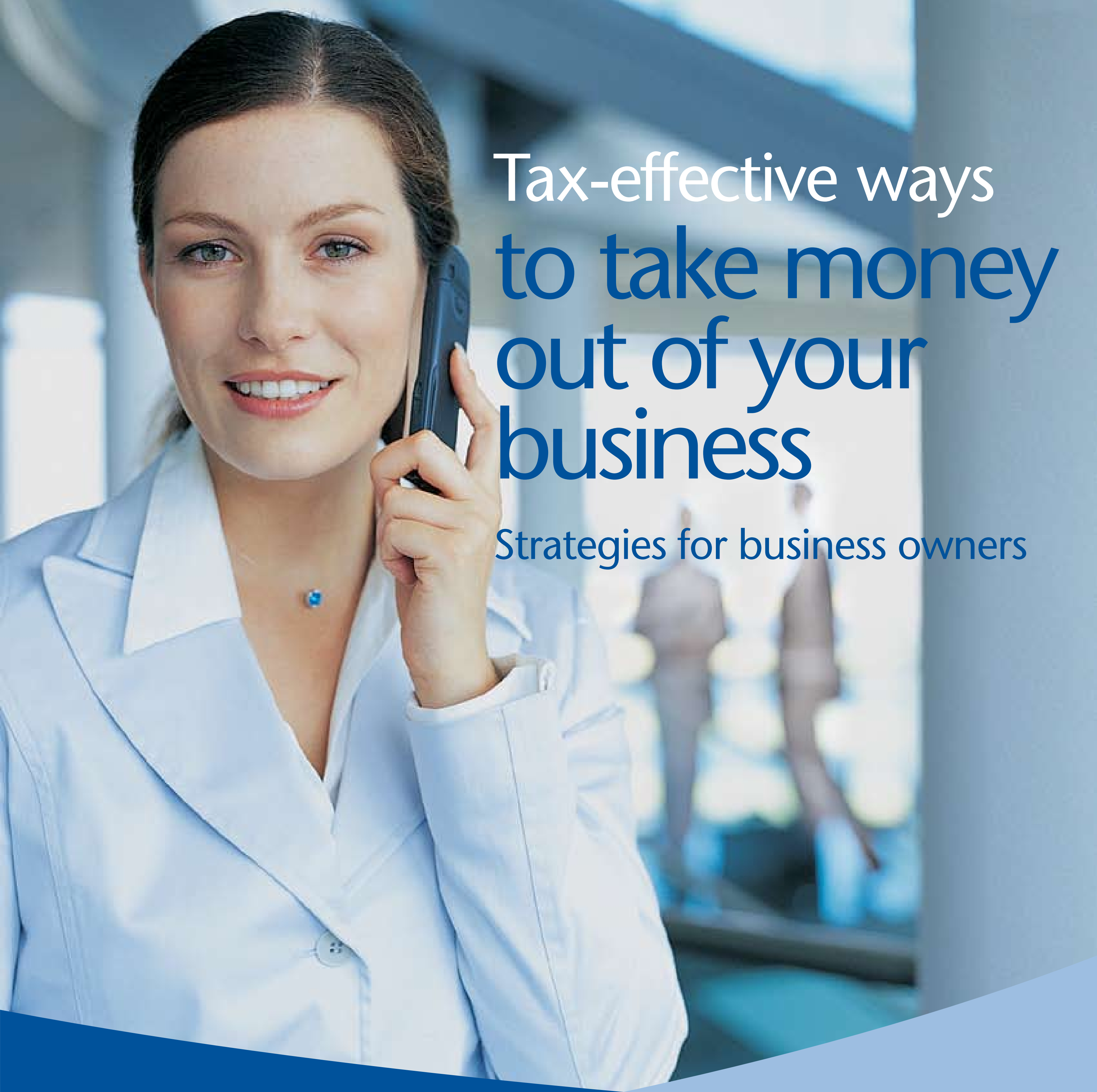


Tax-effective ways to take money out of your business

Strategies for business owners

Freedom 55 Financial

A division of London Life Insurance Company

Tax-effective ways to take money out of your business

Running a business requires hard work and dedication. Then you have the challenge of withdrawing assets from your business tax-effectively. It's also easy to get caught up in the day-to-day operations and not realize the need to invest outside your corporation.

Consider these solutions to tax-efficiently move funds out of your business.

Option 1:

Balance sheet hedging strategy

Use the *Balance sheet hedging strategy* to tax-effectively take money out of your business.

Secure a personal investment loan and invest the funds in a diversified portfolio. Then, withdraw funds out of your company as personal income to pay the interest on the loan.

There may be tax implications on the personal withdrawal from the business, but since you've invested the money from the personal loan to fund non-registered investments, the tax deductible interest* offsets the personal tax implications from the withdrawal.

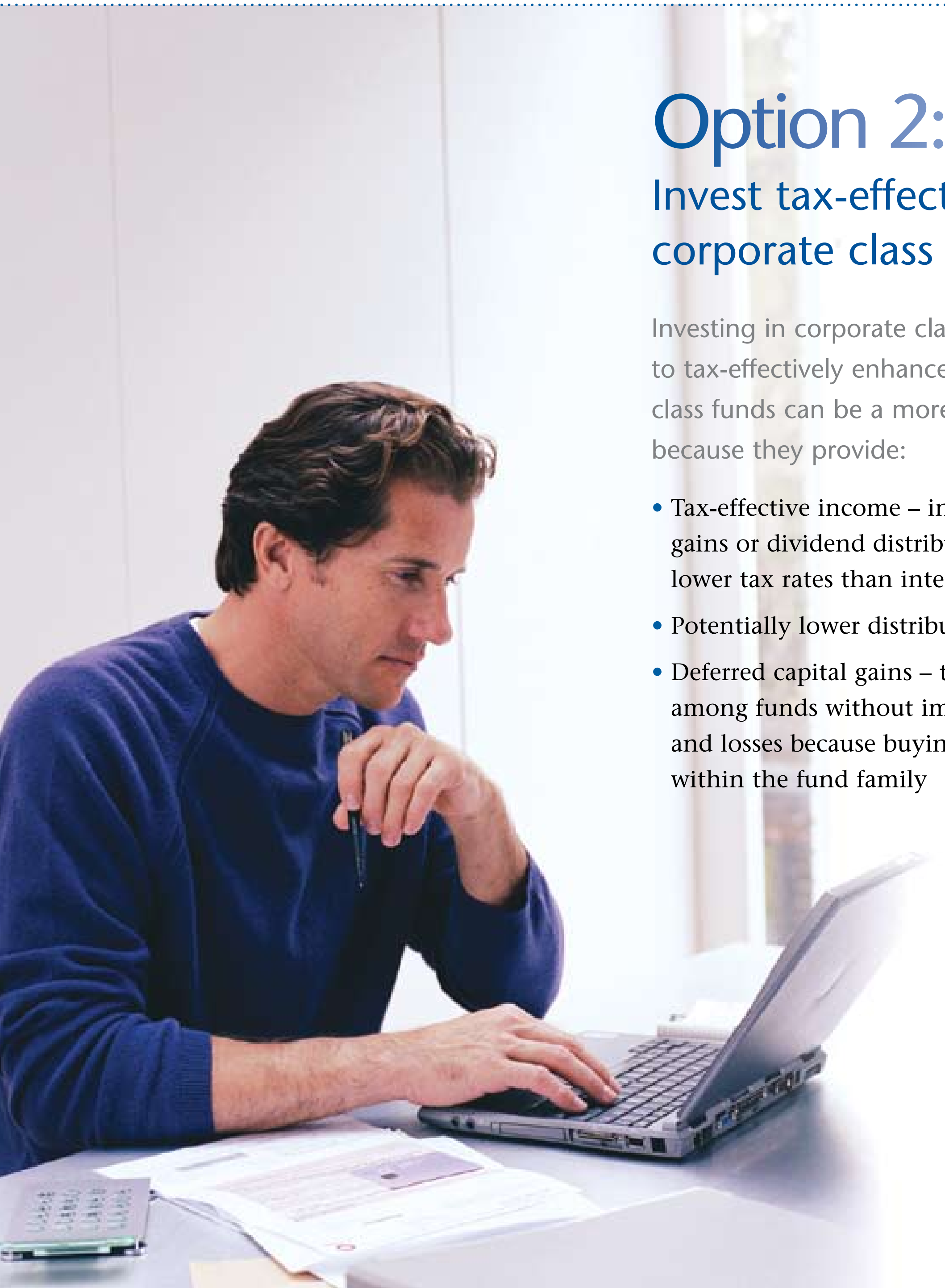
That way, you can hedge against the risk of having all your assets in the business by building other non-registered investments, reducing the weight of your company in your balance sheet.

*For Quebec, investment expenses (which includes interest on loans used to purchase non-registered investments) are only deductible for income tax purposes up to the actual amount of taxable investment income earned during a particular year. Investment expenses in excess of the taxable investment income in a year may be carried back three years or carried forward indefinitely to offset taxable investment income.

BENEFITS

1. Move money out of your business.
2. A properly diversified portfolio that increases the liquidity of your personal investments and reduces the risk of investing in only your business.

Hedging is the practice of undertaking one investment activity in order to protect against the loss in another.



Option 2:

Invest tax-effectively with corporate class mutual funds

Investing in corporate class mutual funds is another way to tax-effectively enhance your net worth. Corporate class funds can be a more tax-efficient investment because they provide:

- Tax-effective income – income is distributed as capital gains or dividend distributions, which are subject to lower tax rates than interest
- Potentially lower distributions
- Deferred capital gains – the ability to switch or rebalance among funds without immediately triggering capital gains and losses because buying and selling transactions occur within the fund family

It all adds up.

Option 3:

Borrowing to invest in corporate class mutual funds – a winning combination

If you already invest money on a monthly basis, consider using it to make payments on an investment loan instead of investing that money directly. The loan gives you more money to invest immediately and therefore you get the benefit of growth on the entire amount invested, with the potential to claim the interest as a tax deduction.

When you combine investment loans and investing in corporate class funds together, you get the potential for an interest expense write off in addition to the tax benefits of the corporate class funds.

You could pay less tax and pay it later.

Option 4:

Invest in an individual pension plan (IPP)

Another way to move money out of your business tax-effectively is through an IPP. It's a personal pension plan that pays retirement income to the member(s). Contributions are made by your business and are tax-deductible.

These strategies are not for everyone. Investments can both increase and decrease in value over time.

BENEFITS

1. An IPP helps move funds out of the corporation in a tax-efficient manner.
2. Since the company pays for the contributions, you're using funds from the company to build tax-deferred assets in a separate plan for you, and possibly your spouse, to use at retirement.
3. An IPP builds a portfolio of diversified investments that offers you the potential for protection against creditors.

These strategies are not for everyone. Investments can both increase and decrease in value over time. Contact me to learn more about strategies for moving funds out of your business for retirement planning purposes. I can work with you and your accountant to determine if one of these options is right for you.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax expert.

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