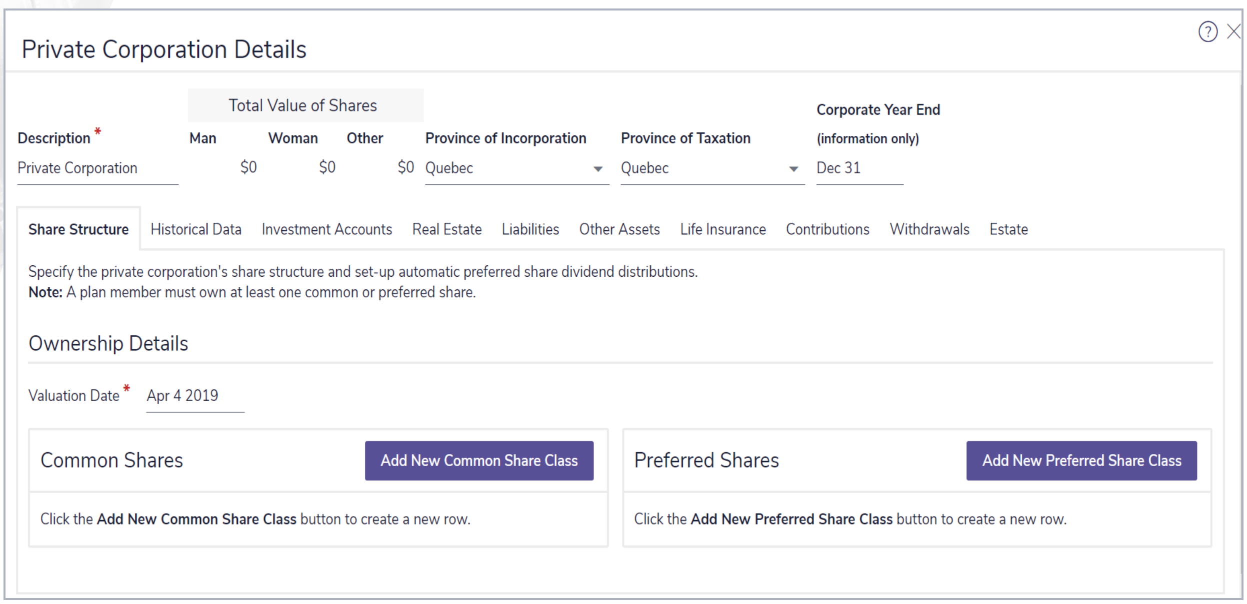
NaviPlan®
by Advicent

Private Corporations: Assumptions and Effects

Functions addressed in this doc:

- What assumptions does NaviPlan make about **Private Corporation**s?
- How do **Private Corporation**s affect net worth in NaviPlan?
- How can a **Private Corporation** be used to find a specific goal?
- How is a client's asset allocation profile affected by a **Private Corporation**?
- How can a **Private Corporation**'s details be modified in Recommended or Alternative plans?



Enter Financial Data – Net Worth – Private Corporation – Private Corporation Details

Entering a **Private Corporation** in NaviPlan follows the same process as other items in the **Enter Financial Data** section. However, the implications of **Private Corporation**s for personal planning are highly unique. Unlike other assets, a **Private Corporation** is a financial entity unto itself and may have many partial owners.

Clients who own **Private Corporation**s have different considerations to make when using a **Private Corporation** to fund their goals. Private corporations affect net worth differently based upon a client's percentage of ownership and, therefore, need to be carefully considered for their effects on client's asset allocation profiles.

What assumptions does NaviPlan make about **Private Corporation**s?

- The corporation is a Canadian-controlled private corporation (CCPC).
- Taxes are due and paid at the end of each calendar year.
- Corporate taxation year-end is assumed to be December 31.
- Shareholder loans are assumed to be non-interest bearing.
- The portion of any non-taxable CDA dividend distribution that exceeds the projected value of the CDA at the time of the distribution is treated as a taxable dividend.
- When a non-taxable CDA dividend is paid out, the associated tax election form is assumed to be filed in a timely manner and the necessary corporate resolutions completed.
- All taxable dividends received by the shareholder are considered non-eligible dividends.
- Any interest in a **Private Corporation** held by another **Private Corporation**s represents at least 10% share ownership, such that the companies are considered connected for tax purposes.
    - In addition, it is further assumed that no dividend refund is received by the payer corporation such that all inter-company dividends are received tax free for planning purposes. Users should consult with their tax advisors to determine the actual tax implications.
- The value of a **Private Corporation** is calculated as the estimated value of its assets (investment account, other assets, and the CSV of life insurance policies), minus the estimated value of its liabilities (shareholder loans and estimated deferred tax liability).
- There may be other assets and liabilities in the **Private Corporation** that are not included in this estimate.
- The estimated deferred tax liability is calculated by netting all the **Private Corporation**'s untaxed capital gains (both realized and unrealized) with all realized but unused capital losses, and multiplying any net gain by an estimated rate at which those capital gains would be taxed if realized at that point in time.
- For planning purposes, it is assumed that there are no future unrealized capital losses. The calculated value of a **Private Corporation** is only an approximation that does not account for the effects of all tax items such as the RDTOH, GRIP, CDA, refundable tax credits, and Capital Cost allowance (CCA) recapture. The estimated tax liability is for illustration purposes only; it should not be used for tax planning purposes.

How do **Private Corporations** affect net worth in NaviPlan?

The major difference between a **Private Corporation** and other assets in terms of personal planning is the level of ownership a client has within a **Private Corporation**. While clients are typically the sole owners of their assets and have full control of how they are allocated, invested, and redeemed, this is not necessarily the case with a **Private Corporation**.

A **Private Corporation** will typically have many partial owners, and the client may not be the majority holder within the company. Even in cases where the clients are the majority holders – or even the sole holders – they may still have other considerations which may limit their options for control over the **Private Corporation** (such as tax implications). It is therefore important to make considerations regarding the level of investment your clients have in a **Private Corporation**, as well as their ability to effectively exert influence over the assets held before making recommendations.

NaviPlan considers a **Private Corporation** in much the same way it does other assets. However, the implications of **Private Corporations** for clients' net worth is determined by the net worth of the **Private Corporation** itself coupled with the clients' level of ownership. A **Private Corporation** can generate revenue for a client in three ways:

- Number and value of preferred shares held
- Number and value of common shares held
- Outstanding shareholder loans

How can a Private Corporation be used to fund a specific goal?

Once you have determined the implications that the **Private Corporation** is likely to have on your client's net worth, you can use revenue generated from a **Private Corporation** to fund goals. Private corporations are handled somewhat differently than other asset and cannot be allocated directly to a client goal; they are allocated by default to cash flow.

However, revenue generated from a **Private Corporation** can be contributed to existing investment accounts, which can then in turn be assigned to fund specific goals.

How is a client's asset allocation profile affected by a Private Corporation?

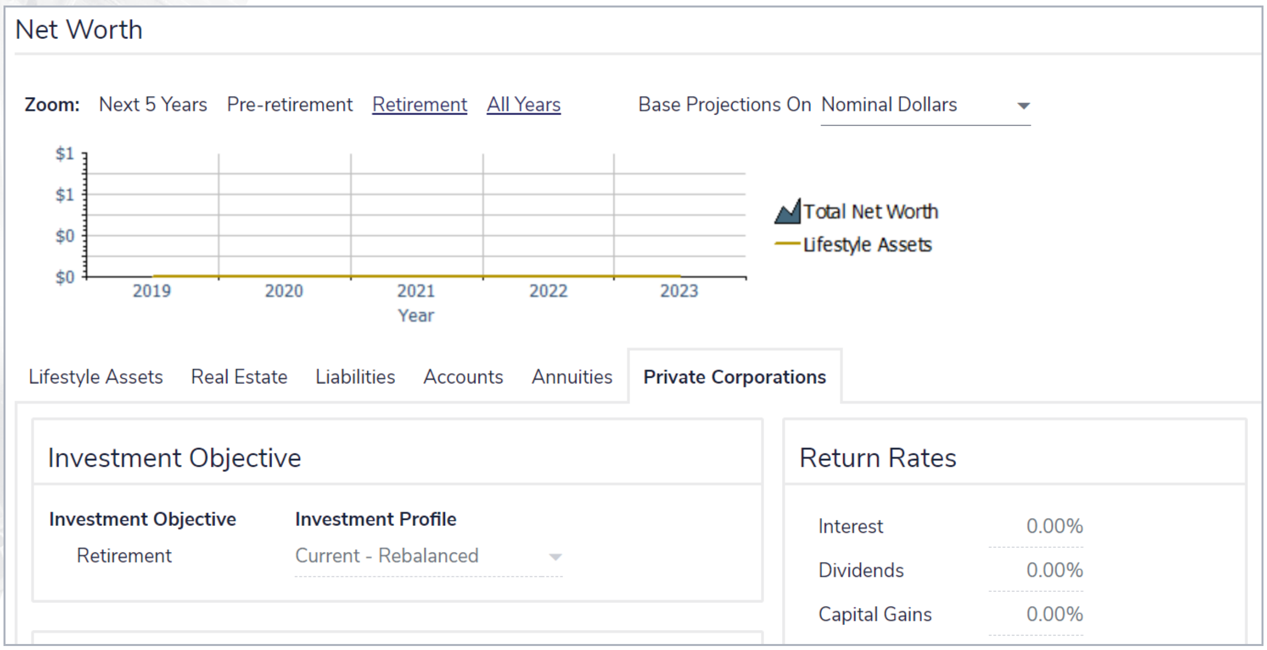
NaviPlan takes the asset class weighting of all assets in the plan into consideration when creating an investment profile for a client. Private corporations affect the profile differently. Because clients are typically partial owners in **Private Corporations**, it would be a misrepresentation of their investment strategy to consider the entirety of the **Private Corporation**'s investment account when creating a client's personal asset allocation profile.

Therefore, NaviPlan considers the number of shares owned by the clients relative to the total number of possible shares in the **Private Corporation**, and then weights that amount against the distribution of assets elsewhere in the plan. This means that the client's asset allocation profile will accurately reflect where the majority of the client's assets are actually invested.

Clients who are small, partial owners in a **Private Corporation** will not have their profile disproportionately modified, whereas clients who place the majority of their investment portfolio into a **Private Corporation** will be able to see its effects in their asset allocation profile.

How can a Private Corporation's details be modified in Recommended or Alternative plans?

Once you have modeled the clients' **Private Corporation** in the current plan and understand how it can affect clients' cash flow, net worth, and asset allocation profile, you can make recommendations using Scenario Manager.



Analyze Goals – Results – Scenarios – Edit Recommended/Alternative Plan – Net Worth – Private Corporation

When making changes to the recommended plan (or to an alternative plan), there are several options available for **Private Corporation**s:

- **Investment Objective**: Use these options to simulate a different investment profile in the scenario during both the pre-retirement and retirement periods.
- **Return Rates**: Use these options to modify the default return rates defined for the **Private Corporation**.
- **Private Corporation Details**:
  - Click the link under **Contributions** to establish savings strategies for the scenario.
  - Click the link under **Withdrawals** to establish redemption strategies for the scenario.
  - Click to simulate a different share structure, an inter-company dividend, a shareholder loan, a share purchase, a manual dividend distribution, a loan repayment, or a share redemption.

DID YOU KNOW? In order to modify any of the options under the **Private Corporation** subtab in **Scenario Manager**, select the **Override** option for each section in which you wish to make changes.