SAGE Wealth Bulletin

Individual Pension Plan (IPP)

What?

- A government approved defined benefit pension plan that allows for contributions above typical RRSP limits for business owners. A strategy that has been around since 1991. It's essentially a super-charged RRSP.

Why?

- The new 2018 federal tax rules include punitive restrictions on the small business deduction if the corporation's passive income exceeds $50K and income sprinkling has been greatly curtailed. Few tax savings strategies are left.
- If you are planning for retirement, the IPP can be a powerful tool to allow for greater accumulation of tax deferred assets.
- $500- 700K more contribution room than in an RRSP. Amounts can differ, higher or lower. The tax deductions are taken by your corporation. The older you are, the more contributions you can make.

Who?

- Entrepreneurs, incorporated business owners, incorporated professionals with T4 income over $100K.

How?

- Through us you can get a quotation from an actuarial firm to see what amounts could be available.
- You can use your RRSP as an initial contribution, then use past contribution years of service, then future contributions and a terminal funding to maximize the IPP's effectiveness
- Best managed through a pension style mandate

When?

- This vehicle makes the most sense for people over 50 years of age. Top earning years, no debt and the desire to maximize the funding of a retirement pool. Increased contributions over RRSPs do start at age 40.
- Investments are similar to an RRSP. Annuities can be used if rates are high enough. Annual cost of $1,500.

What you need to do?

Associate: Make sure you have T4 income.
New owner of a practice: Consider paying down your loans first.
Established practice: Often a good time to consider this vehicle.
When selling your practice: Funds go into a locked retirement fund until you retire, then to a Life Income Fund when you need the income. No connection to the new owner.
Already sold your practice: Not as attractive, but still an option if you plan to continue working.

Main benefits:

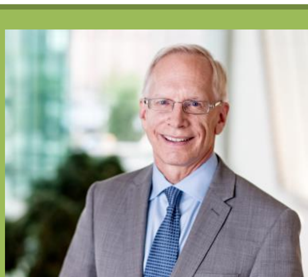
- It is a defined benefit plan (guaranteed income) vs the RRSP defined contribution.
- Can be used to reduce passive income inside your corporation.
- Build a substantially larger pool of tax deferred assets than just with an RRSP.
- An IPP can start as early as 40 years of age, it is creditor protected and all fees are tax deductible.

Main requirements:

- Must have T4 earnings to be able to use this strategy
- 7.5%/year pension-like returns are necessary over 3-year cycles. If you do not achieve these returns, you must fund the difference to reach the mandated 7.5% target (it is still tax deductible)
- When selling the business, the IPP typically goes into a Locked–In Retirement Account (LIRA) to be used at retirement or can be paid out in certain cases

Recommendation:

- Ask us for a complimentary illustration and see how much can be put into this vehicle for your specific case.



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