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Practical Wealth Creation Ideas

...for Simplified Financial Success™



Does Your Business Need AN ESTATE FREEZE?

A solid estate plan is necessary if your business assets possess potential

for large capital gains and you have children who may take over the company.

An estate plan can assess the fair market value of an estate and the potential tax on the capital gains that will be due. The company's value is fairly pre-established with your input, as opposed to your executors and lawyers negotiating with the Canada Customs and Revenue Agency after your death.

You can approach a qualified tax accountant, your lawyer, and your insurance advisor to inquire whether they would advise an estate freeze on your kind of business, with your given assets and growth potential, and if so, when would be the best time. These professionals will ask some difficult questions that may create some anxiety, which, you should understand in advance, is quite natural. You may have other children who are not involved in the company. Consider leaving other assets to them such as your home, investment assets, or other real estate.

If you own a cottage possessing sentimental value for all the children you may want to divide its ownership equally between all. When equalizing the estate, life insurance tax-free benefits can be proportionately assigned to certain beneficiaries in varying percentiles to meet your need for fairness. Life insurance could also pay off any serious debt that the company carries.

Estate planning will help you determine who will be the beneficiaries of your estate and who, if anyone, will take over the company. An estate freeze or a partial freeze is a way to transfer all or a portion of new growth in the value of the company to the new owner-heirs. You exchange all or a portion of your existing equity for a class of non-growth voting preferred shares. These preferred shares allow for a fixed income in retirement and the maintenance of future control, enabling the freezer to take over to save the company from poor management by the new heirs or to sell the company. Shareholder agreements can help control borrowing, or facilitate the purchase of the business by the children operating it, from the children who do not.

Estate freezes coupled with the intelligent use of life insurance can help reduce the effect of a massive tax-bite on your estate. Such planning can also free up capital for retirement when you know, for example, that life insurance will pay the tax bill versus money saved for retirement.