A tax break that's not on the hit list

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SPECIAL TO THE GLOBE AND MAIL
16 HOURS AGO

The battle over Ottawa's proposed tax changes is heating up. Numerous groups have lined up against the plan, including those representing doctors, lawyers, farmers and small-business owners. The Conservatives have latched onto the proposals as a wedge issue they believe can swing votes in their direction. Even some Liberal MPs have publicly expressed doubts over the whole idea.

Up until now, Prime Minister Justin Trudeau has had pretty much a free ride since he took office. That appears to be over, as he faces his first real test.

The proposed changes have met with a broad range of reactions. Some experts say they will be devastating to the economy, drying up investments in small companies and prompting a flight of entrepreneurs, doctors and other professionals to the United States. The government's response so far is that this is nonsense – that all the changes will do is level the playing field between wealthy incorporated professionals and the long-suffering middle class.

As a small-business owner myself, I can say that one aspect of the plan that concerns me is raising the tax rates on passively invested earnings – money that is put aside in a bank or a brokerage account. The government wants us to reinvest that money in the business or else. But the reality is that many small businesses (farmers are a good example) go through both good times and bad. Having some money in reserve to help keep the business afloat when things get rough is only prudent. So far, Ottawa doesn't seem to understand that.

There is one big tax break available to small businesses and incorporated professionals that is not in the Liberal government's sights, at least not at this stage. And it could potentially save a company and its principals thousands of dollars a year in taxes.

It's the individual pension plan (IPP). I made use of it myself and I can attest to its effectiveness. This is a registered pension plan, approved by Canada Revenue Agency, which can be offered to a business owner and, if desired, other family members who work for a company, without having to make it available to other staff. The tax advantages heavily outweigh contributing to a registered retirement savings plan (RRSP).

Integris Pension Management Corp. offers a variation, which it calls personal pension plans (PPPs). These can be set up as either defined-benefit or defined-contribution plans, or a combination of both. The company says the annual (tax deductible) current service contributions exceed those available in an RRSP and typically range from $26,230 to $43,000 a year. As with an RRSP, the money is invested in a tax-sheltered account until it is withdrawn.

In addition, supplemental contributions can be made if the return on the assets in the plan are less than 7.5 per cent. Another big advantage is the ability to buy back past service – in other words, to earn a pension for the years before the plan was actually set up.

And there are still more tax breaks. Take the RRSP "double dip" for example. In the year the plan is set up, the member can claim a personal tax deduction by contributing to his or her RRSP. That is in addition to the annual pension plan deduction claimed by the corporation for its contribution.

Then there is the terminal funding rule that allows for a large one-time contribution to upgrade the value of the plan and provide for indexing if the member decides to retire before age 65.

The investment fees for managing the pension money are tax deductible. Depending on who sets up the plan, the business owner may be able to select his or her own financial adviser – Integris, for example, does not manage the money itself.

Finally, both IPPs and PPPs have creditor protection. If a company runs into financial trouble, the assets are safeguarded, protecting the members from having their retirement savings confiscated.

Regular IPPs are offered by a range of companies, including many brokerages, accounting firms, human-resources firms and insurance companies. Shop around before you decide.

Gordon Pape is editor and publisher of the Internet Wealth Builder and Income Investor newsletters. For more information and details on how to subscribe, go to buildingwealth.ca.

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