TD Wealth

# Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

## Navigating the Passive Income Rules: IPPs for Retirement

With the changes to passive income rules for small businesses over recent years, business owners may be looking for ways to efficiently invest the income earned in their corporation.

While the Individual Pension Plan (IPP) has been around since 1991, there has been renewed interest in the plan as business owners look to direct money away from their corporation's accounts. Instead of keeping retained earnings in the company subject to the new rules, contributing funds to an IPP may help to increase retirement savings on a tax-deferred basis outside of the corporation.

### What is an IPP?

An IPP is a defined-benefit pension plan that is registered with the Canada Revenue Agency (CRA). It behaves similarly to a registered Retirement Savings Plan (RSP) in that contributions are made to the plan and can grow on a tax-deferred basis for retirement. However, contributions are actuarially set to provide the maximum pension allowed per year of service. As such, contribution limits typically increase with years of service and for individuals over the age of 40, the IPP contribution limit is usually greater than that of an RSP.

### Advantages

In addition to potentially higher contribution limits, the IPP can guarantee a certain level of retirement income for the account holder since it acts as a defined benefit pension plan. This is because the annual returns of the IPP are prescribed at a particular rate (currently a rate of return of 7.5 percent, under the Income Tax Act), unlike the RSP which depends on market performance. If annual returns generated by investments held in the IPP do not meet this level, additional tax-deductible funding can be made by the corporation to ensure the benefits will be paid (note that this is mandatory in some provinces). In good years (when

performance exceeds the prescribed rate), the corporation can take a contribution holiday.

In certain provinces, funds held within the IPP may be protected from creditors. As well, payments from the IPP may be eligible pension amounts for income splitting.

### Disadvantages

There are a variety of costs associated with the IPP, including for set up and maintenance, as well as annual government filings and actuarial reports (required every few years). However, unlike the costs associated with managing an RSP, these costs, as well as the annual investment management fees, are generally deductible to the corporation.

### Seek Professional Advice

An IPP may provide an opportunity for incorporated business owners to improve retirement savings, while also helping the corporation to navigate the recent changes in passive income rules. However, this is not a simple tax-planning exercise. Should you have an interest, please get in touch to discuss how an IPP may benefit your particular situation.


**The Daley Group Wealth Management** — TD Wealth Private Investment Advice
5140 Yonge Street, Suite 1600, North York, ON M2N 6L7
www.advisors.td.com/thedaleygroup/

**Kevin Daley**, CIM®, FCSI®
Senior Vice President, Portfolio Manager, Investment Advisor
416 221 4999
Kevin.Daley@td.com

**Gerson D'Souza**, CIM®, FCSI®
Portfolio Manager, Investment Advisor
416 512 1106
Gerson.Dsouza@td.com

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