Key Planning Strategies for Business Owners

OPCO (Active Business Income)

HOLDCO (Investment Income)

LOWER TAX RATES

The first \$500,000 of Active Business Income (ABI) is only taxed at 11-19% (varies by province) due to the Small Business Deduction. ABI over \$500,000 is taxed at 26-31%, which is still lower than top personal tax rates of 45-54%.*

CREDITOR PROTECTION

Investment income earned in a Holdco is taxed at a higher rate (50-55%). However, Holdco assets are generally protected from Opco creditors. Therefore, you may be able to protect surplus assets in your Opco without making a taxable withdrawal.

INDIVIDUAL PENSION PLAN (IPP)

- Enables greater contributions than an RRSP
- Tax-deductible to your Opco
- Potentially large tax-deductible pastservice contribution upon set-up
- Top-up contributions when annual returns fall below 7.5%
- Creditor protected

ESTATE FREEZE

- Limits owner's taxes when estate settled
- During lifetime, shares frozen in value
- Future business growth accrues to next generation
- Enables \$824,176 capital gains exemption to be multiplied
- Allows Opco to pay dividends to adult family members with lower tax rates

TAX-EXEMPT INSURANCE

- Investing through insurance policy shelters Holdco income from higher taxes
- Insurance proceeds paid tax-free at death
- Potentially fund capital gains taxes, buy/sell arrangements, survivor income or beneficiary equalization

*The small business deduction (SBD) limit is \$500,000 in all provinces and territories except for Manitoba and Nova Scotia. Note that as of January 1, 2016, the SBD limit threshold in Manitoba is \$450,000, while for Nova Scotia it is \$350,000. Therefore, a different tax rate applies to income between \$350,000 and \$500,000 in these provinces.



RBC Wealth Management Dominion Securities

There's Wealth in Our Approach.™

RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. Is licensed as a financial services firm in the province of Quebec. ®Registered trademarks of Royal Bank of Canada. Used under licence. ©2016 Royal Bank of Canada. All rights reserved. 16_90083_126