

Taking Care of Your Business and Your Family



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If you're a business owner, the financial future of your family is likely intricately interwoven with the financial future of your business. If you haven't already done so, you'd be wise to ensure you have a succession plan in place for your business to protect not only the stakeholders of your business, but just as importantly, your family.

When you depart from your business – whether your departure is planned or not planned – there are fundamentally four options for your business:

1. LIQUIDATION

You might choose to terminate your business and sell the assets. This option is most appropriate if there is no one who can effectively carry on your business after you leave, if you and your family need the proceeds from the sale of the business assets, or if the company doesn't have the funds to continue operating.

2. SHAREHOLDER BUYOUT

You might choose to sell your shares in the company to the

remaining shareholders. The business would carry on with the management that has been agreed upon by the new owners.

3. INHERITANCE BY THE NEXT GENERATION

If your son or daughter is capable and willing to take over from you, and the remaining shareholders are in agreement, you might choose to give your shares to the next generation. If you have other children who are not involved in the business, you'd be wise to find other ways to ensure all your children feel treated equally. This option also assumes that you and your family don't need the income that would be generated if you were to sell your ownership in the company.

4. SALE OF THE BUSINESS

If there is no one in the family or company interested in buying your shares in the business, and the business is viable without you, you might sell the company to another individual or company. The best time to sell is when there is an interested buyer, so if there is an opportunity to sell prior to your

departure, the price and terms would, of course, be more advantageous to you and your family.

Business owners are too often too busy to plan ahead for their succession. There is never a time too early to plan and put into place the mechanisms for your succession. Please allow us to guide you, and if necessary, put you in touch with other appropriate professional advisors.

"Creating a succession plan for your company will force you to make decisions regarding the successful ongoing operations after your departure."

You've put your heart and soul, and likely every available penny, into making your company successful. Your succession plan for your company should address concerns regarding your family's financial future. For example:

- If you were to become unable to work or if you were to die unexpectedly, how would your spouse meet your immediate financial obligations?

- Once you leave the company and your family is financially dependent on the sale of your shares in the company or the sale of the company's assets, how will these sales occur?

LIFE INSURANCE TO FINANCE SHAREHOLDER BUYOUT

If you are the owner or one of the owners of a business, insurance on your life will ensure that funds to buy your shares will be available in the event of your premature death. If you're like most business owners, your shares in your company represent your largest financial asset. Life insurance ensures that your family will realize the equity in your business, even if you were to die before you sold your shares. Your family would receive cash for immediate expenses and to fund your spouse's retirement or the years to the retirement plans the two of you had organized.

THE PARTNERS INSURE EACH OTHER

If you have one or more partners in your company and you all agree to continue the company even after the death of any partner, life insurance can provide the funds for the surviving partners to purchase the deceased's shares. Since the insurance is purchased with after-tax dollars, the proceeds are tax-free and provide immediate cash to pay the deceased's family for the shares. The business continues uninterrupted.

An insured buy/sell agreement pre-establishes the dollar value or a formula to calculate the value of each partner's share when that individual dies.

YOUR COMPANY INSURES YOUR LIFE

If your company buys insurance on your life, the funds will be available within the business to be disbursed to your family in the event of your death. Your company would own the policy and be named as the beneficiary. When you die, the insurance proceeds would be paid to the company tax-free. The company could, in turn, elect to credit the proceeds to its capital dividend account to be paid tax-free to your survivors.

ESTATE FREEZE – A TAX PLANNING STRATEGY

An estate freeze is a sophisticated tax planning technique to minimize income taxes on your estate when you die. The strategy is most appropriate when you have an asset that is expected to increase in value, you're content to retain the current value, and you'd like to pass on the future growth to your heirs. This way, you don't pay taxes on the future growth, but your heirs do.

Basically an estate freeze is accomplished by establishing two types of shares:

- Preferred shares – that reflect the current value of the company, do not grow in value, and have voting privileges
- Common shares – that have no voting privileges and grow in value as the company grows. By holding the preferred shares, you retain control of the company but relinquish your financial interest in the growth of the company. The common shares could be held in a company or by a trust, or could be given or

sold directly to your heirs, whatever is most appropriate for your situation.

An estate freeze is complex to structure and requires professional financial, tax, and legal advice. We would be pleased to further explain the strategy and help you to evaluate whether or not an estate freeze would work to your advantage.

IPP—Better Than an RRSP

AN IPP IS AN INDIVIDUALLY TAILORED PENSION PLAN

An Individual Pension Plan (IPP) can provide you with higher retirement income than can a Registered Retirement Savings Plan (RRSP). However, an IPP is not appropriate for everyone. Consider an IPP if you are:

- A business owner, professional, or highly-paid executive with annual income exceeding \$110,000
- Between the ages of 40 and 69
- Able to make contributions that significantly exceed the RRSP contribution limits

An IPP is an individually tailored pension plan, similar to the pension plans that are available for those who work for large organizations.

An IPP is a maximum defined benefit plan, which means your plan will pay you a predetermined maximum pension when you retire. The contributions you make to your IPP fund your pension, so the more you contribute, the higher you can set your pension income.

There are three types of contributions you can make to your IPP:

1. Annual contributions – the maximum amounts are established by the federal government
2. Past-service contribution – the maximum past-service amount is based on the extra contributions you could have made over and above your RRSP contributions, if your IPP had been in effect since 1991. This past-service contribution amount is calculated in the first year that your IPP is established and must be paid into your plan within the first five years

3. Terminal contribution – in the final year that you make contributions to your IPP, you have the one-time opportunity to enhance your pension contract. For instance, if you retire earlier than you expected, you can top up your pension fund or if you decide to add a cost-of-living increase to your predetermined maximum pension, you can add the amount necessary to fund that adjustment.

There are several ways in which an IPP is superior to an RRSP:

- Your IPP contributions – annual, past-service, and terminal – are significantly larger than the allowable annual contributions to an RRSP
- The larger IPP contributions translate into higher retirement income for you
- The larger IPP contributions translate into larger current tax deductions
- Your corporation can deduct your IPP contribution as an expense against income or can



- borrow funds to contribute to your IPP and deduct the interest as a business expense
- Your IPP assets are sheltered from claims by creditors

There are disadvantages to an IPP as well. The funds in an IPP are locked in until retirement, you cannot contribute to a spousal plan like you can with an RRSP,

and there is a cost of approximately \$500 per year for management and administration fees.

Please contact us to help you determine whether or not an IPP is appropriate and advantageous to your individual circumstances.

THE IPP ADVANTAGE - CONTRIBUTION MAXIMUMS FOR 2006

AGE	IPP MAXIMUM CONTRIBUTION	RRSP MAXIMUM CONTRIBUTION	IPP ADVANTAGE	ADDITIONAL YEAR 1 MAXIMUM PAST SERVICE CONTRIBUTION
45	\$20,771	\$18,000	\$ 2,771	\$ 49,895
50	\$22,816	\$18,000	\$ 4,816	\$ 79,490
55	\$25,062	\$18,000	\$ 7,062	\$111,980
60	\$27,529	\$18,000	\$ 9,529	\$147,680
65	\$30,667	\$18,000	\$12,667	\$193,070

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Insure Against Serious Illness Crippling Your Business



If the success and continuity of your organization depends on a few key individuals, you would be well-advised to protect your business against the crippling losses that might occur if one or more of these key people were to become too ill to carry out their usual responsibilities. Critical Illness insurance provides a lump sum benefit if an individual is afflicted by one of the specified illnesses. The company can choose to use the money in any way. For example, the funds could be used to fund a buy-sell agreement, pay for hiring and training a replacement, or help the victim's family through a resulting financial crisis.

THE RISKS

There is a surprisingly high risk that when you are between the ages of 45 and 65, you will fall victim to a serious illness such as cancer, heart attack, or stroke. Today's medical advancements increase the chances that you will survive these illnesses. Most businesses plan for the possible death of a key individual, but not enough plan for the possibility of a serious illness requiring a key individual to be away from work for an extended period of time.

A CRITICAL ILLNESS

The more key people there are in your business, the higher the risk that at least one will contract a

critical illness. Consider the following statistics if you are a sole owner or one of three partners in a business:

PROBABILITY OF A CRITICAL ILLNESS PRIOR TO AGE 65		
Age of individual	Probability of suffering a critical illness	Probability of at least one of three suffering a critical illness
Male 45	23.7%	50.5%
Female 45	18.3%	50.5%
Male 50	20.6%	50.5%

Please allow us to help you review all your business' financial plans including succession planning, retirement compensation, business continuation and employee benefits.



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