

# Investor Insight

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## Establishing a Holding Corporation

If you own an operating company or have a significant portfolio of non-registered investments, establishing a holding company to own your assets may provide significant tax and other benefits.

### **Advantages**

With appropriate planning and maintenance, a holding company could be used to split income with family members. The family members, or a trust for the benefit of the family members, could also become a shareholder of the holding company. Dividends could be paid / allocated annually to non-minor family members who are in a lower income tax bracket or who have significant tax credits (i.e., tuition credits) to take advantage of their reduced effective tax rate. In addition, on the sale of a business it may be possible to use each family member's lifetime capital gains exemption to significantly reduce the resulting tax.

Owning assets through a holding company may also reduce your U.S. estate tax exposure and, in certain provinces, can be an effective way to reduce probate or estate administration fees. Further, a holding company may provide an effective and tax-free way of protecting the assets of an operating company from third party liability claims.

If you currently own assets with an accrued gain that could potentially benefit from a holding company structure, by filing a special tax election form in the year of transfer you can move the assets into the holding company on a tax-deferred basis (i.e., there is no tax to be paid on the capital gain at the time of transfer, but the holding company inherits your cost basis and thus the accrued gain).

### **Disadvantages**

Before setting up a holding company, it is important to recognize that there are many punitive rules in the Income Tax Act concerning the personal use of corporate assets. Careful attention must be given to loans, transfers of assets, or the personal use of corporate assets (e.g., real estate owned by the holding company) by the shareholders and their families.

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“A holding company may provide an effective and tax-free way of protecting assets”

Finally, holding corporations are separate legal entities and there will be additional professional fees associated with establishing the company and annual fees to maintain the corporate records and to prepare tax returns.

**Seek Assistance**

You should consult with your tax and legal advisor prior to review the particulars of your situation before establishing a holding company.