



## **Small Business Owner Example**

Situation - Kanica owns an IT company that she started 4 years ago. It is growing in size and she is building up excess assets that are not needed in the business. She is wondering how to structure her business as it grows and what to do with the additional assets that aren't needed to run the business. She also isn't sure what the best method of taking money out of the business for herself is (salary vs dividends). She does about \$3-4MM in sales right now but sees that growing to about \$10MM in a few years due to various opportunities.

### Business Assets

1. Cash - \$350,000
2. Investments - \$300,000
3. Infrastructure assets - \$1,000,000

### Goals

1. How to structure the business with growing assets?
2. How to take her compensation out of the business?
3. Any other business advice so she can focus on what she enjoys; Information Technology.
4. Risk Management for her business and family

What follows is a very quick snapshot of the financial planning process. It excludes many parts of the process and as every client's situation is different this is for illustrative purposes only:

<b><u>Current Situation</u></b>	<b><u>Optimized Situation</u></b>
<b>Kanica owns 100% of shares personally</b>	<b>Kanica owns 100% of Hold Co shares personally</b>
<b>Operating company with assets</b>	<b>Holding Company owns company shares Extra assets are moved here</b>
	<b>Operating company</b>

## Recommendations

1. Create a holding company. Move the personally held shares into it via a Section 85 rollover.
2. It might be possible to use the Lifetime Capital Gains Exemption here to increase the adjusted cost base of the shares.
3. Create different classes of shares of the holding company for possible future use.
4. Move the surplus assets from the operating company to the holding company without any tax implications. This also creates a very valuable form of liability protection as the assets aren't in the operating company any more.
5. After a needs analysis it was determined that taking salary from the business is preferable. Mainly because Kanica values the Canada Pension Plan that she would be contributing to which would not be possible with dividends.
6. After a risk management assessment it was determined that Kanica needs more life insurance. It was decided, for various reasons, to have this be owned by the holding company.
7. General investment advice is given and how it pertains to investing personally vs. in a corporation.

After a series of video calls a detailed set of financial projections is given to the client along with an action based written report to be implemented.

## **Result**

An efficient business structure for her current position and with the expectation of future growth. Peace of mind that her accumulated assets are in a holding company and are most likely creditor protected. Now, Kanica can focus on growing her business!

## **Chris Merrick**

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