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# Personal pension plans: a way to blunt the blow likely about to fall on small businesses

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The Canadian Medical Association and many small business groups have recently voiced the collective displeasure of professionals who are suddenly faced with proposed fiscal measures that are presented as "leveling the playing field" between the tax paid by regular employees on their salaries, and the taxes (corporate and personal) paid by incorporated small business operators.

As of the date of this article, federal government officials have not been convinced by these lobbying efforts and propose to close off the consultation period on October 2nd as scheduled.

As a quick reminder, the Morneau tax measures are three-fold:

1. an increase in the taxation of dividends paid to younger family members and spouses who do not play an active role in the operation of the small business;
2. a dramatic increase the taxation of passive investments with after-tax dollars kept in the corporation as retained earnings and
3. measures to tax transaction designed to convert the corporation's income into capital gains for its shareholders.

The end result in virtually all cases? Higher taxation for small business owners and their families.

While opposition to these draconian proposals has been sustained and vocal, few stakeholders have yet to propose constructive solutions to blunt or even completely deflect the blow about to fall on small businesses and, among others, the pharmacists and physicians who work for them.

There is however one government-approved, tax-efficient solution that has been available for at least five years: the Personal Pension Plan or PPP. These are offered by the firm I'm with—INTEGRIS Pension Management Corp. a pension consulting firm headquartered in Toronto—and other financial institutions also offer PPPs to doctors and other professionals: RBC Dominion Securities, Industrial Alliance, Scotia Wealth, Richardson GMP Ltd, Alignvest Investment Management etc.

The PPP is a registered pension plan, governed by the same laws as the Healthcare of Ontario Pension Plan ("HOOPP") and other generous tax-assisted retirement plans. It offers seven additional tax deductions to small businesses that owners who save through their corporation or via RRSPs cannot access. These tax deductions include: (a) past service purchases (b) special payments (c) terminal funding (d) RRSP double dips (e) investment management fee deductions (f) interest deductions and (g) higher annual contributions than RRSP limits. Taken together, a doctor or pharmacist utilizing a PPP can easily tax-shelter hundreds of thousands of additional dollars from corporate taxation while the plan is in effect as a result of the more generous tax treatment offered to registered pension plans by the Income Tax Act (Canada).

The only legal stipulation to benefit from a PPP is that the doctor or pharmacist (and if family members collect a salary from the small business for work done, them as well) is receiving T4 income from the corporation since dividend income is not ‘pensionable’. They need not even offer membership in the PPP to rank-and-file employees, and can be restrict access to one or a few key employees (usually family members).

Thus, a 55-year-old who incorporated in 2007 and took a modest $80,000 salary/bonus (the rest being dividends) since, would be able to claim the following corporate deductions – assuming invested assets grow at 5% per annum:

(a) past service $82,813
(b) special payments $24,320
(c) terminal funding (age 60) $254,851
(d) deductions for payment of fees (1% fee assumed) $44,400
(e) extra contributions in excess of RRSP limits over 10 years: $197,373

In summary, this particular corporation can exceed the tax savings that RRSPs offer, by an additional $348,906 in deductions. Another additional tax deduction is also available if “early retirement” is selected and a terminal funding payment (to pay for an unreduced early retirement pension to become available) is made by the corporation.

The small business owner in the above example could (for example) retire at age 60 (simply by shifting from salary to dividend compensation but continue practicing) and receive a $55,029 a year pension thus triggering a supplemental corporate tax deduction of $254,851 (terminal funding). Higher pensions would be payable in proportion to the salary paid from the corporation.

One should note that the $55,029 pension in this example is also eligible for “pension income splitting” with a spouse as early as age 55 (RRIF income can only be income-split at age 65) and the owner and spouse can each claim a $2,000 per person pension income credit. Thus taxable income on the pension in such a case would be on $25,514.

While accountants appreciate the tax features of PPPs, these pension plans offer many other features such as inter-generational wealth transfer on a tax-deferred basis, superior creditor protection and the ability to invest alongside the most sophisticated pension plans in the country in asset classes that are not RRSP-eligible. The task of investing the assets of the PPP rests with a trusted financial advisor, not with INTEGRIS.

Thus, while it is become apparent that treating one’s corporation as if it were a quasi-pension plan will become even more tax-inefficient under Canadian fiscal laws if the Morneau measures are adopted, some incorporated small business owners still have the ability to deploy a PPP as a shield to absorb the tax hikes and convert these into a substantially larger retirement nest egg at the same time. Light is at the end of the tunnel.

To learn more about PPPs, visit [www.thepersonalpensionplan.com](http://www.thepersonalpensionplan.com)

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