Essential Passive Income Concept (EPIC)

MAXIMIZING YOUR ACCESS TO THE SMALL BUSINESS TAX RATE

Desjardins
Insurance
Life • Health • Retirement

You've worked hard to build your business

You are focused on the day-to-day bustle of building a successful business.

You've reached a point where your business generates more income than is needed to cover the costs of day-to-day operations, so you have a corporate investment portfolio for income purposes and to build your capital reserves. Your corporation's active business income (ABI) qualifies for the Small Business Deduction (SBD) which reduces the tax you have to pay on that income.[1]

All the more reason to have a sound financial plan to help you deal with tax challenges that affect your corporation. Having too much investment income inside your corporation can be one of those challenges.

Does your corporate planning address this issue?

How the passive investment income rules work

Starting in January 2019, the federal rules that apply to passive corporate investments changed to gradually reduce access to the SBD as your corporation's passive income grows. Whenever the passive income that your corporation and any associated corporations earned in the previous year is more than $50,000, your access to the SBD will be reduced. Once the previous year's passive income reaches $150,000, none of your corporation's ABI will qualify for the small business tax rate. This can have a significant adverse effect on your corporation's annual tax bill.

Here's how the passive investment income rules can affect your corporation's SBD level and increase the total tax paid as your corporation's passive income grows:

[1] Consult your tax advisor to determine your corporation's eligibility for the SBD.

Federal tax on $500,000 ABI with varying AAII[2]

AAII	ABI at federal SBD rate	ABI at higher federal rate	Federal tax on ABI
50,000	500,000	-	45,000
75,000	375,000	125,000	52,500
100,000	250,000	250,000	60,000
125,000	125,000	375,000	67,500
150,000	-	500,000	75,000

Legend:

ABI: Active Business Income

SBD: Small Business Deduction

AAII: Adjusted Aggregate Investment Income. (This is a factor in determining the effect of the passive investment income rules on a Canadian-controlled private corporation.)

Unless you take proactive planning measures, your corporation will have to pay tax at a higher rate on its growing ABI. This will trigger additional taxes on business income, which ultimately means that less money will be available for your business succession and retirement needs.

[2] Federal tax rates for corporations as at November 2020.

A flexible planning strategy for your corporation

The Essential Passive Income Concept (EPIC) is a dynamic planning approach exclusively offered by Desjardins Insurance that will assist you and your advisor in assessing the potential effects of the passive investment income rules on your corporation. EPIC provides you with a tailored suite of solutions that can reduce your corpora-tion's current and future taxes, provide comprehensive risk management tools, and enhance your estate and retirement options.

You can choose solutions from these 3 general areas:

Plan for your retirement

You can establish an individual pension plan (IPP), which is a defined benefit pension plan designed for one person. Contributions to the IPP can be more than RRSP allowable contributions, which can increase your retirement savings in a significant way. Your retirement income can be guaranteed based on the expected benefit of the IPP. The contributions that your corporation makes to the IPP, as well as the administration costs, are deductible expenses for your corporation. Like other registered pension plans, the assets held in the IPP are protected from the corporation's creditors.

Enhance your corporation's risk management plans

Risk management planning helps reduce the stress and financial risk to your personal and professional lives from becoming disabled, taking time to recover from a critical illness, dying too soon and living longer than expected.

Life insurance—both term and permanent—offers many advantages to you and your corporation. The accumulation savings inside a permanent policy grow on a tax-deferred basis while inside the policy. This can reduce your corporation's passive income each year while providing values that can be used for corporate needs during your lifetime or even to enhance your retirement income.[3] The tax-free death benefit can provide liquidity upon death to pay your corporation's operating expenses, fund a buy-sell agreement, or as a non-taxable dividend to your estate.

A critical illness would have an immediate and potentially devastating effect on your loved ones. As a business owner, it would also have an impact on your income, employees, clients and suppliers. Critical illness insurance can provide your corporation with a non-taxable lump-sum benefit to keep its financial plans on track and limit its financial losses while you recover. You can even buy this coverage jointly with your corporation and get back a non-taxable lump sum benefit if you remain healthy.

Maintain your investment portfolio while reducing tax

You can reallocate a portion of your corporation's fixed income investments into Guarantee Advantage®, which is a market-linked term investment product whose returns are tied to a basket of securities in targeted or diverse industry sectors. It can provide the potential for a higher return compared to a fixed-rate term investment and the principal is guaranteed at maturity or death. Depending on the options you select, taxation of the variable income linked to the market is deferred until surrender of the Guarantee Advantage deposit or, if the Guarantee Advantage deposit is reinvested, the contract's anniversary date following the deposit maturity date.[4]

[3] Consult your tax advisor as the tax consequences of different lifetime uses of corporate-owned life insurance can vary.

[4] Where the Guarantee Advantage deposit is reinvested and your corporation's taxation year-end occurs between the deposit maturity date and the contract's anniversary date, there may be a deferral of taxation until the following corporate taxation year. Consult with your tax advisor.

Your plan, your way

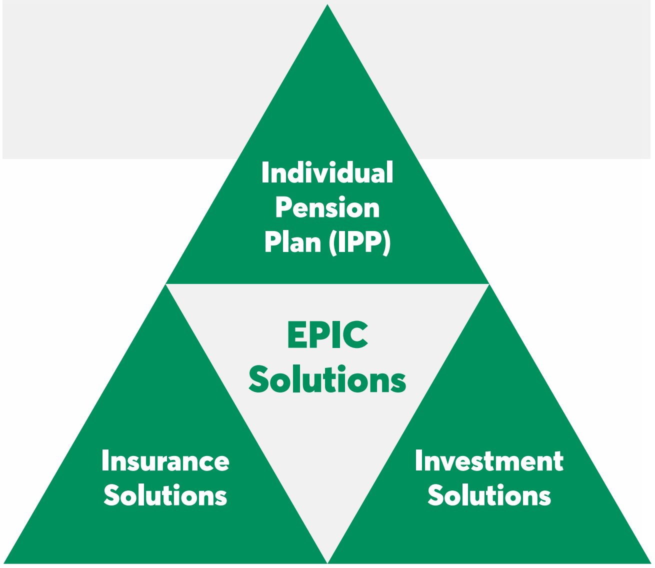
When you adopt EPIC, your solutions are tailored to meet both your personal and corporate planning needs.

Depending on the solutions you put in place, they can help reduce the impacts of the passive investment income rules on your corporation's SBD, while reducing your corporation's tax burden starting now and for years to come, resulting in significant cumulative tax savings. This means that there will be more money available to use for current and future corporate needs, such as growing your business.

You choose the EPIC solutions that fit best into your vision for your corporation.

Benefits of EPIC

- **Helps reduce the impact on your corporation's SBD due to the passive investment income rules**
- **Enhances corporate liquidity in the case of a shareholder's death or critical illness, if insurance is part of your solution**
- **Reduces your corporation's tax burden, resulting in significant cumulative tax savings**
- **Improves your retirement planning opportunities if an IPP is part of your solution**
- **Creates more planning flexibility for you and your corporation, now and into the future**



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