

## Estate planning and your corporation

*Incorporation adds a level of complexity to estate planning, so you need to take certain steps to ensure that the Canada Revenue Agency isn't the chief beneficiary of your estate. A good estate plan will consider all your assets, including personal and corporate holdings. If you want to make the process as simple as possible and make sure that you aren't subject to unnecessary taxation, getting the right professional advice is the best place to start.*

### **A will is the foundation**

Your professionally prepared will is the core of your estate plan. Because your corporation will continue to exist after your death, your will must name an executor—this is the person or trust company who will be responsible for winding up your estate according to the terms outlined in your will. As a result, your will must give your executor the authorization needed to do their job properly. This includes:

- ▲ The ability to seek tax advice
- ▲ The power to sell, call in, exchange and convert any of the estate's assets into other assets
- ▲ The broad ability to exercise voting rights held by the estate
- ▲ The power to incorporate, restructure, wind up, continue or sell companies owned by the estate
- ▲ The ability to make elections under the *Income Tax Act*

### **Choose a professional executor**

Who you choose as executor of your estate is also extremely important. If you are the sole director of your corporation, for example, your executor may become director in your place. Your executor will also be responsible for making the complicated decisions necessary to ensure the most tax-effective treatment of the shares of the corporation upon your death or the death of your spouse.

Most individuals do not have the tax, business and legal know-how to handle issues such as winding up or restructuring a corporation and an understanding of the adverse consequences of taking too long to do so. You should seriously consider the option of hiring a professional to act as your executor or co-executor.

### **Double taxation issues**

Excess taxation, or “double tax,” is a threat to any estate that holds the shares of a corporation.

Since estates involving a corporation or holding company are more complex to administer, appropriate estate planning is the key to avoiding unnecessary taxation.

One level of tax occurs upon your death when you are deemed to have disposed of your corporation's shares at their fair market value, potentially resulting in a taxable capital gain to be reported on your final personal income tax return. A second level of tax could occur when the corporation pays dividends to your estate, or if your executor decides to wind up the corporation.

Your MD advisors can provide you with strategies to help lessen or eliminate the impact of this potential double tax dilemma and maximize the after-tax value of your estate.

### What is the role of an executor?

An executor is responsible for all the duties surrounding the administration of an estate. He or she works closely with the heirs, tax and legal advisors, and others to ensure that the will is properly executed and the wishes of the deceased are carried out.

#### An executor:

- ▲ Administers all aspects of the estate, including managing your shareholdings in a corporation.
- ▲ Files final personal and estate tax returns and makes tax elections.
- ▲ Manages complex assets, including valuing and selling them.
- ▲ Mediates family dynamics.
- ▲ Administers long-term trusts, including spousal trusts.
- ▲ Coordinates all aspects of estate settlement.
- ▲ Hires and manages needed experts, such as tax and legal advisors.

MD Private Trust offers professional executor services that can relieve your family members of all or some of the burden and complexity associated with the role of executor. Ask your MD advisor for details.

### Corporate-owned universal life insurance

Corporate-owned universal life insurance offers unique estate planning benefits. Deposits to a universal life insurance policy are made with corporate after-tax dollars, which make insurance coverage more cost effective than using personal after-tax dollars. In addition, you are able to invest in a wide variety of investment vehicles within the insurance policy, and the investment earnings are tax-advantaged.

If your corporation is the beneficiary of your policy, the death benefit can be paid to it tax-free. This benefit, less the policy's adjusted cost basis, is added to your corporation's capital dividend account and can be used to pay tax-free dividends to shareholders.

### Get advice from the experts

Incorporation raises complex issues around estate planning that need to be addressed in order to avoid unnecessary costs for your heirs. Your MD advisor can customize a plan for you, ensuring that your hard-earned assets will be left to your loved ones and not the CRA.

MD Financial's estate and trust experts focus exclusively on developing personalized estate plans for physicians, and have extensive experience with incorporated physicians in particular. We can help you implement an intelligent, comprehensive plan that provides peace of mind today, and financial continuity for your family and loved ones in the future.

For more information on incorporation, visit [mdfinancial.cma.ca](http://mdfinancial.cma.ca)

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