

**FEDERAL BUDGET
for small business
and
MANAGING DURING A RECESSION**

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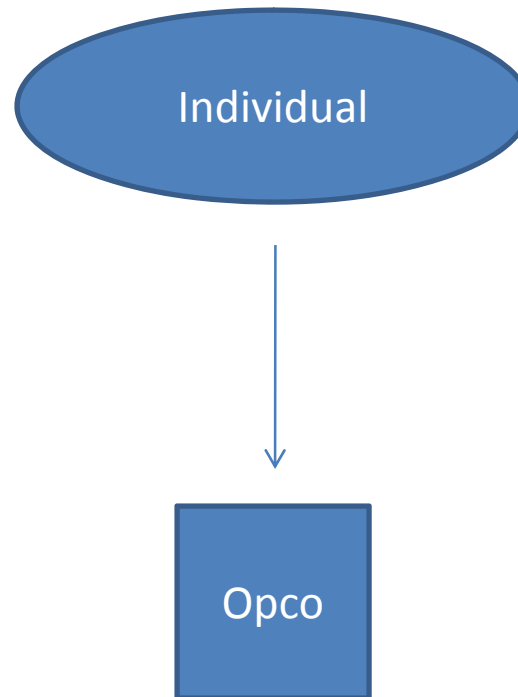
Discussion agenda:

- Corporations and the federal budget;
- Why use a corporation;
- 2009 budget implications;
- Tax planning opportunities;

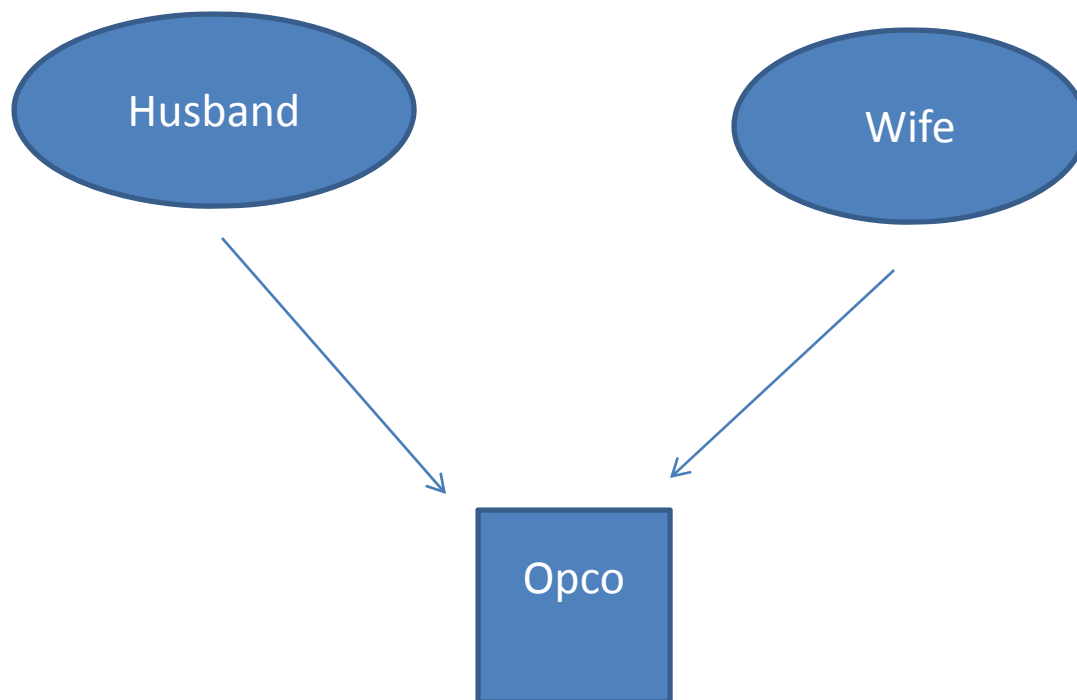
Why use a corporation?

- Separate legal ownership;
- Asset protection;
- Income splitting with family members;
- Tax deferral;
- Contractual requirements;

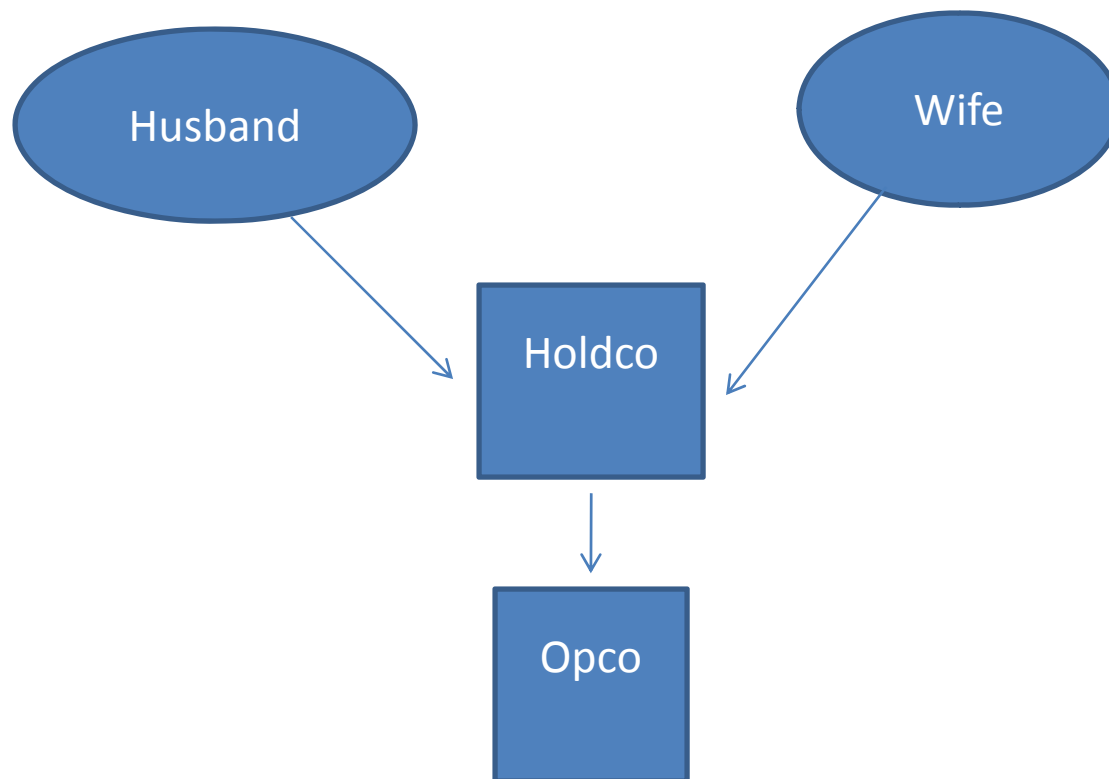
- Basic corporate structure



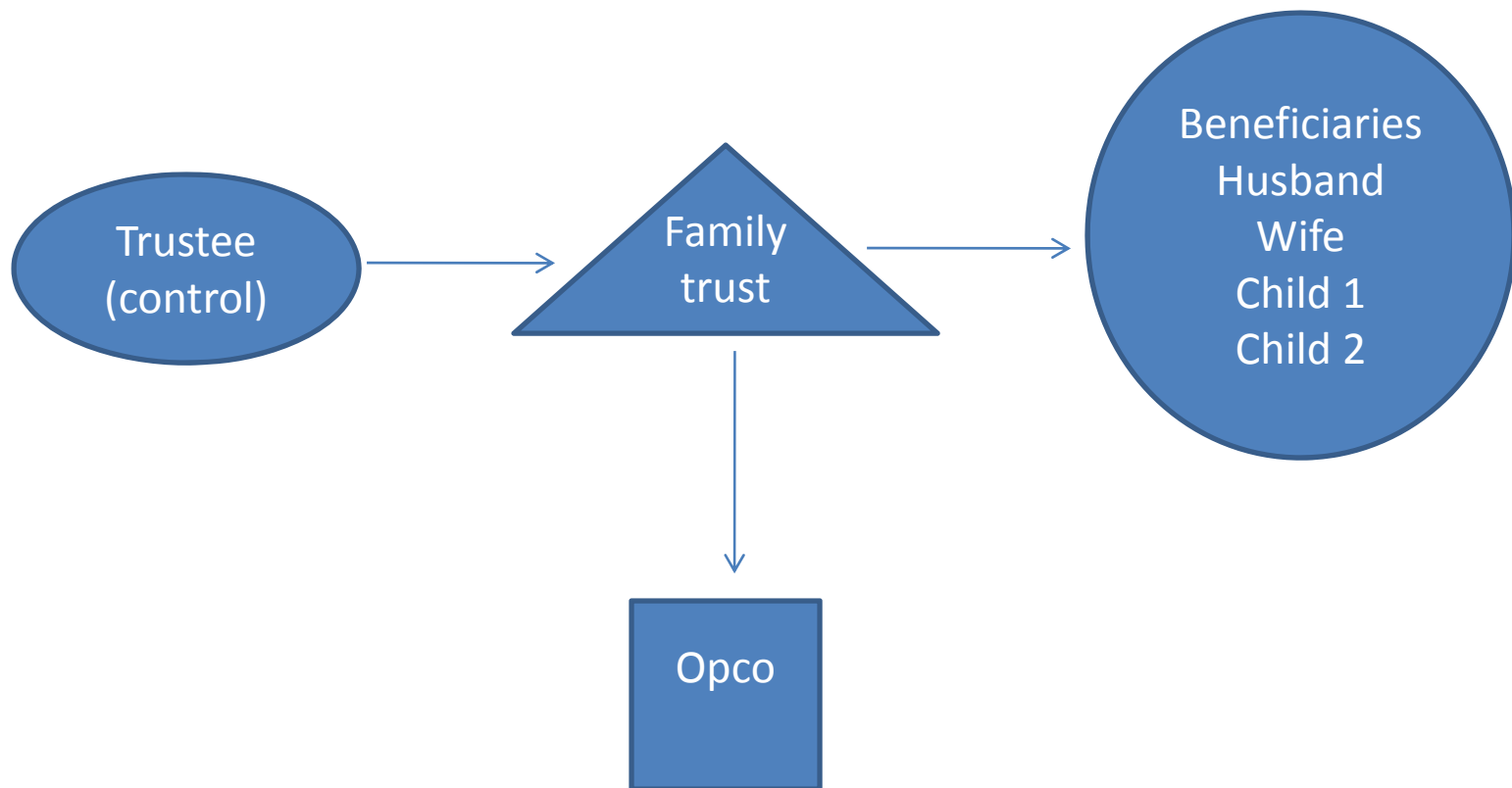
Income splitting structure with spouse;



Structure with income splitting and asset protection;



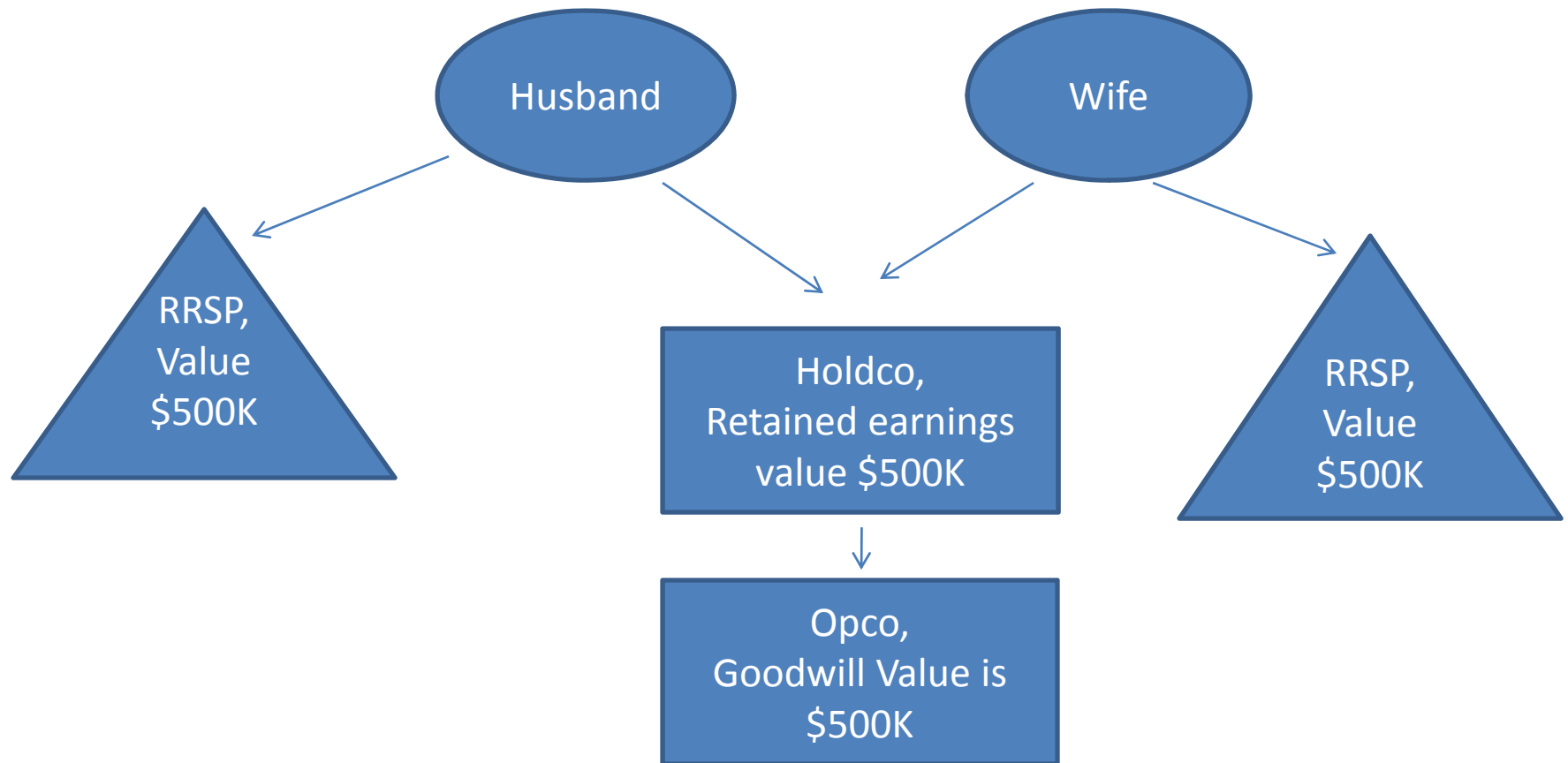
Basic corporate structure with trust



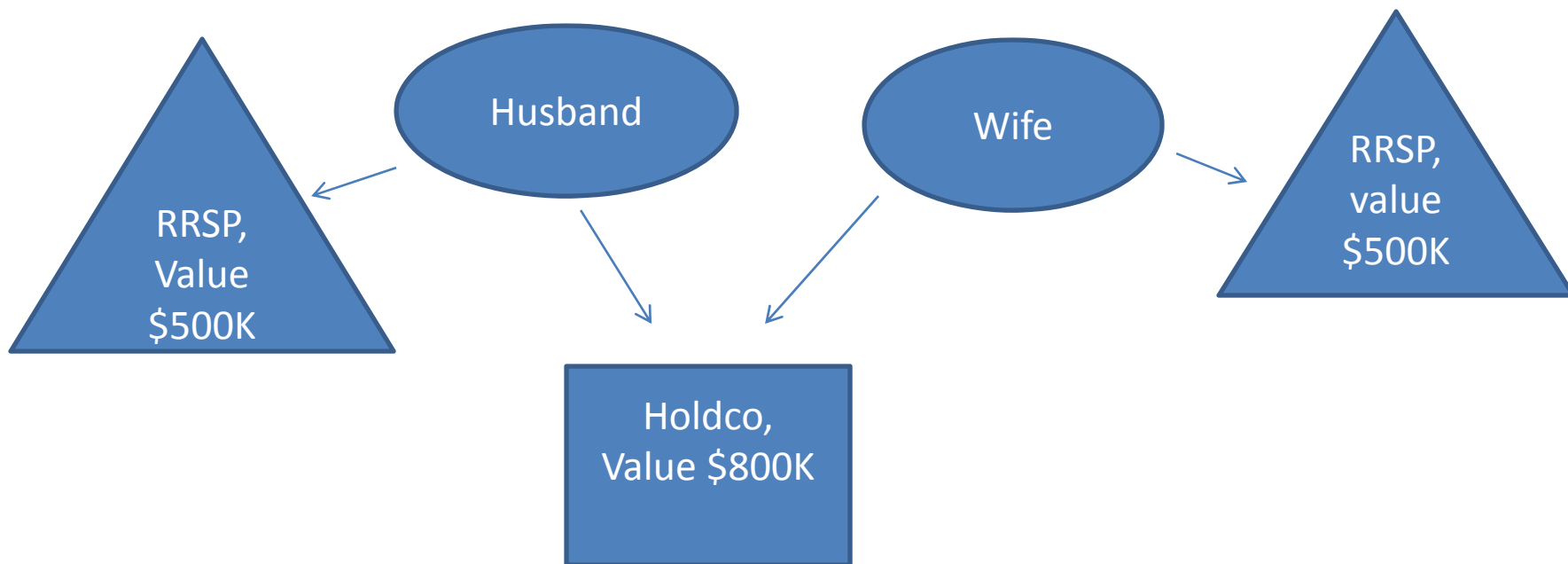
Benefits of income splitting with a corporate structure;

- Dividend sprinkling among family members;
- Dividends to kids who are 18 on December 31 to fund university education;
- Capital gains sprinkling to all family members;
- Retirement planning through deferral of tax or permanent tax deferral;
- Combined with RRSP savings for retirement;

Long term example; (At year 15)



Immediately after sale of opco;



- Retirement at year 15;
- Spouses draw from Holdco at a rate of \$36K per year each (for say 12 years depending on investment returns within Holdco);
- If no income from any other source then - \$36K each is tax free due to the dividend tax credit;
- If a GRIP is present (2006 budget) then an enhanced dividend tax credit increases the annual withdrawal amount to approximately \$50K each;

- After the Holdco is drained; (say 12 years after sale of opco);
- During this period the RRSP's have compounded - without any new contributions or withdrawals they would grow from \$500K each to \$1M plus with compounding;
- RRSP's are now drawn down for the remainder of retirement;

Budget changes that benefit this structure:

- Increased “small business deduction” from \$400K federally to \$500K commencing January 1, 2009;
- Increased SRED expenditure limit from \$2M to \$3M with the phase out commencing at \$500K of prior year income instead of \$400K;
- Complete elimination of the 35% SRED credit occurs at \$800K instead of \$700K;
- CCA on equipment used in manufacturing increased temporarily from 30% declining balance to 50% straight line in the 2007 budget for property acquired before 2009;
- The 2008 budget extended this to equipment acquired before 2010 for the straight line deduction and then declining balance for property acquired before February 2012; ***(the half-year rules applies);***

- Budget changes continued...
- CCA for computers increased to 55% in the 2007 budget;
- The 2009 budget extended this to computers acquired after January 27, 2009 and before February 2010, and increased to 100% (not subject to the half year rule);

Prior budget changes pending;

- Increased lifetime capital gains exemption from \$500K to \$750K for *qualifying shares of a small business corporation* and *qualifying farm property*;
- Enhanced dividend tax credit for *eligible dividends* paid out of GRIP;

- Tax rates in effect:
- Personal
 - Ordinary income – 46.41%
 - Dividends, ineligible – 31.34%
 - Dividends, eligible – 23.96%
 - Capital gains – 23.2%
- Corporate
 - Subject to the small business deduction – 16.5%
 - General rate – 33.5%
 - Investment income – 48.67%

Recessionary Impact on Small Businesses

Strategies to Survive and Prosper

- Small businesses are affected because their customers and suppliers are affected
- Cash position, availability of financing, consumer over-reaction can undermine otherwise well run businesses
- Good times can lead to getting soft

- Tough times require more due diligence, attention to details
- Actions taken to survive economic down turns can provide long lasting benefits for businesses

- What to do?
- Reduce risk
- Preserve cash
- Make sure accounting is up to date and accurate

- Aged receivables and payables
- Internal Financial Statements
- Budgets

- Keep your key employees updated and engaged in your plans
- Revisit budget expectations and examine reasons for differences from actual results
- Increase vigilance for possible fraud risk

- Contact customers more frequently to learn what challenges they are facing
- Maintain close contact with suppliers to prevent unplanned shortages and surprises

- Banking relationships — ensure financial statements and other required reports are filed on time
- Banking relationships — keep bankers in the loop with regular communication

- Operational excellence — now is the time to focus on productivity and to take action on non-productive parts of your business
- Talent — good people don't grow on trees; our demographic shortage will not go away, so embrace your best people and look for hiring opportunities.