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Private Corporations in NaviPlan

The features discussed in this quick reference guide are available to users who have the **Private Corporation** module enabled. See the **Modules** page located under **Plan Management** to enable this module.

The value of a **Private Corporation** is calculated as follows:

- Estimated value of company assets (investment account, other assets, and the CSV of life insurance policies) minus Estimated value of company 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, Capital Cost allowance (CCA) recapture, and refundable tax credits. The estimated tax liability is for illustration purposes only; it should not be used for tax planning purposes.

NaviPlan makes the following assumptions 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.

- The corporate taxation year-end is December 31.

- Shareholder loans do not bear non-interest.

- The portion of any non-taxable CDA dividend distribution that exceeds the CDA's projected value 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 filed in a timely manner and the necessary corporate resolutions are completed.

- All taxable dividends received by the shareholder are considered non-eligible dividends.

- Any interest in a **Private Corporation** held by another **Private Corporation** represents at least 10% share ownership.

- 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.

Adding Private Corporations to a plan

To model a **Private Corporation** within an existing plan follow these instructions:

1. Go to the **Private Corporation** tab (**Enter Financial Data - Net Worth** category).

2. Click **Add Private Corporation**.

3. Enter the **Description**, **Province of Incorporation**, **Province of Taxation**, and **Corporate Year End**.

4. Under *Ownership Details*, click **Add New Common Share Class** and/or **Add New Preferred Share Class**, then enter information on common and preferred share ownership.

Adding historical data to a Private Corporation

Use **Historical Data** to add any notional account's end-of-year values or carryover information related to the specific **Private Corporation**. You can also model amounts owed to the client (or another person) by the **Private Corporation**:

1. Go to the **Historical Data** subtab.

2. Enter values in the **RDTOH End-of-Year Value for...**, *GRIP End-of-Year Value*, CDA **End-of-Year Value for...**, and/or the **Dividend Refund for...** fields, when applicable.

3. Enter any capital losses from the previous year in **Capital Loss Carryover End-of-Year Value for...**.

   Note: Under **Capital Loss Carryovers Details**, you can enter capital loss carryovers that existed before the **Private Corporation** was created.

4. Enter any outstanding amount owed by the company to the client, co-client, or another person into the appropriate field under **Outstanding Shareholder Loans to the Private Corporation**.

Adding investment accounts

1. Go to the **Investment Accounts** subtab.

2. Give a **Description** to the account and enter its **Market Value** and **Cost Base**.

3. Enter the asset type under **Asset Class Weightings**. You can select a pre-defined asset class or classify the holding manually; the **Return Rate** is then populated automatically.

4. Click ✏ to override the rates of return and model an account fee for the investment account.

   Note: To add a subaccount with a different asset class, rate of return, and account fee setup click **Add...** under **Subaccounts**.

Adding Real Estate assets

1. Go to the **Real Estate** subtab.

2. Click the **Add Real Estate** button.

3. Give a **Description** to the asset and enter a **Market Value** and, if applicable, a **Rental Income**.

4. Click ✏ to enter, if desired, **Purchase Amount**, **Rental Expenses**, **Growth Rates**, **Depreciation**, **Sales Information**, **Return Rates**, and **Additions** to the asset.

   Note: These details are not required, but allow for additional strategies that can used for financial planning solutions.

Adding a Private Corporation's assets

To add any assets held by the **Private Corporation**, such as real estate, commercial/rental properties and equipment, follow these steps.

1. Go to the **Other Assets** subtab.

2. Click **Add Other Asset**.

3. Give the asset a **Description**.

4. Enter the asset's **Market Value** and **Cost Base**.

5. Use **Deferred Growth** and **Standard Deviation** to model the rate at which the asset has grown and the standard deviation for that growth.

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Adding life insurance policies

To enter life insurance policies towards which a **Private Corporation** is making payments, follow these steps:

1. Go to the **Life Insurance** subtab.
2. Click **Add Life Insurance** and select the appropriate type of insurance.
3. Select which client is insured by the policy, define a benefit amount, and a monthly premium.

Note: Click ✎ to open the **Life Insurance Details** dialogue box, where you can more accurately model benefit details, premiums, and the future value of the policy.

Entering Private Corporation transactions

From the **Contributions** subtab, you can enter transactions between shareholders and the **Private Corporation**, such as:

- Inter-Company Dividends Received
- Share Purchases
- Shareholder Loans

Entering estate information

To define what happens to the **Private Corporation**'s shares in the event of a client's death, follow these steps:

1. Go to the **Estate** subtab.
2. Indicate whether to sell the shares or to transfer the shares from the **Share Options at First Death** and **Share Options at Second Death** menus.
3. If applicable, select the **Estate Freeze** option to restrict asset transfers.

Entering a Private Corporation's outflows

From the **Withdrawals** subtab, you can enter information on a **Private Corporation**'s outflows, such as:

- Manual Dividend Distibutions
- Loan Repayments
- Share Redemptions

To enter manual dividend distributions, follow these steps:

1. Go to the **Withdrawals** subtab.
2. Click **Add Manual Dividend Distibution**.
3. Select whether the distribution involves common or preferred shares.
4. Select whether the distribution is taxable or non-taxable.
5. Enter the distribution's **Frequency**.
6. Enter the distributions **Start Date** and **End Date**.

Note: The **Private Corporation**'s Capital Dividend Account must have sufficient funds in order to pay out a non-taxable dividend distribution to all shareholders.

If sufficient funds are not available in the CDA, then the dividend will be paid as a taxable dividend from the **Private Corporation** investment account.

The amount of the non-taxable dividend is restricted to the amount in the CDA, and must not reduce the CDA to a negative balance/amount.

Frequently Asked Questions

How do a Private Corporation's accounts affect my clients' taxation?

Private Corporations provide additional goal funding options other than the typical and non-registered withdrawals. However, using a **Private Corporation**'s accounts introduces another level of complexity because both personal and corporate level tax implications must be considered.

You may wish to consider using accounts within the **Private Corporation** where funds can be withdrawn on a tax-free basis, such as Capital Dividend Account (CDA) balances and shareholder loans.

How do a Private Corporation's shares affect estate taxes?

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Ownership of a personal **Private Corporation** at death creates the potential for double-taxation by introducing a second level of (corporate) tax. This is of particular concern if an individual dies owning shares of a personal **Private Corporation** where the heirs are more likely to sell underlying assets and wind-up the **Private Corporation** rather than selling the shares directly to a third-party after death.

It is important to be aware of this issue and incorporate a post-mortem tax strategy into the estate plan to reduce or eliminate this double-taxation whenever shares of a personal **Private Corporation** may be held at death.

Which notional accounts are included in NaviPlan for Private Corporation?

Refundable Dividend Tax On Hand: used to capture the amount of refundable tax payable.

General Rate of Income Pool: used to capture income that was taxed at the general corporate tax rate and eligible inter-company dividends received by the Private Corporation. To the extent that GRIP is available, a private corporation can pay out eligible dividends.

Capital Dividend Account: used to capture non-taxable amounts received by the **Private Corporation**, such as the tax-free 50% portion of capital gains, or the death benefit of certain life insurance policies. This capital is used when paying out non-taxable dividends.

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