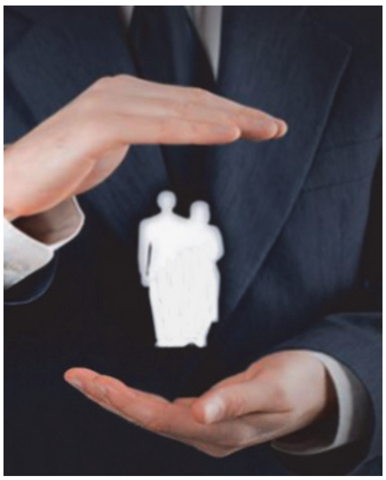
THE SMALLBIZ BUILDER

March 2020 PADGETT BUSINESS SERVICES® Vol. 18, No. 3

This Month:

- When Can Term Insurance Help Business Owners?
- Home Accessibility Tax Credit
- Tax on Split Income

When Can Term Insurance Help Business Owners?



*In our January edition of the Smallbiz Builder we introduced **Richard Weber,** a licensed life insurance agent and CPA. He is contributing a series of articles focusing on different types of insurance and how they can benefit individuals and small business owners. This is the second article in the series.*
Richard's website is: http://www.richardweber.ca/ospreyinsurance/

"Key Person" Life Insurance

Death can have a significant, adverse impact particularly on small businesses which usually have only one, or a few individuals, who are integral to its success. If a key person dies, the business may experience lower revenues, higher expenses, reduced consumer confidence and creditors of the business may become anxious and even suddenly require full repayment of outstanding demand loans.

For many business owners, the decision to insure their building or inventory is automatic. What they may overlook, however, is insuring against the loss of a key person. *People* are frequently the most important asset of a business.

Term insurance, placed on the life of a key person can help protect a company, that you have worked so hard to build, from the unfortunate and unanticipated. If the key person dies, the company would receive the insurance death benefit amount tax-free and can use the funds to help the business survive by repaying debt, making up for lost revenue, covering overhead expenses until the company gets back on its feet and recruiting and training a replacement.

Also, the amount of the insurance proceeds received by the company is added to its "capital dividend account" ("CDA") for tax purposes. This effectively enables a shareholder to withdraw this same amount of funds from the company in the future on a tax-free basis (even if the company immediately spends the insurance proceeds).

YOUR FIRM NAME
Address
Telephone #s
Email
Web Site

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Home Accessibility Tax Credit

Certain renovation expenses can qualify for the federal Home Accessibility Tax Credit if they were made for an individual who is either eligible for the Disability Tax Credit, or 65 years of age or older at the end of the year. The expenses need to be paid for enhancing access or mobility in the home or reducing the risk of harm. These expenses can be paid on behalf of yourself, or in some cases for certain dependents. A maximum of $10 000 per year in qualifying expenses can be claimed at a tax credit rate of 15% for a maximum non-refundable credit of $1 500. The expenses should be of an enduring nature and integrated into the home. In general, if the item purchased will not become a permanent part of the home, it is not eligible. Of course, detailed invoices, agreements and receipts need to be kept should the Canada Revenue Agency want to verify the claim. The expenses will not be reduced by any federal or provincial government assistance provided. Examples of qualified renovations include grab bars and handrails, walk-in bathtubs or wheel-in showers, wheelchair ramps, widening doorways for wheelchair accessibility, or lowering existing counters and cupboards among others. The expenditures may also qualify for the medical expense tax credit, and some provincial credits as well (British Colombia, Ontario, New Brunswick, and to a lesser extent Quebec) – a potential double or triple claim!

Tax on Split Income

The Tax on Split Income (“TOSI”) rules came into effect in 2018 and are a complex set of rules given that they apply to many small and medium sized businesses. The point of income splitting is to pay less tax by shifting income to other individuals (generally family members) who are subject to lower tax rates. The TOSI rules will circumvent this tax savings by applying the highest tax rate to the “split income” received by an individual. TOSI is not entirely new – it used to apply to minors who received dividend income from private corporations. However, the new rules have expanded what type of revenue is potentially subject to TOSI to include not only dividends, but interest and capital gains. Furthermore, the individuals who are viewed as receiving “split income” are no longer just minors. The split income can apply to any age. There are several exceptions to the TOSI rules and all business owners should be reviewing their remuneration strategy with their Padgett advisors to determine what effect these rules could have on them and what planning can be done to minimize taxes.

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