GROUP SAVINGS AND RETIREMENT

INTEGRATING TWO MORE TAX-EFFICIENT OPTIONS IN YOUR ADVISING STRATEGY

Over the last few years, we at iA Financial Group have seen a number of tax changes with respect to family trusts, income splitting, passive income and stock options. Organizations are currently struggling to reduce corporate taxes, transfer assets to the owners, mitigate the tax impact and retain key employees – a daily challenge in today's tight labour market.

As a result, business owners, professionals and executives are looking for new, tax-efficient wealth building options. And although many business owners and professionals feel their businesses will provide them with a comfortable retirement income, the recent pandemic and market downturns reminded us that this strategy can be risky, as their businesses may not survive or not be worth as much as hope.

Spotlight on two CRA-sanctioned solutions

An individual pension plan (IPP) and/or retirement compensation arrangement (RCA) can be set up either separately or together.

IPPs and RCAs are helpful in the following situations:

1. Keeping a small business tax rate

Most IPPs and RCAs allow for both a corporate deduction for current service and a larger deduction for past service which can be quite substantial. When the company contributes the full past-service deduction, it can often drop its tax rate to the small-business level.

2. Enhanced creditor protections

Many accountants advise their clients to hold their RRSP assets in insurance company segregated funds to provide creditor protection. However, if the business is in financial trouble, many owners cash in their RRSPs, investing the dollars into the business to avoid losing what they believe is their source of retirement income.

3. Retirement pension enhancements (terminal funding)

Additional enhancements can be purchased at retirement, and the cost is tax-deductible. This draws additional money out of the company, and the company is more marketable when selling.

Additional enhancements include: retiring as early as age 55 with no reduction in pension, CPP or OAS and pension payments indexed at 4%.

4. Taking advantage of the additional voluntary account

The voluntary account is a side account holding RRSP assets that can be transferred, providing more options:

— Investment management fees can be billed and are tax-deductible to the company
— Assets in the voluntary account are not considered part of the IPP for funding purposes and are fully accessible to the client

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You be the judge.

The iA Financial Group IPP and RCA team compare key features of the RRSP, IPP and RCA.

Features	RRSP	IPP	RCA
Tax deduction of employer contribution	Yes, but deducted as income paid to employee.	Yes, actuarial calculation required.	Yes, and should be supported by actuarial calculations.
Maximum contributions	18% of T4 income to CRA yearly limit; contributions are deducted by the individual.	IPP current contributions are based on age and T4 income. Past service payment and terminal funding options are available and are deductible by the corporation.	RCA current contributions are based on T4 income. Past service payment is available and deductible by the employer.
Tax sheltering of assets	All assets are tax-sheltered and 100% taxable when paid.	All assets are tax-sheltered while in the plan and 100% taxable when paid.	All assets are tax-sheltered while in the plan and 100% taxable when paid. 50% of all contributions are held by the CRA in an uninvested refundable trust account.
Past service	Not available if you have maximized RRSP contributions since 1991.	Allowable past service amount is based on age, income, RRSP contribution history and years of service back to 1991.	Past service is available providing it's "reasonable." Paying your CEO at age 50 a pension of 50% of earnings at age 60 is reasonable.
Retirement income options	Pension can start at any time, although no later than by the end of the year you turn 71.	Retire as early as age 55, although no later than by the end of the year you turn 71.	Flexible with no age restrictions for starting pension; as early as you wish, or never.
Additional pros	Easy administration.	Flexible contribution options, depending on the province. Tax-deferred intergenerational asset transfer. Fund investment shortfalls.	Flexible contributions and withdrawals. Vesting options and potential lower tax rate in another jurisdiction. Tax-deferred intergenerational asset transfer.

Want to learn more about how to leverage these strategies that can further build your accounting practice and deliver added value to your clients while decreasing their taxes and increasing their retirement wealth? Contact your insurance or financial advisor today.

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