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COVID-19

TAX PLANNING OPPORTUNITIES



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On May 1, 2020, the Business Cycle Council of the C.D. Howe Institute declared that **Canada has entered a recession**.¹ The economic hardship caused by the pandemic has resulted in the depressed values of businesses and investments portfolios. However, the current crisis also provides **tax opportunities for estate planning**.

The following article highlights some tax planning ideas:

Succession Planning – Business

The income tax rules provide a mechanism for a parent to **freeze their growth in their company and transfer any future growth directly or indirectly to their children**. As part of this process, the parent would value their **shares in their company** and then exchange them for **preferred shares** (freeze shares) that respect certain conditions. These freeze shares would cap the parents' value in the company and their eventual tax liability upon either their death or their spouse's death.

This tax liability is approximately **26% of the value of these preferred shares**, which would most likely be subject to a capital gains tax, with some exceptions.

“Refreeze”

If you have already done an estate freeze, it may be possible to take advantage of the lower values and do a “refreeze”. This will reduce your eventual estate tax liability. As values of companies are depressed today, now would be an opportune time to contemplate an estate freeze or “refreeze”.

For every \$100,000 dollars decrease in value, you would save \$26,000 in eventual income tax.

Transfer Of Investment Portfolio

The same rationale above applies to investment portfolios. The values of most investment portfolios have decreased significantly in the last few months. **As such, it would be a good time for individual shareholders to transfer their privately held shares to a holding company.**

The above transfer caps the eventual capital gain tax upon death to one’s estate. Also, this transfer could **eliminate potential US estate tax in the situation where an individual has US securities.** Again, as mentioned above, the depressed market values provide an opportunity to reduce any capital gains tax upon one’s death or that of their spouse.



The information and commentary are for the general information of the reader and are not intended as legal advice or as an opinion to be relied upon in relation to any particular circumstances.

If you have questions with respect to tax planning, please contact Charles Leibovich, who will be pleased to advise you.

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¹ Canada Entered Recession in First Quarter of 2020: C.D. Howe Institute Business Cycle Council (1 mai 2020). Retrieved from : <https://www.cdhowe.org/council-reports/canada-entered-recession-first-quarter-2020-cd-howe-institute-business-cycle-council>