Tax Strategies to Capitalize on in a Downturn

Economic downturns can present several tax planning opportunities. For business owners, the global economic slowdown, collapse in oil prices, and business uncertainty is resulting in temporarily low current market valuations for a variety of different asset classes. This environment provides an opportunity to review your tax strategies to increase your cash flow and wealth for the future.

Simplifying your Corporate Group

Now may be the right time to windup or amalgamate corporations, partnerships, or trusts to simplify or remove entities with little or no operations, or perform similar functions to eliminate fees and complexity. You may also want to look at removing minority shareholders at a low-value point.

Tax Loss Utilization Strategies

If losses have been incurred as a result of the pandemic or oil collapse, these losses may be carried back to recover taxes paid over the last 3 years. As a byproduct of corporate restructuring, refunds may be applied immediately, rather than waiting until after your next year end. If you or other family members have corporation(s) with losses, these losses may be available to offset future income in other related corporations moving forward.

Estate Freeze

An Estate “Freeze” or “Refreeze” are potential tax planning strategies, which may allow you to take advantage of certain opportunities due to the low current valuations.

An Estate Freeze of a company can cap and potentially eliminate the amount of income taxes that will arise on your estate assets, pushing wealth to family members resulting in more for your family and less for CRA. An Estate Freeze can also be utilized to provide a future opportunity for all members of a family, on a sale of an active business, to each receive up to $883,384 proceeds (increasing over future years to $1,000,000) tax free by claiming capital gains deductions to avoid regular income taxes on all or some of the proceeds. This opportunity also exists on sales of qualified farm property.

If you have done an Estate Freeze in the past and the value of your corporate holdings are now lower, this may be a good time to Refreeze at a lower value to increase your wealth transfer to the next generation(s).

Personal and Corporate Pipelines

The removal of cash from your corporation as a dividend or salary triggers income tax; however, that tax can be minimized by using capital gains to remove funds from your company. Capital gains are taxed more favorably than dividends or salaries.

GST

A GST registrant may be able to take a reduction of GST/HST collectible on a bad debt if the amount was written off in the books. This could have a significant impact on your cash flow right now if you will not be receiving funds from your customers. An analysis of your accounts receivable will determine if any of them meet the criteria to be written off for GST/HST purposes in order to reduce the GST/HST owing on your next return.

US Operations

There may be ways for your US operations to access the US Paycheck Protection Program for US small businesses to pay employees during the COVID-19 crisis, a portion of these loans are forgivable. Also, for a temporary period, we can assist with Loss Carrybacks. Although carrying losses back was eliminated in 2017, as part of COVID-19 relief measures, losses incurred in 2018, 2019, or 2020 may be carried back to recover US taxes paid in prior years.

These are challenging times but there is a silver lining. There are many tax strategies that businesses can take advantage of during these difficult times, and KRP is here to help. Contact your KRP Relationship Partner or reach out to our tax team below.

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