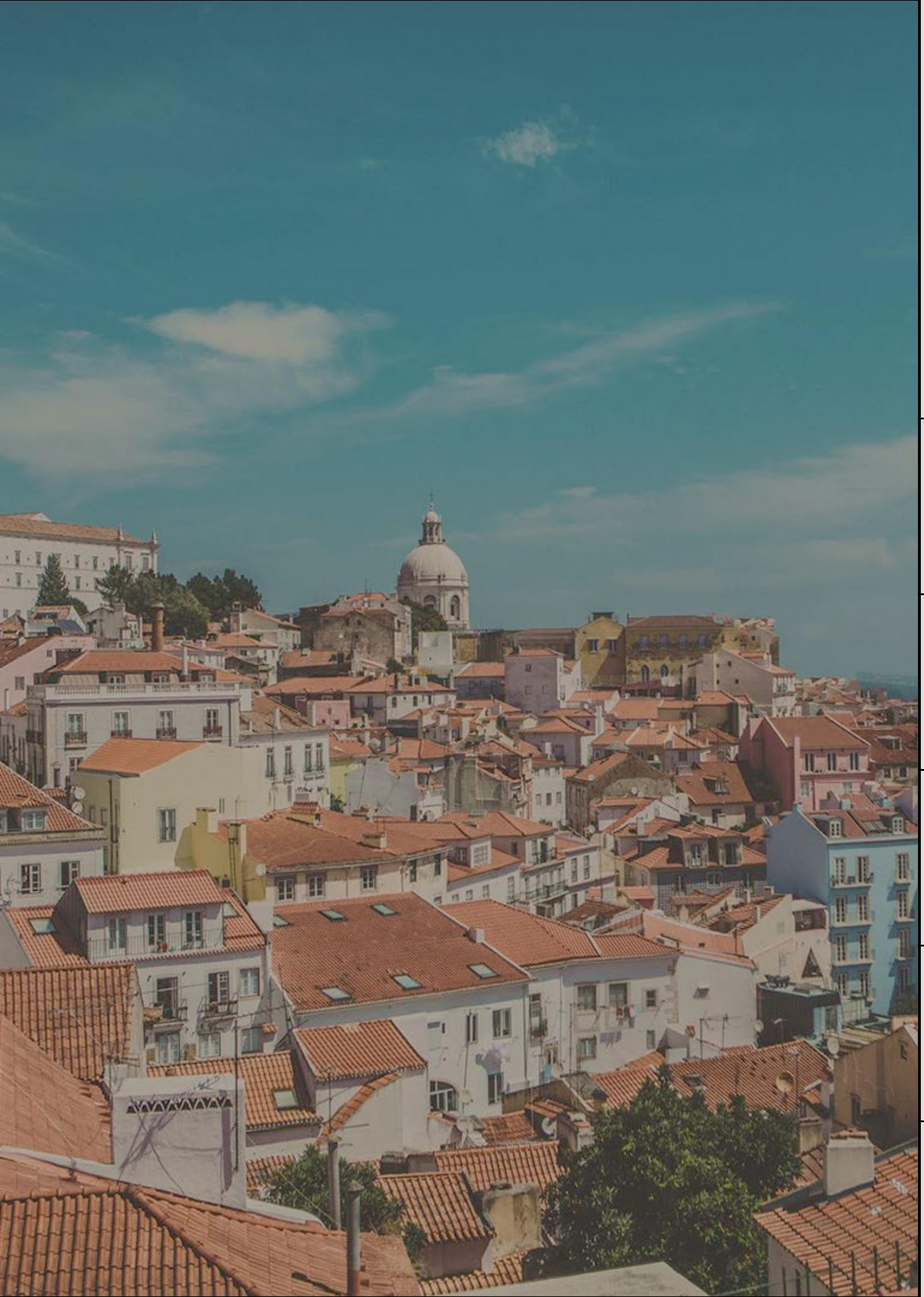
PPP CASE STUDY 2024

a presentation by INTEGRIS Pension Management Corp.



AGENDA

INTRODUCTION

To understand the power of the Personal Pension Plan (“PPP”) as a tool to effectively manage taxes, one needs to go on the journey that many clients follow throughout their career.

PRIMARY GOALS

Highlight areas for tax optimization

FACTS (1 OF 2)

- Business Owner is aged 45 [and wants to retire at 65]
- Corporation earns $1,000,000 but after main expenses claimed and deducted, the taxable corporate income is $500,000
- Business Owner needs $150,000 per annum in compensation pre-tax to live
- Business Owner has a 20 year old child that could be put on the payroll of the family business
- Business Owner is risk averse and only purchases GICs paying 5% in interest

FACTS (2 OF 2)

- Business Owner has, up to this point in time, accumulated $300,000 in RRSPs [again earning 5% return]
- For the past 10 years, Business Owner collected $150, 000 salary from the business
- Business Owner has no RRSP contribution room left.
- Once expenses, salaries etc. are paid by corporation, each year the Business accumulates $100,000 in retained earnings that are then invested (in stocks worth $100) inside the Corporation's non-registered corporate investment account.

OWNER HAS TO MANAGE PERSONAL TAX AND CORPORATE TAX SIMULTANEOUSLY

3 INITIAL TAX DEDUCTIONS TO START

2023 Deductions

- Past Service
- Current Service
- RRSP 'double dip'

PAST SERVICE: $79,647
CURRENT SERVICE: $30,480
RRSP DOUBLE DIP: $7,500

$117,627 directed at retirement instead of the maximum RRSP contribution of $27,000

RRSP $300,000 → PPP/DB ($256,000) → $44,000 can go into PPP/AVC

OF THE $300,000 IN RRSPS, $256,000 TRANSFER INTO THE PENSION PLAN'S DEFINED BENEFIT ACCOUNT (THE QUALIFYING TRANSFER)

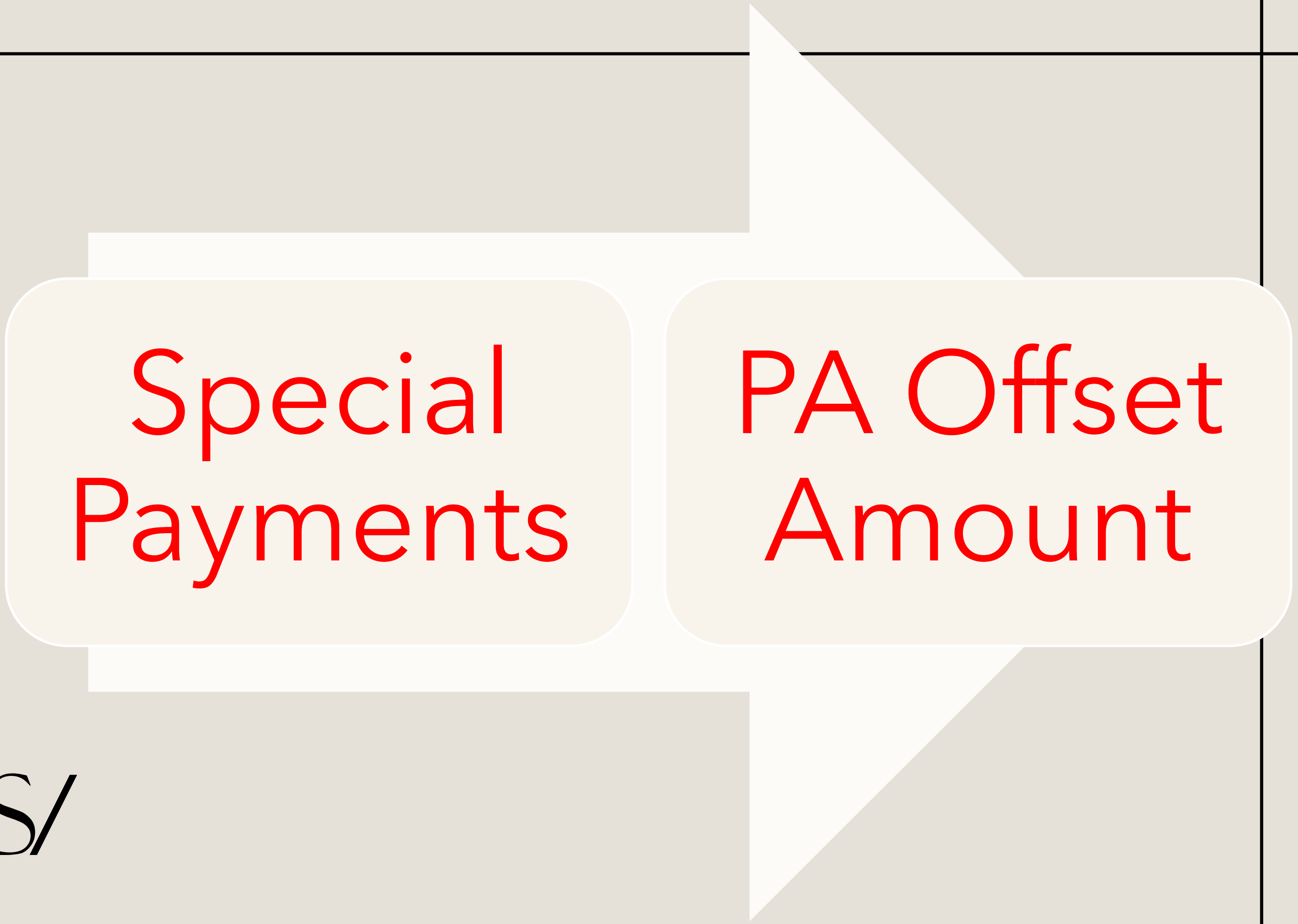
Qualifying Transfer – "QT"

WHY QUALIFYING TRANSFER?

Tax Authorities wish to make sure the tax system is fair to all Canadians.

If the Business Owner has made use of the RRSP system up until now, and was able to tax-shelter income, it would be unfair to 'double up' on tax deductions by now introducing a Personal Pension Plan, without taking into consideration the previous tax assistance granted by the use of the RRSP.

Hence, a portion of the "cost" of buying back years of Past Service must be borne by the taxpayer though a transfer of RRSP assets. The balance can come from the Owner's corporation.



2 ADDITIONAL CONTRIBUTIONS/ DEDUCTIONS

2023 Ongoing Deductions

SPECIAL PAYMENTS EXPLAINED

Assets inside of the pension fund are supposed to grow at a rate of 7.5% in order to ensure that there will be enough money to pay out the promised benefits offered under the terms of the pension plan (eg. $100,000 per year)

If the assets are not growing at that rate, an actuarial deficit starts to appear. The actuaries of the pension plan 'crystallize' this deficit every 4 years when they prepare a new valuation report.

The law allows the Corporate Sponsor of the PPP to inject additional contributions (called Special Payments) to 'shore up' this deficit and bring the plan into full balance.

SPECIAL PAYMENTS (CASE STUDY)

Year	Current Service Contributions	Past Service Contributions*	PPP Fund
Qualifying Transfer			256,000
2023	30,480	79,647	383,662
2024	32,152	0	435,791
2025	33,904	0	492,322
2026	35,756	7,788	[illegible]
2027	37,713	0	628,486
2028	39,764	0	700,656
2029	41,948	7,328	[illegible]
2030	44,237	0	871,015
2031	46,654	0	962,372
2032	49,208	10,459	[illegible]
2033	51,882	0	1,178,654
2034	54,727	0	1,293,665
2035	57,708	14,453	[illegible]
2036	60,853	0	1,566,646
2037	64,197	0	1,710,761
2038	67,701	19,518	[illegible]
2039	71,397	0	2,053,634
2040	75,296	0	2,233,471
2041	79,408	25,901	[illegible]
2042	83,744	0	2,662,208
2043	21,779	0	2,716,343
Cumulative	1,080,508	165,094	2,716,343

$85,447 in ‘special payments’ are possible because we’ve assumed GICs are only paying 5% but should have earned 7.5% instead to keep the plan fully-funded.

PA OFFSET AMOUNT (CASE STUDY)

Year	Current Service Contributions	Past Service Contributions*	PPP Fund	Fees**	RRSP Contributions***
Qualifying Transfer			256,000		
2023	30,480	79,647	383,662	2,430	7,500
2024	32,152	0	435,791	2,430	600
2025	33,904	0	492,322	2,430	600
2026	35,756	7,788	561,754	2,430	600
2027	37,713	0	628,486	2,430	600
2028	39,764	0	700,656	2,430	600
2029	41,948	7,328	786,367	2,430	600
2030	44,237	0	871,015	2,430	600
2031	46,654	0	962,372	2,430	600
2032	49,208	10,459	1,071,896	2,430	600
2033	51,882	0	1,178,654	2,430	600
2034	54,727	0	1,293,665	2,430	600
2035	57,708	14,453	1,432,657	2,430	600
2036	60,853	0	1,566,646	2,430	600
2037	64,197	0	1,710,761	2,430	600
2038	67,701	19,518	1,886,166	2,430	600
2039	71,397	0	2,053,634	2,430	600
2040	75,296	0	2,233,471	2,430	600
2041	79,408	25,901	2,453,710	2,430	600
2042	83,744	0	2,662,208	2,430	600
2043	21,779	0	2,716,343	599	148
Cumulative	1,080,508	165,094	2,716,343	49,199	19,048

CRA gives PPP customer the right to make an additional $600 personal contribution to the RRSP on top of the other contributions to date, every year.

This is called the PA Offset amount. In this case study, these amount to an extra $11,548 in personal deductions…

Investment Management Fees

Administrative Fees

2 ADDITIONAL DEDUCTIONS

2023 Ongoing Deductions

INVESTMENT MANAGEMENT FEES

Under the *Income Tax Act*, it is not permissible to write-off the investment management fees (IMF) levied to manage RRSP assets (or TFSA assets).

However, this rule does not apply to Pension assets because they are considered an expense related to the employment relationship that the Corporation has with its employee, the plan member.

Therefore, all IMFs levied against pension assets are tax-deductible to the Corporate Sponsor of the PPP.

INVESTMENT MANAGEMENT FEES

Some further assumptions are needed to quantify the value of this feature for our case study:

- ❑ Assumption no. 1, the IMFs are set at 1.5% of Assets Under Management in the PPP
- ❑ Assumption no. 2, the Corporation is taxed at the lowest rate in Ontario of 12.2%

INVESTMENT MANAGEMENT FEES

$55,232 will be refunded by the CRA if the IMFs are written-off against corporate taxable income (assuming a 12.2% corporate tax rate)

YEAR	ASSETS	IMF	Tax Refund
2023	$ 437,547	$ 6,563	$ 801
2024	$ 492,985	$ 7,395	$ 902
2025	$ 552,991	$ 8,295	$ 1,012
2026	$ 626,071	$ 9,391	$ 1,146
2027	$ 696,634	$ 10,450	$ 1,275
2028	$ 772,826	$ 11,592	$ 1,414
2029	$ 862,760	$ 12,941	$ 1,579
2030	$ 951,842	$ 14,278	$ 1,742
2031	$ 1,047,855	$ 15,718	$ 1,918
2032	$ 1,162,268	$ 17,434	$ 2,127
2033	$ 1,274,159	$ 19,112	$ 2,332
2034	$ 1,394,560	$ 20,918	$ 2,552
2035	$ 1,539,212	$ 23,088	$ 2,817
2036	$ 1,679,144	$ 25,187	$ 3,073
2037	$ 1,829,499	$ 27,442	$ 3,348
2038	$ 2,011,456	$ 30,172	$ 3,681
2039	$ 2,185,803	$ 32,787	$ 4,000
2040	$ 2,372,863	$ 35,593	$ 4,342
2041	$ 2,600,686	$ 39,010	$ 4,759
2042	$ 2,817,148	$ 42,257	$ 5,155
2043	$ 2,873,307	$ 43,100	$ 5,258
		$ 452,724	**$ 55,232**

ADMINISTRATIVE FEES

Under the *Income Tax Act*, the sponsor of the PPP can also write-off the Fees paid to administer the Pension Plan.

Over this 20 year period, the total fees, inclusive of Sales Taxes is $49,199.

Again, using a 12.2% corporate tax rate, this generates another tax refund amount of $6,002 for the corporation.

ADMINISTRATIVE FEES…AUTO-FINANCING

Treatment of Fees:

$49,199 is an outlay of cash to administer the plan
but…
+$6,002 tax refund due to deductibility of administration fees
+$55,232 tax refund due to deductibility of IMFs
____
$61,234 total tax **refunds**

= +$12,035 in net refunds post-payment of all administrative fees.

Terminal Funding

FINAL DEDUCTION

2023 Final Deductions

TERMINAL FUNDING

By age 65, the Business Owner may wish to retire and index the annual pension payable of $188,980 with full indexation to the Consumer Price Index.

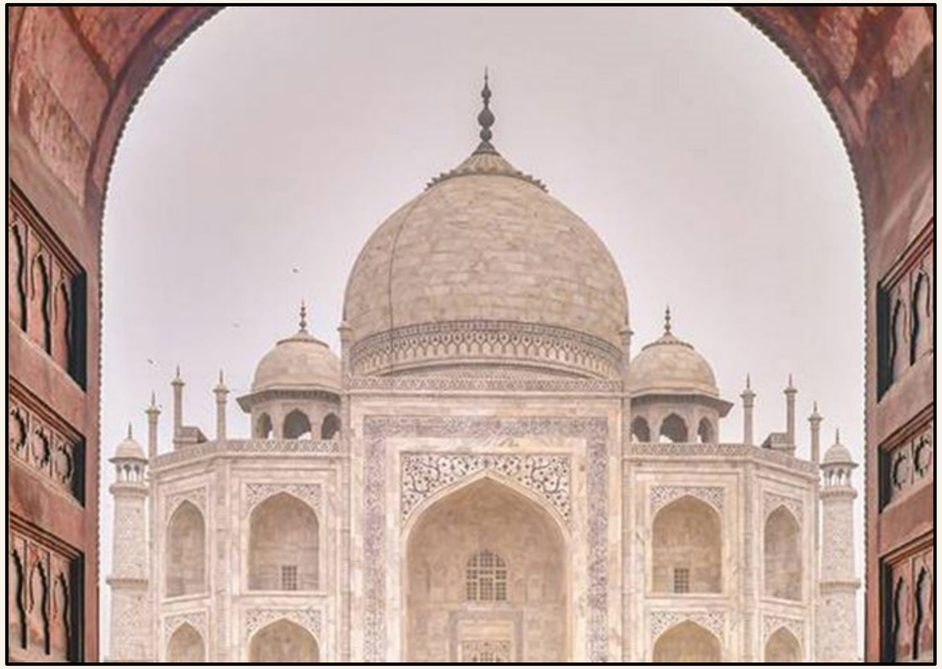
To give the pension fund enough assets to afford this extra layer of protection against inflation, the Corporation can now contribute another $330,020 to the PPP under the Plan's Terminal Funding Rules.

Thus, if inflation in Year 1 is 10%, the new Pension amount would jump to $207,878

TERMINAL FUNDING

Again, using a corporate tax rate of 12.2%, the Terminal Funding contribution has generated an additional tax savings/tax refund of $40,262.

COMPARING TO THE RRSP STRATEGY



1 PPP ADVANTAGES

$855,675 in extra funds
$48,575 extra each year

PPP

Total registered assets available for retirement purposes:

$**2,873,307**
(excludes terminal funding)

RRSP

Total registered assets available for retirement purposes:

$2,017,632

PPP

Annual Pension as a ratio to assets:

$**188,980**
(excludes terminal funding)

RRSP

Annual Pension as a ratio to assets:

$140,405

EXTRA: PENSION INCOME SPLITTING

$188,980

Pension payable at 65 to member

$61,687

Total Tax if no pension income splitting done

$20,356

Tax each person in couple pays when PPP income split

$40,712

Total taxes paid by couple on PPP split income

$20,975

Annual Tax Savings thanks to PPP pension income splitting

YEAR 2023

SOURCES OF CASH FOR THE PPP

Business Owner might have accumulated retained earnings that have been accumulating inside the Non Registered Corporate Investment Account of the Corporation over time.

Shares where purchased and since these shares have not yet been sold, no tax has been payable since Incorporation. Assume 1,000 shares purchased at 100$ now sold for $300/share.

Corporation decides to sell said Shares in order to generate the cash necessary to contribute to the Pension Plan.

What happens ?

SOURCES OF CASH FOR THE PPP

- ❑ Proceeds of disposition $300 x 1,000 shares = $300,000
- ❑ Adjusted Cost base $100 x 1,000 shares = $100,000
- ❑ Capital Gain = $200,000
- ❑ Taxable Capital Gain (50% of Capital Gain) = $100,000

- ❑ Tax Deduction from PPP contribution =$300,000
- ❑ Taxed Owing by Corporation = $0

- ❑ Credit to Capital Dividends Account (CDA) =$100,000

This means that the Corporation can declare a dividend of $100,000 to the Owner that will be 100% tax-free in his hands!!!

BUSINESS OWNER DECIDES TO RETIRE OUTSIDE CANADA

The Business Owner has decided to retire in the South of Portugal and to live off his PPP income.

Under Part XIII of the *Income Tax Act*, his $188,980/annum would normally be subjected to a flat 25% non-resident withholding tax at source [$47,245]… however given the Canada-Portugal Tax Convention, the countries have agreed that this pension income should only be taxed at 15% [$28,347].

Immediately, he just saved $**18,898** annually in Canadian income taxes.

Also, Portugal Tax Laws does **not** tax Canadian pension income at all to encourage emigration.

BUSINESS OWNER DECIDES TO RETIRE OUTSIDE CANADA

Perhaps more importantly, the assets in his PPP at age 65 [$2,873,307] are now classified as "Exempt Assets" and do not form part of the calculation for the "Departure Tax" which is a deemed disposition applicable to the wealth of Canadians that elect to become 'non-residents' of Canada.

Even at a 25% effective tax rate, this represents a tax savings of $718,326!

BUSINESS OWNER DIES

The child of the Business Owner who was working in the Corporation and collecting a Salary was made a 2nd member of the PPP.

Should the Business Owner pass away (say on the first day of the retirement), the $2,716,343 in the Defined Benefit account of the PPP that is shared with the child will not be subjected to a deemed disposition

If the Estate normally faced a 50% tax rate, this feature alone has saved the family $1,358,171 in taxes. Had the same cash been in the RRSP, it would have been subjected to the deemed disposition tax.

SUMMARY

PRIMARY GOALS REACHED

- Significantly more annual retirement income
- Significantly increase in registered dollars available to retire on
- Auto-financing Solution

ADDITIONAL ADVANTAGES

- Protection against “departure tax” or “deemed disposition on death” tax
- Creation of tax-free income via CDA as well

THANK YOU

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