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# How a Holding Company or Family Trust Could Benefit You

Written by: Terry Gunderson, CPA, CA

**What is a holding company?**

A *holding company* is a separate incorporated entity that gives more protection for its shareholder(s). For example, a company may own real estate that's being used for a medical clinic. Each of the medical doctors who are shareholders in the holding company has an interest in the real estate. It's a convenient way for co-ownership of the primary asset - the land and building.

A professional could also use a holding company to own a strata unit in a building for their practice. This valuable asset is protected from any claims against the practice. Typically, the holding company would charge rent to the professional's practice.

There will be additional costs for legal fees to incorporate and prepare annual filings – and for accounting and preparation of tax returns for the holding company. So you should compare the benefits and costs to see if the holding company idea is beneficial.

**And what's a family trust?**

A trust is an arrangement between a *settlor* and a *trustee* or *trustees*. The settlor creates the trust by contributing property. The trustee manages the trust to provide benefits for beneficiaries identified by the settlor. A *trust deed* documents the arrangement, outlining the rules the trustee is to follow.

An *inter vivos discretionary family trust* may be created while the settlor is alive. Distribution of the trust's property to the beneficiaries is at the trustee's discretion.

A family trust is designed to give a trustee (i.e., the professional) the power to provide income to beneficiaries (i.e., the spouse and children) of the trust. Note that, to be effective, the trust must be properly set up and administered. For that reason, the settlor and trustee should obtain legal and income tax advice. Typically, the family trust will subscribe for shares of the company that operates the professional's practice. Dividends can be declared and paid on these shares to the family trust.

The family trust can distribute these dividends at the trustee's discretion to the spouse and/or children over the age of 17 (subject to the income attribution rules in the *Income Tax Act*). The ability to distribute income to beneficiaries who have little or no income can help reduce the family's overall income tax bill. For example, an individual over the age of 17 can receive a dividend of $35,000 with a negligible amount of tax. That same dividend received by a professional taxed at the top marginal rate would incur over $12,000 of tax! The savings on utilizing another family member's tax rates over 21 years – a common duration of a trust – can be considerable.

Additional costs arise for maintaining the accounting records and preparing the trust's annual tax returns.

**Would one of these ideas work for you?**

Please contact a Manning Elliott advisor to discuss whether the idea of a holding company or a family trust might be beneficial for you. This article isn't designed to give professional advice – only an overview of possible planning to reduce income taxes and to protect assets. As noted earlier, for the plan to be effective and achieve the desired result, it must be properly implemented. Further, the plan requires professional accounting and legal advice to ensure that all required steps are completed properly.

***Terry Gunderson*** *is a Partner with Manning Elliott LLP. Contact Terry at* ***604-714-3680*** *or* ***terry@manningelliott.com***

***Sheryne Mecklai*** *is a Senior Tax Manager with Manning Elliott LLP. Contact Sheryne at* ***604-895-8582*** *or* ***smecklai@manningelliott.com.***