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Should you be investing personally or corporately. That's a big question Sonny. I think there's a lot to think about in order to answer that question. Yes. And I think we get that question a lot. Yeah. Right. We do. And, interestingly enough, that, some people have no idea as to which option should they pick because even within personally, there's options of registered accounts, non-registered accounts.

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And the difference really is that registered accounts are like, there's, you don't pay taxes on the growth of the investments if it's growing in your, you know, Rrsps or TFSA accounts versus non-registered account basically means that you'll pay taxes as you go along. Yeah. Less taxable account. There's like tax free accounts and tax deferred accounts. Exactly. Yeah.

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Exactly. And then within corporation then there's like a variety of different options. You could be investing. You may have a corporation. You may not have a corporation if you have a corporation. Well is it an operating company or an investment holding company. And then there's so many permutations and combinations going to work with. Yeah. But I think if we just kind of take a step back, what do we normally see in our practice.

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Is that most people have some form of and I would say most people when like I say, they're looking to invest to seek help and they go to some financial planner. And that financial planner as you've seen the reports will basically have some. Yeah. They'll tell you like exactly maybe what tools are available in terms of investment tools and investment strategies.

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Yes. What interest growth rates and an interest that they would be earning on these accounts and. Yeah, and an X amount of years, how much your wealth will triple or double or what you have like a super forward looking report. Yeah, it'll have a lot of charts and, things to show the different tools they have available for their investments, but it won't really speak about where those funds should come from and where they should be held.

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Yeah. And I think that's where we get anybody to help. From a tax perspective, what's most efficient for for you too. Well, that's a great point. Most of these financial plans there, there are just, if I may say so to some extent, which is a truth. It's a bit of a much like a sales document. Yeah. It's a, it's a sales pitch to say if you give us your money we will grow it.

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At X rate for these many years and so long as you keep giving us more money, by the time you retire, you'll have all this pool of money that you can retire on and you'll be so comfortable. Yeah. And here's why you should be allocating the money to. Here's our ideas. Or you should to buy our, you know, portfolio of stocks.

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You should buy a portfolio of this GC. And then they're going to give you a risk based approach based on if you're a conservative, if you're a risk taker or you're medium. And then that's what mostly the financial plan is about at a high level. I hate to generalize, but that's a very high level gist of it.

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But you're right. Like they're not in the position to tell you whether you should be investing personally or corporately. To some extent they might give you some guidance. Yeah. But they really do not want to take responsibility to having to give you that tax advice. Yeah they do. Yeah. And at least not in writing. No. Then they'll give you a high level what they've seen, probably based on their experiences, what they know at a high level, but they don't know your structure.

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Right. Like us accountants or tax advisors do. So they will always say, check with your accountant. Check with your accountant. Yeah, and for a good reason. Yeah. And I think, it's a good exercise to have a financial planners and I some financial planners are amazingly great. Yeah. Because they will try to get into the understanding of your context.

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Yes they will. Which is really important. Yeah. They'll try to understand like who is in your family, how much money each individual makes. How long do you plan to work? When do you plan to retire? You have a business. When do you want to sell that business? How much money you'll get from selling that business? Do you want to,

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You know, you want to. What's your budget? Yeah. Are you going to what's your lifestyle like? What is your needs to, you know. Yeah. They'll ask the right questions to gain an understanding of what your financial goals are. And I think those goals will determine

how you invest, where you invest. But if you're unclear about those goals and your structure is going to be unclear as well.

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Yeah. And I think like the good financial planners are asking those questions and like making you think. But I think there's a lot of Canadians out there that don't think about that. No, they don't think about when they want to retire. What type of life do they want to live? From a financial perspective? They don't understand their relationship with money that much.

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Yeah. But I think it's important for Canadians to, like, think about it, because it will help you answer what to invest in. And I guess, like what we're going to talk about, where to invest as well. And I think that's a that's a great point for for us to carry this on. Yeah.

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Yeah. So, it was just they had their investments personally.

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But they're paying high, high income taxes. How much? Like income or they're generating from their investments. Like, like about \$100,000 a year. Sorry. They want to put in, I think, \$40,000 a year into investments. Okay. Maybe let's just. I'm just remembering it now or whatever, whatever scenario. Let's just say, like it they have about they've saved about \$1 million so far.

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And they're earning about 7 to 8% a year. Okay. Yeah. You know that's what they're trying. But the problem is that of that 7 to 8% that's pretax. After tax they are left with 3%.

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Yeah. If you say it that way. Yeah that's true. You know so majority more than half of it just goes to taxes. Yes yes. And they're always one step forward two step back. You know in a way yeah. Right. But then you're because inflation eats if inflation was like 4% some years. Right. Yeah. But you're also like you're also technically in a corporation paying that high rate of tax.

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But you just get it back. So you can talk about refundable tax. Yeah. Yeah. Oh we're going to talk about that now then to explain it. Or should we break down refundable tax prior to that. No, I think we'll we'll talk about them and then we'll talk about them. And then we're going to be talking about tax.

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I'll tell the story then. Yeah. Yeah. Go ahead. I just feel like I want to be very good at explaining refundable tax. So when we're speaking about it, that diagram that we want to illustrate comes up on the screen, explains it properly. So what's our team and how we're doing it. You're going to set the stage outside the window in front of you.

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Okay.

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I'll set the stage about, the couple. The couple? Yeah. Okay. Sounds good. I'll talk about it being our client. Right? Yeah.

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So I think it'd be good. A good idea to talk about that client that we saw recently. The couple that have been working for a while. Yeah. Earning a lot of income. They were both high earners, making 250 K plus, so they're at the top.

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You know, tax rate. Yeah. Each of them were making over 250 K and they're at the top marginal tax rate. And they had saved all these years from working \$1 million that they've invested in their portfolio personally personally which is great. That's amazing. Yeah. But but the great thing is like I mean relatively young couple too right.

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Yeah. They were I think early in their early 20s to now around mid 30s. I would say they've been working for 15, 16 years in their careers. Hard. And they got to a point like they're making over two \$50,000 per person. Yeah. Which is **amazing. Amazing. And also not amazing.** Amazing. Also not amazing because they're at the top marginal tax rate.

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So they're losing like half of it to taxes. Yeah yeah yeah. And there's not much you can do for employees earning a salary. But their investments that they had that they've saved and they've invested and they want to allocate a lot of their funds to investments each year. They're hoping to make 8 to 10% annually on those investments.

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Yes. But even that income is subject to their top marginal tax rates. So they're losing. If they're wanting to make 8 to 10, they're losing half of that. Right. Yeah. The 4 to 5%. They're left with just another 4% after taxes before taxes eight. Yeah less than four. So it's important when we talk about like our rate of returns on investment and when we're thinking about these investments, how much are you losing to taxes.

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Because it's a cost. It's always a cost. Yeah. And you know what? If you if you think about it right. Like in this particular couple that doing so well as a million bucks makes 8% a year as a go lose about more than half of the taxes. They're left with less than 4%. Not long ago inflation was hitting about 4%.

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Yup. So whatever they made me do basically mean nothing. Exactly. Yeah. Which is. Which tells you a story about the economy also. Oh, yeah. It does. This couple's doing really well, but even they can't really make any meaningful returns on anything. Yeah. Right. They're like parking their money away, hoping to have their money work from themselves. Right. And by investing.

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Yeah. For retirement. But inflation's eating at it. Taxes eating at it. So that return that you're seeing of 8 to 10%. It's getting chipped away. Yeah. Chipped away half by taxes up by inflation. And that's why it's so important to think about saving taxes and where you can, because as a significant portion of that rate of return.

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Right. And they weren't thinking about that. Yeah. Yeah. Until they came to us and they thought that okay, this is unfortunate. We need to do something about it. Yeah. I think they just got frustrated. Yeah. Because no matter what, like, I think if you're working that hard, being an employee, if you're making that much, you know, it is discouraging that at that level, they're nearly not taking as much home.

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The T4 clearly says 250 but the take home pay is not. Yeah. And then whatever they're putting away. Yes, it gets chipped away. Just get chipped away. Yeah. And inflation. Yeah. So we should also talk about where what they could do and what we suggested to do for them. If you want to go into that. Sure. You know.

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These types of conversations are typically, you want to look at with open mind. Right. And you start with whiteboarding exercise in a way that what do you have right now? What are your goals? You try to understand them. And I think I was clear on their frustration part because they're they're like trying so hard and they think they're in a good position to save money, but they really don't save any money or make any money.

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Right. Because they're like one step forward, two steps back with inflation and taxes. Yeah. Inflation they cannot control to some extent. I mean nobody really controls it. Right. It's a macroeconomic issue. But taxes perhaps you can. Yeah. And that's why they came to see us. And being an open mind we looked at their types of investments. They have and we looked at okay.

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They have they like to invest in like gics, foreign stocks, like in US markets. And they get like, dividend income from it. Yeah. And, they had some unrealized, you know, some, profits that come from like capital gains, which are like, favorably taxed. But they didn't have a lot of, investments in those.

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So if I were to, like, break down their portfolio, let's say if they have, you know, let's say they're making \$100,000 of income. Yeah. You have to first look at what is this income composed of. Is it majority. How much is interest of that. How much is capital gain of that. How much is dividend income.

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Because the reason why I say that is because the character of each income is taxed differently. Yeah. In Canada. And one type of income can be more favorable than the other. Yeah. So you definitely want to look at why are they investing in these types of income streams. And in their case, it just so happened that they had very high income in the types of income, which are really highly taxed.

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So if you have interest income in foreign dividends, their taxes, regular income. Yeah, that means 100% of your income is going to be taxed. Yeah. And that means if they are at 54% tax and I say 54% because Ontario and federal combined personal tax rates 54%. Yeah. So if they made like \$100 of interest income and foreign dividend income.

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Yeah, \$0.54 of every dollar just going straight to taxes. Yeah. And they can't help it. This is like the best case scenario for them. And then I looked at how much just from capital gains and not very much. They just didn't have much accrued capital gains. It just wasn't part of their investment strategy. Yeah. And then they weren't really also invested in Canadian stock market.

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So they didn't have much of like, dividend income from that either. Yeah. Right. Now let's talk about capital gains and Canadian insurance for us. Yeah. Capital gains as you know, half of it is taxed. Half of it is not. So if the top tax rate on all types of other income that we spoke about, interest in foreign dividends, they're at 54%.

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Capital gains are half 27%. So right off the bat there's that's a much. Yeah. So if you have \$100 of income of capital gains, \$50 of it is going to be taxed, \$50 will not be taxed. Right. And so it is half. So the effective tax rate is half. Yeah. Which is huge. Instead of paying \$0.54 of a dollar to taxes on other types of England, capital gain is \$0.27.

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So as when, when when people are thinking about what type investments I should make sometimes thinking about growth investments. Yes. That where you can realize capital gains versus just thinking about interest income and dividend income. You're already saving so much in tax thinking that way. That's right. Yeah. So the question we have to ask like what is our investment strategy here.

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Like we are not an investment advisor. Yeah. You know we're just trying to see are you properly optimized for are you aligned with taxes as well. Yeah. And they did have a financial advisor. And we asked the financial advisor, hey, can you maybe look for other types of investments which are more tax favor. Yeah. You know, can you look for a capital gain like, you know, investments like high growth stocks?

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The couple is still young. Yeah. They might be okay to take relatively higher risk, perhaps. I'm not sure that they have to. They would have to decide on their investments. Yeah. But they can look at, instead of dividend paying, foreign dividend paying stocks and interest income like Gics, they can take that money instead and put it into assets that can grow.

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And when they do realize those gains only half of the gain is taxed. Yeah. So it was such a low hanging fruit that we had to tell them like look find out what you really should be investing in. That's more taxed favorably. Yeah. Sometimes it's empowering like the clients with knowledge so that they can understand. Maybe they understand where they're investing and why.

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But knowing how the tax system works too, then they can make better decisions collaboratively with everyone involved. Absolutely. You need to marry the investment strategy with the the tax for sure. Yeah, yeah. So, so it turns out that they were not they were not opposed. To be invested in capital gains generating type of income. In fact they don't really rely on this income to run their home lifestyle.

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Right. Yeah. Whatever money that they make from investments is meant for retirement. So the good thing about a capital gain is that you only need to pay the taxes on a capital gain when you actually sell something. Yeah. If you bought something for, let's say 100 bucks and you keep that investment without selling it and it just grows in value goes from 100 to 500, like \$400 of their gain.

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You don't really pay taxes on that \$400 until you really sell that asset and realize it. Yeah. And when you realize that, that's when you pay half of the tax. Yeah. Which just means that there's more cash left with you because you're not paying that tax to then go make another have to pay tax, period. If you're not going to be selling that asset, you just hold on to it.

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Just appreciating. Yeah. Right. So now they have to turn their heads to like okay what can generate a capital gain. So they started to look at okay should we be investing in stocks or real estate or crypto whatever that the investment advisor tells them. What has a high probability of growth within their parameters of their objectives of 7 to 10% or 8%.

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And can they generate the same with the capital gains? Yeah. So they tweet that they fixed their investment strategy. The other good thing about, if you if something if some people are like not so much into capital gains, you can also go to another level, which is something called, you know, Canadian dividends. Yeah. Canadian dividends, as you know, which are differently taxed from foreign dividends.

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Is that Canadian companies, when they pay corporate taxes to Canada Revenue Agency, they generally pay taxes in around 27% or so. Yeah. And when that corporation, public company, let's say Bell Canada pays a dividend to me as a stockholder, when I receive that dividend, I get a dividend tax credit of that same 27% that the corporations already paid it.

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Yeah. So when I received the dividend, my taxes already come paid. Yeah. To some extent. Yeah. I just need to pay a little bit more, perhaps just to make that whole income. Yeah. So first strategy should be then capital gains, then Canadian dividends. Then you can go into like, you know, interest or foreign dividends, type type investments.

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And then there's also the registered accounts as well. Right. The TFSA is where you have your investments. You, you you contribute to your TFSA. It grows tax free. Right. Yeah. And then, when you withdraw no tax and your RSP where you contribute, you get a tax deduction and then you invest as well. And perhaps that's where you can put like, you know, incomes that income streams that would be taxed at a higher rate.

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Exactly. So your interest or your your investments where you're generating more interest income or more dividend income or. Yeah, or in dividends, to use those tools, those investments. Yeah. In your non-registered account keep capital gains and Canadian dividends. Yeah. And your registered accounts put interest income and foreign dividends. Yeah. Totally. Fine. That's very optimized from a tax perspective if you're investing personally.

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Yeah. Right. Actually even corporate if you do it like on the non-registered side. Yeah. So, the other step we wanted to take was, is that they had quite a bit of an opportunity where, this particular couple is that they were doing a lot of second, mortgages. Right. They had, a good source of, relationship where they were able to get reliable homeowners to give, and give them mortgages, second, second mortgages.

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And they were consistently getting higher than normal returns because they were like getting, you know, 7 to 8. Yeah. With second mortgages, you can charge a higher interest rate. So they're getting higher interest income from those. Right. But the problem is that you can do second mortgages and TFSA interest. You cannot you have to do them in the non-registered way or taxable way.

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So they didn't want to let that go because they felt they won't be able to get that type of return. And, and investment that is capital gains driven because of this particular unique circumstance. So they did prefer that they earn second mortgage interest and still continue to earn it even though tax cost is high. Yeah, right. They don't want because looking when you're looking at it, you're not just looking at it from a tax perspective.

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You're looking at where am I going to walk away with the most money. Right. Yes. So like that's their first goal. And then after that, if, if you're walking away with the most money in both scenarios, you're looking at, okay, where do I save more taxes? Which cost? Exactly. But yeah, they didn't want to stop doing that because they were making good money from it.

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Right. So to the extent we optimize their, their, you know, their structure, in what should they be investing and where? This was still unresolved because they were still earning interest income in non-registered account. And we said very highly taxed. So we said, okay, let's try to solve this in an unconventional way. Right. We basically got them to set up a new holding investment holding company.

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Now that investment holding company was to be owned by the two, you know, the couple, husband and wife equally. And we transferred all the second mortgages to that corporation. Yeah. So now that corporation has the future interest income going forward? Yeah. Now, if it's a Canadian company that earns investment income, typically it pays the highest rate of taxes.

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Yup. And but that highest rate of tax in the corporation is marginally lower than the personal highest tax rate. So if you're personally at 54% and in personally husband or wife, they're they're losing \$0.54 on every dollar that the takeaway is that that 54% is permanent tax you once you pay it, there's no way you can get any of it back.

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Yeah. It's gone. Yeah. Right. But if you turn that same income to an investment holding company in Canada, it will still pay an investment tax rate, but it will be capped at 50%. So there's a 4% difference right off the top. Maybe not much to think about. Yeah. To go through all this hassle. But the good thing about that 50% rate is that two thirds of the 50% is refundable.

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Yeah. So if you think about \$100 of interest income that's earned personally, right. You're going to pay \$54 in taxes. Whereas if you earn the same hundred dollars in a corporation as investment income, you're going to pay \$50 in taxes up front. But out of that 50, \$30 of that 50 is refundable. Yeah. Meaning? Meaning you'll come back to the corporation as a .

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You got it? Yeah, you got it right. But only for when? Only when a certain condition is met. Yeah. There's a whole mechanism to it, and. And it's very unintuitive. It is. And it's only. And it's applicable to Canadian corporation. Canadian. It's only applicable to Canadian corporations that are controlled by Canadian residents. Yeah. Right. I mean, it's very unfortunate.

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Yeah. This for bit of complexity. We're trying to simplify as much as. Yeah, it's it's very complex. But at the end of the day, I think we want to deliver the point that if you're earning that investment income personally, you're losing \$54 for every \$100 you make, right. It's permanently gone. There's no mechanism to get any portion back to you.

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Yes. But in a corporation, there is a mechanism where you will get that refund back to you. You'll pay slightly less. Not 5450. Yeah. But then \$30 of that of that tax is refunded back to that is refundable. Yeah. And we we just wanted to make sure that as a starting point is that a good flexibility to be in or not.

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Yeah. Whether we get refund now or later is out of the question for now. Yeah. But we just wanted to say, well, do you want to lose \$0.54 on every dollar permanently forever, every single year? Or do you want to start creating a pool of refundable taxes that you can recoup in the future? Yeah. And I think that on its own was a an appealing concept that we we went we went and explored further with them.

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Yeah. Because as they, as there are, you know, continue to working, they have like, you know, a lot of working life ahead of them. They're not about to retire. I think they each have like 20, 30 years for sure that they think they will be working for, you know, except maybe if there's any health reasons or something unforeseen comes up.

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They're working. Yup. Right. So what we are going to be doing is I will be collecting this refundable taxes credits in the corporation every single year. Ya. Now, which is an asset which is an operation. It's an asset for the corporation. It can recoup those taxes. Yeah. Now, the way you get these refundable taxes out, here's the mechanism for every.

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And I know people are going to lose this with me. Some you may they may need to rewatch this particular part. You know, at times because even accountants don't understand. Yeah. Yeah. For every \$2.61. Yeah. Of taxable dividend that the company pays out, the corporation will receive \$1 of refund from the pool of refundable taxes they paid. Yeah.

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Okay. So the limit to really say is when you pay, take money out of the corporation as a dividend, the corporation is going to get a portion of that refund. Yes. There is a refundable pool sitting there that they've generated. They'll get some of that money back. Exactly. Yeah. And so long as we're collecting this pool of refundable taxes, the question is, am I going to be know we can refund that any time?

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Yeah. But the key is to distribute that taxable dividend out of the company so that you can get a refund in the corporation only in the years when the individuals in that's at this power couple, so to speak, has little to no income or less income relative to what they're making today. Yeah. So if any of this couple, any of these individuals get laid off or they decided to retire early or whenever, you know, they have an off year or they're taking a sabbatical, they take a leave, for any reason, any time, they're not earning as much, as much as they have in those years.

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Yeah. That opens the opportunity here. Yeah. It's because you can smooth out. The thing is, like when you earn investment income personally, at the highest marginal tax rate, you're off the back paying high tax. But if you can control how much money you're

getting personally over multiple years, you might be able to smooth out that personal tax. That's kind of what you're getting at.

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And if you calculate the tax rate effective tax rate over multiple years you're paying a much lower tax rate. When you when you look at it that way. Right. But the key is to ask is on the years where you're not earning as much. Yeah. And then kind of look at the mechanics and see what your tax rate is at the end of it.

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I think the key takeaway for me always is that do I want my flexibility of refunding the taxes, even though I don't know the path or when I actually see that money? But the fact that I might see that money, which is going to be huge, sums over a number of years. Yeah. It's quite appealing to me, especially when you retire.

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Right. Because your your tax not you have money in the bank that you've saved. But you also got this pool of refundable taxes that also look to you supplement your your retirement. Yeah. So again anything you do something like this if you want to set up an investment holding company. It comes with common feasibility questions. Yeah. You always want to question.

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Is this worth it? Yeah. Is it worth the complexity? Is this worth the tax I will be saving? Or. And how important it is to you?

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What's the future use case of this company as a plug into my existing structure in any way? Yeah. And all to say that you really want to test the waters here, right. And see, because there's setup costs involved. Yeah, there's there's setup cost. That's what I was just going to say. It does cost a bit to set up.

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And you do need your accountant to file a tax return for it. Yeah. Like you're like how much does it cost to set up a company? I mean, it's probably costing a couple thousand dollars to properly. I mean, you can, but you can do it DIY. Yeah. Yes. I can go online and register the company, but really it's not properly set up.

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They just give you the articles of incorporation. But really the corporation not properly organized. But let's say if you want to properly set up all all the goods and good things that, you know, all the bells and suspenders, probably a couple thousand dollars maximum. Yeah. But once you have it, you got to file the tax return, like you were saying.

00:30:03:25 - 00:30:41:09

Unknown

You have to file a tax return every year, which is annual fees as well for a couple, a couple thousand dollars, depending on the, the activity in the company. You could be looking at, you know, annual cost of maintenance because the corporation needs to file a tax return. So, look, I mean, tax planning is dependent on one basic, you know, one basic item, which to say that if your future projection shows that or your investment advisor shows a future direction that you really trust and you think it's going to happen, is that a are in your working age and you're going to be making money.

00:30:41:11 - 00:31:02:21

Unknown

Second, that money will be saved and invested and it's only going to grow. Then the feasibility starts to make sense. Yup. Because you can then scale on the tax savings over time and it will all be a small fraction. These costs will be a small fraction to the overall picture, where you'll be saving a lot more money for sure.

00:31:02:21 - 00:31:23:17

Unknown

And I also think like in this case a couple, they had already \$1 million in their portfolio. They're not spending everything that they have. They don't need this for their personal lifestyle and jobs. Right? They have their jobs. And I think that's the key here, that if you are going to invest in a corporation, you have the flexibility that you're not spending all the money that you have.

00:31:23:22 - 00:31:55:09

Unknown

There's real tax savings there. Yeah. There were going and they were going to earn a lot going forward as well. So I think that a lot of Canadians are in that place right now. Yeah. Right. And I think this is not a bad place to, to think about, to explore, toy with. And I think, a lot of Canadians, if they're fortunate that they're successful in their careers and they're, you know, aiming to be, you know, making more and more money, and hopefully they do.

00:31:55:11 - 00:32:17:29

Unknown

Then I think this is a good, good thing to think about. Yeah. And we should talk about how you can move those investments into a corporation. Right. And that there are tools available to move those investments tax deferred. Yes, yes. Yeah. That I don't think a lot

of people know that there is a mechanism, to move those investments, transfer them under the act that will move them without paying tax.

00:32:18:00 - 00:32:43:09

Unknown

Yeah. I mean, I think the Tax Act does a really good job in terms of, lots of rollovers. You know, fancy way of saying that you can take personal assets like investment assets that are in your personal name if you were to transfer to your corporation. We have rollover mechanisms to do that without any taxes. If it's done properly, you need an accountant involved.

00:32:43:09 - 00:33:08:25

Unknown

You need to file an election with the CRA. But a lot of these investment advisers have seen this. They they know that this is available and they can help facilitate it as well. But you will need your accountant involved to do that. You know, the one thing that came to my mind, which which I also spoke to this couple about, that once they had set up the company and the whole reason was to create refundable taxes, was that this company, now they know this is their retirement vehicle number one.

00:33:08:27 - 00:33:36:05

Unknown

The other thing that they can they can also, build upon in the future is that the shares of this company now they own individually 5050 husband and wife. They can always do further estate planning to reduce taxes on does. Yeah by adding other family members to it. Right. Which makes it really easy. You don't have to go nitpicked cherry pick some asset and like give it to individuals.

00:33:36:07 - 00:34:01:18

Unknown

It's all, you know, organized and held in one central place. Yeah. Corporation. Yep. Whoever owns that corporation has those assets. Really? Yep. And then you don't need to go. Gives particular asset to individual. You can just add people to the company as a shareholder. Yeah. If your most tax deferred mechanism for doing that too. Exactly. Like if you're really thinking about building for generations and that's like one of your goals.

00:34:01:20 - 00:34:21:08

Unknown

You most likely want that portfolio to keep working for itself. You don't want to touch it. You want it to be invested for a long time. Yeah. And like you said like you have one place where all your investments are and then you have your family, your kids that are growing up. If you want to just directly add them at the point that it makes sense.

00:34:21:11 - 00:34:39:26

Unknown

You don't need to sell those assets. Cash them out, give them to your kids so you can keep that vehicle open. Yeah. And pass it in that manner as well. It's also not scattered right. Like I feel like a lot of couples or individuals, over time they lose track of what investments they have. Yeah, it's a simplified approach.

00:34:39:27 - 00:35:04:17

Unknown

Which account numbers. Where do they where do they have them open? It just you didn't lose tracks because, you know, and you have to keep a personal record of it. And if you don't have a personal record of it, sometimes you would just lose those investments because it's just abandoned in a way. Sometimes that happens, like, trust me, it does happen as you age, as things happen, as you have too many things on the go.

00:35:04:19 - 00:35:24:21

Unknown

A lot of people do that. It sounds really strange where you can come or forget your account sometimes, but it does happen. I've seen it. Yeah, but the good thing about the corporation is that, and this is something that you will not learn elsewhere, is that because it centralizes everything, the corporation must file its balance sheet, prepare a balance sheet, an income statement.

00:35:24:21 - 00:35:48:19

Unknown

Yeah. And when you prepare a balance sheet, it is a proper accounting of all the assets, all its liabilities and its net worth. Yeah. And its income statement. Right. So you can always keep this will force people to be organized because every year because you have to file a tax or an accountant will be involved. Right. The accounting would reconcile everything.

00:35:48:21 - 00:36:10:26

Unknown

Make sure all the income is picked up. Any money ins and outs out of the company's money is properly accounted for and taxed. That's a really good point. Like, that's such a good point. I feel when you're forced to look at your investments and everything that you own on an annual basis. Yeah, it keeps track in your mind of what's happening.

00:36:10:28 - 00:36:29:16

Unknown

Right. It forces you to make sure you're organized. Yes. Like you said. And I think that's a key point. People can get disorganized really quickly. Yeah. I mean, I see. And even if you have your real estate to and you're. And not even that when you're looking at this and filing those tax returns and going over it with your accountant, it'll force you to be like, let me think about my strategy.

00:36:29:24 - 00:36:49:03

Unknown

Right. Let me have that conversation with a snapshot of their company every year. Yeah. Because you know what? If you own these investments personally, you get a tax slip here, you get a tax slip there. You don't really know. The balance is how they're tracking. You pay taxes on a half hazard basis. Yeah. Nobody really looks at the complete picture for everything.

00:36:49:03 - 00:37:09:01

Unknown

You might have a one financial advisor for one type of account. Another advisor for another type of account. You know, nobody's looking at stuff holistically. No. And I think that's a key benefit. Sometimes you know, and you can never lose track of it. Yeah. And you get if you're paying those annual fees right. You can pick your accountants brain.

00:37:09:02 - 00:37:27:12

Unknown

Yes. See what they're seeing out there. You get access to things that you wouldn't if you just, you know, have someone paying your plate, doing a personal tax return. Right? That's right. You are paying a bit of a premium, but you also can ask those questions, understand your investments. Yeah. And. Yeah. Yeah. No, that's that's a great point too.

00:37:27:12 - 00:37:42:18

Unknown

Like you can you can now have a record that you can go and circulate to other people who are like bright. Yeah. And they have a good network. Not only they can look at the balance sheet of the company which has everything in it, perhaps, and then they can also look at, okay, what was your investment statements. How are you performing.

00:37:42:22 - 00:38:03:01

Unknown

Yeah. And you can do an annual review with that basis right. Yeah that's a great point. But you know what the other thing that most people also, we spoke about like adding your kids to the company eventually, etc., for like succession of your assets easily. In Ontario, particularly, if you pass away, there's something called a probate tax.

00:38:03:02 - 00:38:31:17

Unknown

Yup. And I think I just want to make a very quick point before we move on to the next segment. Is that if the corporation is owned, has all the investments in it, a corporation that owns the investment is that individual an individual can die and pass away, and then banks can make it very difficult to access those accounts because an individual passes away, you need like potentially probate tax, which Ontario taxes you on.

00:38:31:19 - 00:38:51:17

Unknown

And, you know, an executor has to take care of the, the investment accounts. There's a lot of administrative headache that happen. And there's also cost and more significant costs more up to 1.5% of all your value. Yeah. And if a corporation owns those same investments, a corporation never dies. Yep. You simply change the directors of the company or the shareholders of the company.

00:38:51:17 - 00:39:20:15

Unknown

But the company continues on. You'll never be in a position where you need to go and get probate done for the company's assets. Right. It's. I mean, at the same time, I say that you still need to adjust your will. Yeah. To make sure it actually happens. Because a will you can have two separate wills. You can have a dual wills primary will for all the assets and then secondary will which just has your, which, which only has your, corporation, the shares of your corporation.

00:39:20:18 - 00:39:37:19

Unknown

Yeah. And I think we did we, we have episode four where we go into it thoroughly. Like what I mean, exactly. The estate planning episode. I think everybody should watch. Yeah. To get more details about estate planning and wills. Yeah. Just having a corporation gives you flexibility in many different ways. Yes. Like you just said, you might be saving on probate fees.

00:39:37:19 - 00:40:07:10

Unknown

Right? You can freeze the value of those shares to stop accruing to you. And you won't have that growth being taxed on your return. Adding your kids to that corporation, the growth of those investments will now be with their kids. Right. So it just having a corporation provides a lot of flexibility from a tax perspective. Yeah. Not only with the refundable pool but also looking at estate taxes, probate fees and so on.

00:40:07:13 - 00:40:28:16

Unknown

We're talking about high earners, sunny. I've seen and experienced a lot of my friends to our doctors. Yeah. And it's unfortunate because we need doctors, but they have a lot of schooling for a good reason. Right. And the schooling cost a lot. And not a lot of them are doing that schooling just in Canada.

00:40:28:16 - 00:40:52:12

Unknown

They go overseas. They're incurring a lot of student loans doing all this because at that point when they're students, they're not earning any income. Yeah, they have zero income. Yeah. But they could be looking upwards. I've seen as high as \$500,000 spending just to become a doctor. Right? **Yeah. Their tuition living being somewhere else. My a friend of mine, she's sending her daughter to Australia.**

00:40:52:14 - 00:41:24:17

Unknown

Yeah. She's just. You know, and and mentally, they're coming to reality of, like, how much it costs to become a doctor. And now they have to, like, get all kinds of financing. It's it's a whole other realm of, like, research that someone needs to do that's impacting their financial plan as we're talking about it. Yeah. But man, these doctors, they put in like ten, 15 years of post undergrad education, their residency and then for 15 years, they have no income or very little income, if anything.

00:41:24:19 - 00:41:47:11

Unknown

And you're right, like if they somehow they've financed their families and supported them, they still come out of the school and they have tuition debt of like half a million. Even more sometimes. Yeah. And they've spent all this time not learning about money. I've seen many times they don't have. All right. They don't have time to learn about taxes, to learn about money, to learn about how the system works.

00:41:47:18 - 00:42:07:23

Unknown

And it's such important information because once they are out of that, they make really good money, right? They start to make really good money, but their focus is to pay down this debt that they've accumulated. Yeah. Their focus is to catch up with their peers who may already have houses at this point, but they don't. **And they feel a little bit insecure about that.**

00:42:07:23 - 00:42:30:26

Unknown

I've seen many times as well. Yeah. Some of these some of these doctors are like graduating or they're in ability to make their first dollar from their, you know, good money, so to speak, from their profession like they're approaching their early. They're like late 20s, early 30s sometimes if you're even more specialized. Yeah. You're like 35. Yeah. And you're like, now you're about to make a first dollar paycheck that's like meaningful to you.

00:42:31:01 - 00:42:50:13

Unknown

Yeah. And now they're trying to navigate. Now they're they're starting to get this money. They're trying to navigate. What am I supposed to do with it. You know what should I you. Yeah. Very high cash flow. Yes. For the first time you see the deposit and they're looking at, oh, I've got this so much debt. Yeah. That I can just offset you basically.

00:42:50:14 - 00:43:23:02

Unknown

Basically. But it's not as simple. No. Right. Because guess what. The tax will eat half of what you're making if you just take that income. Let's call it business income and then apply it to the personal debt. Yeah. No, I was talking to someone in sports medicine that was making around \$500,000. And he was so tired. Especially because he's like I just now found out after filing my tax return how much I'm giving to the government.

00:43:23:09 - 00:43:40:28

Unknown

Like they don't even realize until they file their first tax return. What are our tax rates. And then they slowly start to see that like they have lost so much. They've they've they're losing this money. They they start getting educated of how the system really works. And speaking to their peers, they start to learn, maybe I should be incorporated.

00:43:41:01 - 00:44:05:23

Unknown

Right. And from the get go, I think it's known that that a lot of doctors are incorporated. But some may not be. But there is a real saving tax savings in being incorporated. Right? So paying 54% percent personally, you're in Ontario paying 12.2%, right? Yes. Which is a huge advantage. But at that point they also have these loans.

00:44:05:23 - 00:44:28:27

Unknown

They also want to buy a home. They also want to spend personally. And they're trying to figure out which direction should I go. They have a lot of like conflicting, objectives. Yeah. Like I said, pay off the tuition debt. Then in their lives at that point they want to be looking to buy a house and they feel like they have so much, you know, sort of income earning power **that why not.**

00:44:28:27 - 00:44:51:05

Unknown

This should be, should, they should buy, they shouldn't be buying a house. Yeah. So buying a house is a big objective. And then they might be also getting married. And they have other obligations that they want to spend on their wedding or kids. Yeah, exactly. They, they have they have only saved to become a doctor. And now all of a sudden they want to have all three objectives married meet.

00:44:51:08 - 00:45:10:25

Unknown

Yeah. Settle that that buy the house, get married, spend some money, be happy so to speak. And they don't work hard because doctors in Canada, they don't much. They don't have much life. No, so to speak. Yeah. Because the work they overwork so much. Yeah. The problem is that somebody needs to look at it from a financial planning perspective, 100%.

00:45:10:27 - 00:45:28:05

Unknown

But then you also need to look at the I don't think they're even at a position where they're looking to invest. Know like we talked about three different objectives. None of them were investments. No not yet. Not yet. Right. Like they're going to be looking at the fourth objective of investments. The first three are probably satisfied in their personal view.

00:45:28:05 - 00:45:49:23

Unknown

Yes. Right. And that's a difficult place to be in. And I think the number one thing that they should do, in my view, is that if they're making good money and like you said, let's use the example of your friend that, you know, became a specialist and now making half \$1 million. Right. And from an investment point of view.

00:45:49:23 - 00:46:13:19

Unknown

Right. Like let's talk about the source of money. Where's the money coming from? Yeah, it's coming from her. You know, their billings to Ontario Health System or Hip. And that pays them about, let's say, a half \$1 million if you need all the half \$1 million for living expenses, then you will pay the 54% tax rate. So more than \$250,000 of that 500 just go straight to tax.

00:46:13:19 - 00:46:31:15

Unknown

Yeah, you lose more than half of it. And I overexaggerate things. There are like tax brackets that yes since this marginal number will be different. Yeah. But you know for every dollar over that you're, you're losing half. Yeah. Exactly. But to exaggerate that right. Like so 250 goes to tax 250. You're left with if that's what you want to do.

00:46:31:15 - 00:46:49:18

Unknown

You want to keep your life simple. 250 is what you need after taxes and you're happy with it. Great. You can take some of that. 250 put it towards your debt. You can pay your debt much faster. Yeah, because you have so much room, perhaps to earn, lose half of it tax and then keep the rest for like spending and all these things.

00:46:49:21 - 00:47:08:26

Unknown

And quite frankly, you know, if you have half \$1 million of like that, you know, and if you like, really saved up and like, did nothing with your money other than just pay off the debt, you can probably pay that, pay off that, that really quickly. Yeah. Three years, four years, you're probably done. Right. And some people do that.

00:47:09:03 - 00:47:38:19

Unknown

Yeah. And that's okay. That's their priority. That's their personal reason. That's fine. A lot of times I don't want to say is that it's very favorably priced from a financing perspective. Yeah. People would kill to have those loans if they're in different businesses. Very, very cheap because it's cheap money. Yeah. Yeah. Like when I say cheap money, like like the interest rates we see that banks give to doctors are too big to be doctors is like prime minus one.

00:47:38:21 - 00:48:12:17

Unknown

And because banks think they're like, you know, they want to have these clients in the future. So they make them really good deal because they want these doctors with high income potential to be their clients. So they give them really good loan rates. Yeah. So there's, you know, a financial planning aspect of this where like you are potentially taking after tax dollars of \$250,000, which you've already lost, half of it, only to satisfy your personal debt, a debt that's not as expensive, which is like, yeah, like prime minus one or something.

00:48:12:24 - 00:48:31:08

Unknown

Yeah. No, I like in my personal which would 4%. Yeah. I want to say in my personal opinion, if you have such a good rate, it may not make sense to pay off that debt all of a sudden that fast. Keep that debt going because paid installments. Yeah, you know what I mean. And use your funds towards something else.

00:48:31:11 - 00:48:52:29

Unknown

Else that will save you more money or make you more money. Yeah. Then that lower rate. Like if you're and I think this is like where the education from like how it how money works and why it's important to understand interest rates and what they mean because all it really is, it's it's a cost and interest cost. You can put your funds towards that, or you can put it towards something that may make you more money.

00:48:52:29 - 00:49:21:03

Unknown

Right. Or save you more tax. Yeah. There's an opportunity cost. There's an opportunity cost there. And but it all depends on, you know, knowing what you want to do and why you want to do it. Absolutely. And I think if you can look at the opportunity, if you're like intervened early on before you start to make those decisions and pay off that debt, if you just look around like, okay, I'm paying 4% interest perhaps on this, my student debt.

00:49:21:07 - 00:49:47:16

Unknown

Yeah. What if I took majority of this money that I can invest and maybe keep, you know, and I can get returns of 7 or 8%. Yeah. That that might make much better financial planning sense. Yeah. Like or what if you could incorporate what if you pay tax at 12.2% in Ontario. Retain your funds. They haven't even talked about that.

00:49:47:16 - 00:50:08:06

Unknown

Yeah we haven't it. That's what I wanted to lead to that there might be a better way to do that. And you can pay that over time, especially if you don't if they don't need all this money right away for their personal expenses, you by all means, you should like, have a professional corporation. Yeah. That's allowed by, you know, your your college CPA so or CDA.

00:50:08:07 - 00:50:31:23

Unknown

So depending on which profession you're in and if you earn the same income from the ownership of half \$1 million in a company, you said 12% tax rate, you're being a 12% tax rate as opposed to the highest marginal tax rate being 54% in Ontario. Right? That's that's a huge spread and a huge off the bat you're saving.

00:50:31:23 - 00:50:55:23

Unknown

So much money. And then you can pull enough out year over year to lower your personal tax rate. Yeah. And then pay off that loan over time. Right. And I think if you crunched the numbers and look you'll be saving more than money. Yeah, but definitely better smarter thinking in that sense it is. And as long as you know when you want to, if you want to buy a home, a personal home, that's a different story.

00:50:55:23 - 00:51:25:05

Unknown

You need the funds to buy the personal home. Yeah, maybe we'll get there for sure. Talk about it. Yeah, yeah. No, I, I totally agree with you. Like, there's so much more to it. 54% versus 12% tax rate. And I mean, there's a huge, huge difference. But the 12% tax rate applies to the first 500,000. Yes. If you happen to be fortunate that you're making more than \$500,000 of taxable income in a company, more likely you're just paying about 26.5%.

00:51:25:06 - 00:51:48:06

Unknown

That's the Ontario rate, which is still a significant trade off of like 54%. Yeah, right. It's really good rate from a tax perspective. Yeah. But you know, how do we tie this. Say just take the example of like \$500,000 this doctor made inside a corporation paid the 12% tax rate. And let's assume for simplicity's sake they didn't need any money personally.

00:51:48:08 - 00:52:16:23

Unknown

Right okay. So \$500,000 times 12%. That's what 60 let's call it \$60,000 in taxes. Yeah. They are left with \$440,000. Yeah. After tax. Yeah. What do you suggest they should do. You should be investing inside or thinking about investment holding company. Yeah definitely investing holding company. The reason being is you don't want to mix your, your funds earned through your operations.

00:52:16:23 - 00:52:36:20

Unknown

In this case, we're speaking about a doctor with your investments. Yes. Because you want a credit proof. Yeah. Your corporation's right. So we always suggest having a separate corporation where you can loan money out of your, your professional corporation into that investing corporation you would set up like a separate holding company like we did for the other power couple.

00:52:36:23 - 00:52:54:06

Unknown

Exactly. And then that investment holding company will have all the investments and then they and they would house all your investments, whatever it may be. If it's real estate fund stocks. Same story as we spoke in the earlier segment. You'd have to come up with your investment strategy, but it would be away from your house or in a separate company.

00:52:54:07 - 00:53:25:13

Unknown

Yeah. You would only retain what you need in your professional corporation. Right. So like I mean professional corporation don't need much, much or don't really have employees or I mean I'm generalizing here mostly. Yes. So some have clinics do have expenses etc., which I respect. Yeah. But most professional corporations that are just

building their own system, for example, and considering a doctor all they have is like some minor expenses, but the most majority of it is like available for use either personally or investing.

00:53:25:18 - 00:53:51:26

Unknown

Yep. All you're saying is that take what you need from the company, professional corporation, and then transfer the rest as a loan, to your holding company. Yeah. And that holding company will house all your investments and that's all that company does. Yeah. Because otherwise if you have your professional corporation paying, say, on the first \$500,000, 12.2%, if you pull all that money out personally, then you're hit again with that personal tax rate.

00:53:51:27 - 00:54:12:14

Unknown

Right. So at the end you really made no difference if you're pulling all that in one year. Yeah. But if you're just if you know you don't need all that money personally and you want to invest it and build your wealth over time. Yeah. Pay that corporate tax, retain a corporate tax rate and retain those funds in your corporate structure.

00:54:12:19 - 00:54:39:17

Unknown

Right. So then your the money you have upfront to invest is more than you would have if you pulled it out personally and paid personal tax rates. Yeah. So it just it means that you have more money left over to invest. And that's another reason that you want to keep it within your corporate structure. Yeah. And I think just so I mean, if the companies making those investments, you got the same benefits as what we just talked about previously in the previous segment.

00:54:39:19 - 00:55:04:09

Unknown

Refundable taxes and, you know, succession and like having one place of investments. So do you have all the track record of everything? You're properly organized in that sense. But all to say that, you know, it's a it's a good place to start with for sure. You also have to look at cost benefit analysis. Some people still want to prioritize their personal debt.

00:55:04:15 - 00:55:24:12

Unknown

And yeah, they no matter what the numbers might be, some people just have at peace. They just want peace of mind that they don't want any money to end. Yeah. And I think that's absolutely for personal personality. Yeah. And I think that's totally fine as long as you're aware of your choices and you make an educated choice for yourself, that's exactly what you should do.

00:55:24:17 - 00:55:42:29

Unknown

Because your peace of mind matters more than anything else. Yeah. And all of this. Right. Yeah. And I think one thing when we were mentioning that, you know, you transfer money from PC to your holding company, I think very commonly I get a question like, what is the character of that transfer? Right. Can you first of all, can you transfer from one company to another.

00:55:43:05 - 00:56:03:18

Unknown

Yeah. What do we call that. And then what are the pros and cons of it, so to speak. Yeah. So, I know it sounds simplistic to us because we do this day in, day out, but I think we should just maybe just take a step back and. Sure, break us, break that down. So.

00:56:03:20 - 00:56:24:20

Unknown

Your professional corporation or operating company and you can apply this concept to anything really. The operating company will transfer money to the Holdco. Yeah. So both corporations will have a bank account open. Yes. You just do the transfer and then that will be considered as an intercompany loan. Yeah. Right. Now, the second question, I get a lot is like, do you have to charge interest to that long.

00:56:24:26 - 00:56:50:19

Unknown

Yeah. So what what are your thoughts on it I have my own. But yeah typically there is no interest charged on those loans within the corporation. It's just it's not required. It's not required. Companies are Canadian companies. There's no tax law requirement to charge no interest on it. There isn't no negative tax consequences. But there are those oftentimes, you know, if for some reason the holding company loses money.

00:56:50:25 - 00:57:11:12

Unknown

Yeah. And that can happen, right? You made some bad choices, bad investments. You lost money. Yeah. You lost money to the extent where the holding company can no longer pay the loan to back to the professional corporation, and they did not charge interest on it. Then that loan cannot be claimed as a loss by your professional corporation.

00:57:11:12 - 00:57:37:15

Unknown

Yeah. Because there was never income producing. You never charged interest so serious as well. If you never gave that loan for income producing purpose. Well, how can we ever give you a loss for it. Yeah. Right. So you know in most cases people are aware of these choices and nobody wants to invest to lose money. And if you're in sort of conservative approach that they're making an investment in relatively safe IT options.

00:57:37:17 - 00:57:56:11

Unknown

They generally don't charge interest. But if you're like about to invest in like some risky assets, high risk, high reward type situations, yeah. Then maybe that's a point where you actually do charge some interest. That's a really good point. The ability to, you know, claim that loss. Should that be the case? Yeah, that's a really good point, right?

00:57:56:11 - 00:58:21:13

Unknown

Yeah. Now, you know, oftentimes, specifically talking about doctors, not only that, they have to pay it off, pay off their personal debt, but very commonly we get asked, like, the doctor wants to buy a house right away. Yeah, because they're at their point in life, like they're mid 30s or whatever. They want to settle down.

00:58:21:19 - 00:58:47:01

Unknown

They want to start creating assets. They want to have their principal residence. They know their what hospital or clinics they work at. They they're doing a daily commute from wherever they are. And they want to situate themselves and like, you know, ground themselves. Yeah. And I think that's where we get quite a bit of questions is like, well, you're telling me to invest and don't worry about this like that, that I have to pay, which is like really good rate, but I can't afford not to have a house.

00:58:47:04 - 00:59:06:25

Unknown

Yeah, because I want to buy it, which is fair. Yeah. What are your thoughts like what tools are available to them in that case? And what should we how should we how should they be thinking about this. Yeah. So there are tools available. There is the home buyers plan through your registered retirement savings plan. And there is a new tool, your first home buyers savings account.

00:59:06:25 - 00:59:33:06

Unknown

Sorry, FSA yes. And when you are a high earner, right. And you're contributing to your RSP, contributing within your limits, you do get that tax deduction. But one of the things is when you contribute that those funds are locked away until you retire, except there's a homebuyers plan that you can pull a certain amount out. When you're buying your first home, you loan the money out, you loan you loan it out.

00:59:33:06 - 00:59:51:10

Unknown

You're able to withdraw it without paying tax. So when the money goes in, you get a tax deduction. And typically if you take money out, you're taxed on it unless you're buying your first home. Yes. I think it's 60,000, right. Yeah. Yeah. I thought you're able to I'm not sure exactly what it is now, but it was back within 15 years though.

00:59:51:10 - 01:00:08:24

Unknown

But the problem is when you pull that money out, you have to pay it back within 15 years. Yeah, it's like a but it's still on your own. It is, but it's. You're paying a small dollar every single year. There's no interest charged on it for borrowing those funds right over 15 years. But at least you are getting a, tax deduction.

01:00:08:29 - 01:00:27:10

Unknown

You know, when you are earning a lot and you're not incorporated. We were talking about being at 54%. You can reduce that by contributing to your RSP. Yes. And, and then use those funds to buy that home. And in most cases if, if you want to buy a home, right. Some people don't, they want to rent. In some cases you want to buy a home.

01:00:27:10 - 01:00:49:11

Unknown

So it's a tool available for you. I think the key thing is like if somebody has identified a strong objective of acquiring a home. Yeah. And they haven't had an RSP before because they never earn any money. Yeah. The first things first is that you need to create room. Yes to contributing to our rrsp's. Yeah. And the contribution of RSP is based on 18% of your, earned income.

01:00:49:11 - 01:01:16:07

Unknown

Yeah. So you need to have salary or some sort of earned income in the previous year. Yeah. Or in the current year, and, maximum generally hits around like \$28,000 a year that you can contribute. Yeah. So you, you assuming you have the ability to contribute, then the second thing is that whenever you've decided that you're going to go ahead and buy the house, you need to contribute to RSP and keep that money into your Rs.

01:01:16:07 - 01:01:32:29

Unknown

Before 90 days. Yeah, I screwed I got screwed up with that. Really. You know, because I thought, oh, I need to buy a home. And then I didn't know any better. Within 90 days you were going to buy the house. We suddenly bought a house. We're like, we got a good opportunity. We we were in position to close on our house quick.

01:01:33:01 - 01:01:49:17

Unknown

Yeah. And, guess what? I had the room to contribute, but I had no money in the RSP, right? Yeah. And I could not wait 90 days. Yeah. So that was like a hard lesson learned for me. Yeah. And I'm like, okay, now anytime somebody wants to buy a house on the go, open your RSP account. Yeah. Go open it right away.

01:01:49:20 - 01:02:07:26

Unknown

Don't do what I did. Don't wait and then contribute to it. Leave the money for 90 days. Yes. And then select a house. I mean, buying a house isn't just like a small thing. People take time. Yeah. You know, not someone like me. Sometimes just let me buy it right away. The market must have been good. Yeah, we got, like, we got lucky, but.

01:02:07:26 - 01:02:33:04

Unknown

Yeah, you know, you you buy a house, you look, you're looking for the house. Let that 90 day clock start. Yeah. So by the time you're actually closing the property, you're in the position to take the money out, right? So the good thing is that if, you've contributed the money in the same year, 90 days later, you take the money out, you still get that deduction against your income that you put into the RSP.

01:02:33:05 - 01:03:00:05

Unknown

Yeah. Right. And you just got to repay that money back over 15 years. It is so tax advantages it has to do that. Yeah. And I think it's a no brainer that everybody should do it. Yeah. Right. If you have not purchased a home you should definitely be home because and then I think the Fafsa is another tool that was that the government's, you know, they brought into the picture last I think to five years, I would say, relatively new concept.

01:03:00:08 - 01:03:18:26

Unknown

But it's like a hybrid between your Rrsps and TFSA. Yeah, it's the same concept, but then also the investments grow tax free. Right. So that growth will never be taxed. Yes. And always within hours. And when you take the money. Yeah. When you take the money out that growth will be taxed. Yeah. It's just a tax deferral mechanism.

01:03:18:26 - 01:03:36:08

Unknown

It's not a tax free account. But for the HSA they have that element of tax free as well. So it's come back. So it's it's great. You get the deduction. And the growth is all to say is like you know learn about these tools. Like there's so many resources available. Google them learn about them, see how these mechanisms work and then work them to your advantage.

01:03:36:08 - 01:03:53:16

Unknown

Yeah. Unfortunately that just came out. I wasn't able to use that. It didn't it wasn't available. But if you haven't purchased a home, it's it's tools made for you. You should do it for yourself and for your children. Yeah, definitely. You'll want them to buy it eventually. Yeah. Open the account and start contributing to it. If you have the cash flow that allows for that.

01:03:53:16 - 01:04:19:15

Unknown

Yeah. That way. Yeah. But, you know, but like, houses are not cheap. No, no. What do you mean? Yeah. We have a episode number two. I think. 2 or 3. Two. Yeah. You can't keep track. But yes, we do have an episode. Listen to it. Houses are not cheap. Yes, housing is not cheap. No. You know, more likely than not, people who come to us, they're they're thinking about, you know, minimum housing cost to get into a house.

01:04:19:15 - 01:04:49:05

Unknown

And in GTA, like people never tell us, less than \$1 million, like \$1 million or maybe even more, a couple million dollars. Right? And I mean, it's your personal choice, how big or small, what neighborhoods, etc. you want to live in and how far close you want to be to the center of the city. But man, like if you know, if you contribute to Rrsps or such as FCA accounts, usually it's not enough for your your your downpayment because most people want to make at least 20%.

01:04:49:05 - 01:05:15:06

Unknown

So if you need to buy a house, that's \$1 million. Yeah, you need \$200,000 as your down payment, ya know? Would you then recommend that they must take that money on a taxable basis out of their corporation to pay that down payment? Supplementing some of it from your Rrsps and FSA account. Nothing that can help, probably in our own.

01:05:15:08 - 01:05:33:04

Unknown

Let's assume \$50,000 were sourced from your FCA and RSP tools. Yeah, we still have \$150,000 to deal with. Yeah. And you know what? Some people we're just assuming that 20% down payment. I have people who approach us and they're like, I don't want any debt. I just want to buy the house. That's right. I have the money in the company.

01:05:33:04 - 01:05:56:27

Unknown

We'll talk about that situation. But like, yeah, sometimes people want to make a lot more contribution towards a down payment, especially as young doctors, they see money right there in their in their company bank account. And they're like, I've got the \$500,000. Let me just buy it. I've got I've got 50% down payment available to me. Exactly. No, I know, and you know, I think I think about it differently.

01:05:56:29 - 01:06:16:03

Unknown

I think up until now the interest rates have come up a lot, but relatively for a long period. The interest rates were low on mortgages. And again, it kind of ties back to the conversation that we had with the student loans. If your money is cheap and your money can be working somewhere else and, you know, earning you more income or saving you more tax, you should do that.

01:06:16:05 - 01:06:41:18

Unknown

You shouldn't be thinking to pay down your house so quickly. But it comes back to the conversation of the piece. You're like, how are you thinking your piece of mind? You can take that approach. It is understanding your money and how it's working, where it's saving you dollars, where it's costing. You should be thought about. Absolutely. You can, instead of pulling all that money out personally paying that 54% in tax, you can put a smaller down payment on your house.

01:06:41:19 - 01:07:08:17

Unknown

You don't need to buy it out, right? You can keep your money invested and think of taking out only enough to pay down your mortgage over time, right? And that's what I would do. Personally. But yeah, there will be some opportunities. I think right off the bat, if you're like, just starting out, you see some cash for the first time in your life coming in and you're seeing big dollars being deposited to your bank account, it is super tempting.

01:07:08:19 - 01:07:28:12

Unknown

Yeah, that you take that money and just buy the house from it, or apply a larger down payment than otherwise you would. Yeah, and it's intuitive, but it is not the most smartest thing to do. And I think that's where you need to like really pull up a spreadsheet on a whiteboard or whatever, work it through with your financial planner, work it through your tax accountant and try to see, is this the mean?

01:07:28:12 - 01:07:48:25

Unknown

Is this the the the best option available? Yeah. Consider your risks. Consider your opportunity cost of using that money. Maybe you can earn that. You know five points ten points on your investment rather than putting it all towards your mortgage, which would have been less cost than than the investment you've earned you. The key is opportunities arbitrage, right?

01:07:48:26 - 01:08:09:00

Unknown

Yeah. There is. The key is opportunity cost. Like you said, knowing your rates, your interest rates, the costs and knowing where your tax dollars. And honestly, this calculation that we speak about is not that difficult. It's not. And people have ChatGPT now which makes it a lot easier. Yeah. So like that is so true. Like put that in your, you know, your AI tool or whatever.

01:08:09:00 - 01:08:27:23

Unknown

But that scenario quite, quite honestly you'll get like, you know, somewhat of a better answer than just like, you know, pulling a trigger and like buying a house with a higher don't exactly know your costs. Know your opportunity costs and just run it by your people, like your investment people or like, yeah, your tax advisory accountant. Yeah, exactly.

01:08:27:23 - 01:08:53:21

Unknown

Help you out. They definitely. But definitely I think coming back to the, the whole thing is that, look, if the opportunity presents and you think that, you know, the investments are better off and, you know, you're better off investing that money. Yeah. It's a very low hanging fruit that you want to make sure that the money that you're earning from your professional corporation or your operating company should not be first taken out on a taxable basis, and then invested.

01:08:53:23 - 01:09:14:14

Unknown

You want to make sure that you take the money, you keep the money inside the corporate vehicle, leave it, pay their corporate tax of let's it 12% or 26.5%, depending on how much you made, and then either invested directly within the company or what we recommend is like putting it into a separate holding company and invest it from there.

01:09:14:20 - 01:09:43:21

Unknown

Yeah. And second thing is that because like in our other example, we were talking about the power couple. The difference was that they were already making income from other sources. Yeah, they had full time jobs, they had T4 slips. They were making a lot of money. So while they were collecting all this refundable taxes within their, you know, in their company pulling it, they had no opportunity to pull that out immediately because they, they had that personal income that was locked in.

01:09:43:21 - 01:10:07:13

Unknown

And exactly that they couldn't play around with. They were earning that income personally either way. Yeah. But like the doctors in this case would be in a better position to do that because they need money to live off of their to pay their bills, their groceries, their rent or mortgage or whatever, have you. Yeah. And instead of taking a salary or a dividend, whatever that is from your professional corporation or your operating company, right.

01:10:07:15 - 01:10:28:03

Unknown

They can just not do that from the operating company. Instead, go right to the holding company that has the investments. Take the dividend from that companies and not a salary, a dividend. Yeah. Because if you take that dividend from that investment holding company, guess what? You're going to get the refund ability refund of that refundable taxes. Exactly.

01:10:28:03 - 01:10:49:17

Unknown

And it's key. It's a dividend. We should make that clear that if you if you have a salary it won't trigger that refund. You need a taxable dividend coming out to you. So now you've also lowered your taxes on your investments at the same time. Yeah. And you have

more flexibility. And this is doesn't apply to just doctors I guess it applies to all business owners that aren't locked in earning salary from somewhere else.

01:10:49:20 - 01:11:10:04

Unknown

We can play around with how much you need personally. Yeah. Right. And if we can play around with how much you need personally, we can control your marginal tax rate over a number of years achieving your really good tax rate. Yeah. Right. And I think that's key here because that is what's going to overall bring down your tax rate.

01:11:10:09 - 01:11:20:29

Unknown

When you look at it as a combined corporate and personal tax rate as opposed to just 54% personally right away. Yeah. No. Absolutely. So I think that kind of covers it for the doctors per se. Yeah.

01:11:21:02 - 01:11:28:02

Unknown

So I think this structure, it's important to say, can apply to all business owners.

01:11:28:05 - 01:12:05:24

Unknown

Right? This is not a structure that's unique to doctors, although we use doctors as an example because we have a lot of friends, families, clients as doctors. But it applies to all business owners no matter who you are. If you have an operating corporation with surplus cash, you also may not want to pull everything out personally. If you don't need it, retain it in your corporation to pay the corporate tax rate and then invest it there, right, and create that investment, corporation that generates wealth, your legacy per se, that you want to pass down to your children, or you may want to donate whatever your personal goals are.

01:12:05:26 - 01:12:28:25

Unknown

I think it's important that you do that. Yeah. And 100%, I think, they can do all the same things. No difference. The only thing about professional corporation is that, you know, it's own ownership restrictions. Yeah. It makes it difficult as president. Yeah. So to some extent there are some restrictions that the colleges put. Yeah. On to what professional corporations can and cannot do.

01:12:28:25 - 01:12:50:22

Unknown

Yeah. Like I did restrict on actually on investing also as a primary activity because it's meant to be just investments. Yeah. Meant to just practice medicine. But if you start to invest in a professional, corporations usually puts you off side from a, from your, you know, from your medicine, college rules per se. But regular core operating companies, they can do the exact same thing.

01:12:50:22 - 01:13:08:13

Unknown

And I think a lot of these business owners are, kind of fighting the same thing. They have some personal debt, perhaps, maybe a student loan or something different, but some kind of debt. Personally, they all want to buy a house. If they can, they can afford to. It. Yeah. And then they're all looking to make sure that the same cost of, you know, investment.

01:13:08:18 - 01:13:30:06

Unknown

Where should I invest personally, corporately? Should they be investing in the same operating company or in a special holding company, or should they be investing, you know, and contributing to rrsp's this? So all these questions applicable apply to

everybody? Yeah. But I think this was a good conversation in the sense that hopefully that gives, some takeaway.

01:13:30:09 - 01:14:00:28

Unknown

Yeah. But I think, you know, not one of the takeaways should be like there's not one size fits all. No, I think everybody has their own, risk taking. Their future plans can be unique. What they, when they need the money, how much they need of that, personal preferences. So every individual has, has some differences and you just have to design around it.

01:14:01:00 - 01:14:25:20

Unknown

Right. Basically. And get some guidance from your financial planner, your accountant and your tax advisor. I think they can put you on the right path and have annual discussions to make sure that you stay on the path. That still makes sense year over year. Yeah, I think definitely people should educate themselves, understand that knowledge is power when it comes to these things, to make the right decision for yourself and understanding what type of investment strategy you have in why, right?

01:14:25:20 - 01:14:36:18

Unknown

What are your overall financial goals? And then talking to your investment advisor, like you said in your accountant to help actually structure where those funds are going to be placed? Yes. And where they're going to come from.