

Tax changes demand a review of your compensation strategy



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Finance

TAX TIME

The relative merits of RRSP versus corporate investing depend on the type of income the investment itself generates

If you are incorporated, you can decide how to characterize your personal income. It can be dividends, salary or a combination of the two. The choice is usually designed to provide the best tax deferral when investing

business profits.

Option 1: Leave excess funds in your corporation for investing. This makes compensation through dividends the optimal choice.

Option 2: Withdraw excess funds and invest in a

registered retirement savings plan (RRSP). This requires that some compensation be in the form of salary.

A dividend strategy has historically been optimal, for a range of reasons laid out clearly in a 2010 report written by one of Canada's top tax strategists, Jamie Golombek, managing director, tax and estate planning, with CIBC. (Rethinking RRSPs for Business Owners, Oct. 19, 2010)

However, recent tax changes are challenging this conventional wisdom, as Golombek has described in a more recent report (RRSPs: A Smart Choice for Business Owners, February 2017).

The relative merits of RRSP versus corporate investing depend on the type of income the investment itself generates. The graph shows the amount of after-tax income available to the shareholder after all taxes have been paid over a 30-year period, using 2017 federal/Ontario tax rates. Investments earn a 5% return. Annual RRSP investment is \$26,000 and annual corporate investment is \$22,000, reflecting the impact of both corporate and personal taxation. (There is more money available to invest in the RRSP for an equal level of profit.)

The analysis revealed some interesting trends depending on the type of income generated by the RRSP or corporately owned investments:

Interest: Investing in an RRSP is always a better option than corporate investing over a 30-year period.

Eligible dividends: Net investment income would initially be slightly higher with corporately held investments than with an RRSP. In the long run, however, the RRSP would outperform.

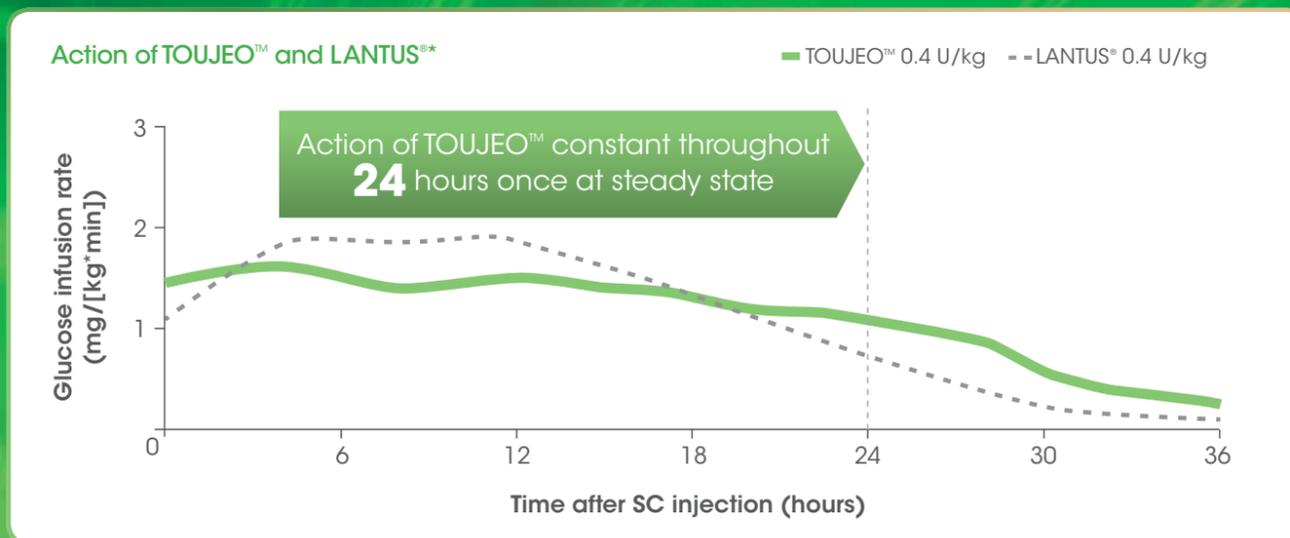
Annually realized capital gains: Net investment income would initially be slightly higher with corporately held investments than with an RRSP. In the long run, however, the RRSP would outperform.

Deferred capital gains: Corporate investing always outperforms an RRSP.

Balanced portfolio: Net investment income would initially be slightly higher with a balanced portfolio of corporately held investments than with an RRSP. In the long run, however, the RRSP would outperform.

As you can see, owning a corporate investment portfolio

Activity profile of TOUJEO™ and LANTUS® observed in 30 patients with T1D in a 36-hour Euglycemic Clamp Study after 8 days of OD SC injections of 0.4 U/kg*



Adapted from TOUJEO™ SoloSTAR® Product Monograph.

- After multiple daily doses, once the steady state is achieved, the action of TOUJEO™ is **constant throughout a 24-hour period**
- The time course of action of TOUJEO™ may vary between individuals and within the same individual
- At steady state, TOUJEO™ 0.4 U/kg demonstrated an approximately **19% lower maximum (GIR_{max})** and **27% lower 24-hour glucose-lowering effect (GIR-AUC₀₋₂₄)** with a different distribution profile than that of an equivalent dose of LANTUS®

Indication and clinical use

- TOUJEO™ is indicated for once-daily subcutaneous administration in the treatment of adult patients (≥18 years) with Type 1 or Type 2 diabetes mellitus who require basal (long-acting) insulin for glycemic control
- Limitation of use: not recommended for treating diabetic ketoacidosis

Contraindications

- In patients who are hypersensitive to this drug or to any ingredient in the formulation or component of the container
- During episodes of hypoglycemia

Most serious warnings and precautions

- **Hypoglycemia** is the most common adverse effect of insulin
 - Uncorrected hypo- or hyperglycemia can cause loss of consciousness, coma or death
 - Glucose monitoring is recommended
 - Changes to insulin should be made cautiously, under medical supervision

Administration

- Not intended for intravenous or intramuscular administration
- Do not mix with any other insulin or dilute with any other solution
- Do not use if not water-clear and colourless or if a deposit of solid particles has formed on the wall of the cartridge

Medication errors

- Medication errors have been reported in which other insulins, particularly short-acting insulins, have been accidentally administered instead of insulin glargine
- Always check insulin label before each injection to avoid medication errors between insulin glargine and other insulins
- Instruct patients to never use a syringe to remove TOUJEO™ from the SoloSTAR® pre-filled pen, as regular insulin syringes are not graduated for TOUJEO™, and to not re-use needles, as it increases the risk of blocked needles, which may cause underdosing or overdosing. A new sterile needle must be attached before each injection.

LANTUS® and TOUJEO™ are not interchangeable

- Insulin glargine 100 U/mL (LANTUS®) and insulin glargine 300 U/mL (TOUJEO™) are not bioequivalent and are, therefore, not interchangeable without dose adjustment

Other relevant warnings and precautions

- Combination of insulin, including TOUJEO™, with thiazolidinediones (TZDs)
- Risk of hyperglycemia
- Consider the longer onset of action of TOUJEO™ before stopping intravenous (IV) insulin treatment in patients with Type 1 diabetes
- Hypokalemia
- Sodium retention and edema
- Fluid retention and heart failure with concomitant use of peroxisome proliferator-activated receptor (PPAR)-gamma agonists TZDs
- Patients with renal impairment and hepatic impairment
- Risk of allergic reactions, injection site reactions, lipodystrophy and lipoatrophy, rash and antibody formation
- Risk of visual impairment, worsening of diabetic retinopathy and transient amaurosis
- Pregnant or nursing women
- Geriatrics

For more information

Please consult the Product Monograph at <http://products.sanofi.ca/en/toujeo-solostar.pdf> for important information relating to adverse reactions, drug interactions and dosing information, which have not been discussed in this piece.

The Product Monograph may also be obtained by calling 1.888.852.6887.

T1D=Type 1 diabetes; OD=once daily; SC=subcutaneous.

* Comparative clinical significance has not been established.

Reference: TOUJEO™ SoloSTAR® Product Monograph, Sanofi Canada Inc., May 28, 2015.

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Toujeo™
insulin glargine 300 U/mL

that generates only deferred capital gains is best, however, it is unlikely for a portfolio to not generate any realized gains or dividends over a time frame of 20 years or more.

There are a number of other factors that will impact the relative advantage of RRSP versus corporate investing. Payroll taxes and Canada Pension Plan premiums on salary is just one example.

What should you do with this information?

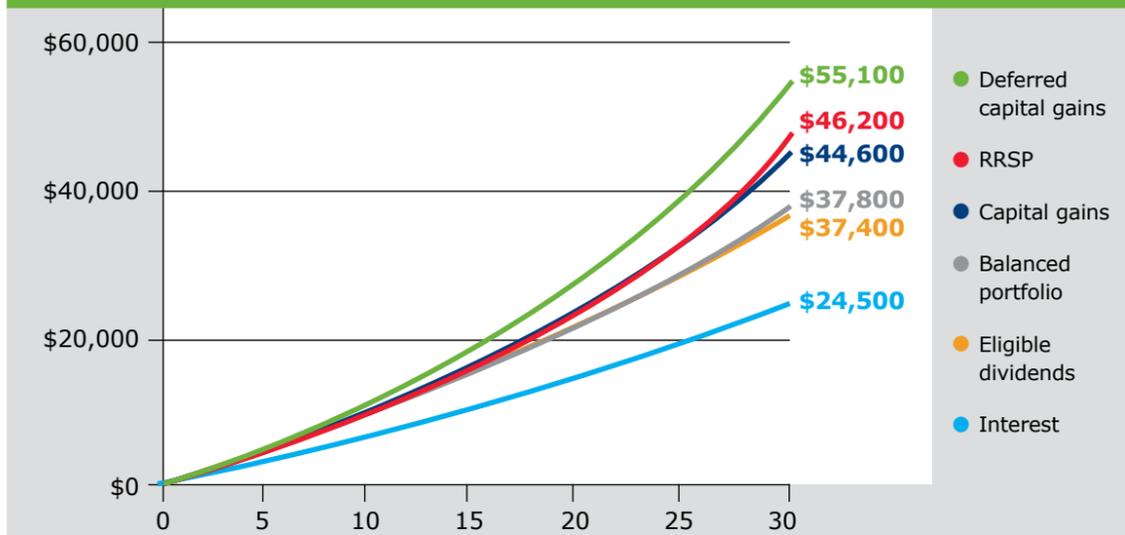
Contact your accountant and ask them to re-assess your compensation/profit investment strategy. It may be easiest to send your accountant Jamie Golombek's February 2017 report and simply ask the

question, "Is there anything I should be doing differently?"

The ideal way to evaluate the best strategy for your individual circumstances is through a comprehensive financial planning exercise. Rules of thumb only go so far.

Rona Birenbaum is a certified financial planner in Toronto and founder of Caring for Clients (www.caringforclients.com). This information is of a general nature and should not be considered professional tax advice. Its accuracy or completeness is not guaranteed and Queensbury Strategies Inc. assumes no responsibility or liability.

AMOUNT OF AFTER-TAX INVESTMENT INCOME TO SHAREHOLDER WITH RRSP VS. CORPORATE INVESTING



Source: RRSPs: A Smart Choice for Business Owners, CIBC, February 2017

Diversion
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Dr. Lifestyle
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