



Individual pension plans and the family business

With the 2003 changes to pension limits and the ability to include an Individual Pension Plan (IPP) in a succession plan, IPPs have become the RRSP alternative for many business owners.

Normally on the death of the second spouse, registered assets create a tax liability in the estate. An IPP for a family business can be an effective way of transferring registered assets to the second generation on a tax-deferred basis.

WHAT IS AN INDIVIDUAL PENSION PLAN?

An Individual Pension Plan (IPP) is a defined benefit pension plan. If you are a business owner, an IPP offers both maximum tax relief and a maximum retirement pension. The result?

You won't have to rely solely on your Registered Retirement Savings Plans (RRSP's) performance to provide a long and happy retirement. That's because IPPs also offer guaranteed lifetime income and any surplus in the plan belongs to you.



WHY ARE IPPS SO POPULAR?

In the 2003 Federal budget, the Government of Canada increased the maximum pension limits to \$2,000 per year of service. As well, this \$2,000 limit will be subject to increases based on the Industrial Average Wage beginning in 2006.

At age 50, the annual maximum contribution is \$6,000 higher than the maximum contribution to an RRSP. As you get closer to retirement the cost to provide the benefit increases.

You can also include service back to 1991. This is optional but if you decide to include extra years, it will significantly increase the amount that can be deposited into the plan.

OPPORTUNITIES

The family business

Normally on the death of the second spouse, registered assets create a tax liability in the estate. An IPP is an ideal way to keep the assets in a tax-deferred vehicle when involving a family business.

If the business is continuing after the parent retires, the family member (usually a son or daughter) taking over the business can be added as a member of the existing plan. By leaving the plan intact, any assets not used to provide benefits to the retired parent will remain and can be transferred to the second generation without triggering tax.



Sale of a business

Most small businesses are sold to family members or partners. The proceeds from these types of asset sales are treated as taxable income. By setting up an IPP now using terminal funding, a deduction can be created against this income.

Early retirement

Legislation requires funding projections to be based on a retirement age of 65.

However, anytime after attaining age 60, a member of an IPP can retire and supplement the benefits provided in the plan by adding unreduced early retirement benefits, cost of living increases and bridging benefits. These early retirement benefits can provide a significant additional tax deduction for the company.

CONTRIBUTION COMPARISON 2004

Age	IPP	RRSP	Difference
40	17,900	15,500	2,400
45	19,600	15,000	4,100
50	21,500	15,000	6,000
55	23,700	15,000	8,200
60	26,000	15,000	10,500
65	27,600	15,000	12,100

Source: Westcoast Actuaries

IDEAL CANDIDATES

- Owners of an incorporated company¹
- Individuals age 40 or older
- People who earn employment income reported on a T4 of at least \$75,000 from the company sponsoring the Individual Pension Plan

TAKE ACTION

- Request a quote from your advisor showing the deposits that can be made based on your age and length of service while incorporated
- Compare the benefits of an IPP to an RRSP
- Work with your advisor to establish an IPP if you determine it is right for you

¹ Corporation may be public, CCPC, Farm Corp, Professional Services Corp.

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