

Transition to the Next Generation: Estate Freeze



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What is it?

An estate freeze is a very common succession planning technique. It allows shareholders to freeze the value of the company and transfer the future growth in value to the next generation. To implement a typical estate freeze, the freezer exchanges his common shares (growth shares) for preference shares (fixed value shares) and the children or a family trust subscribes for newly issued common shares (growth shares). There are different variations of the above strategy (including changing voting control, use of a family trust, partial freezes, etc.)

Advantages

- Significant tax deferral on death (can defer taxes for up to 2 generations through a family trust)
- Reducing probate fees (future value of the shares flows to the next generation)
- Ability to maintain control if desirable
- Potential to multiply the capital gains exemption
- The freezer can slowly redeem the today's value of the company over a long-period of time to further reduce taxes upon death.
- Facilitates business succession to transfer business operations to the next generation.

Can defer taxes for up to 2 generations through a family trust

Disadvantages

- Professional Fees for the planning and implementation of the estate freeze. (including accounting, tax, legal and valuation work)
- If you freeze at a high-value and the value of the company decreases, you may need to re-freeze, causing additional professional fees.
- An estate freeze can complicate share structures, so it is important to fully understand the rights each shareholder will have following the freeze.

Who is it for?

- Individuals aged 45 or older who would like to significantly reduce and defer the taxes and probate fees on death and transfer the future growth to the next generation
- Businesses with high-growth potential
- Individuals looking to successfully transition the business to the next generation on a tax-deferred basis.

For businesses with high-growth potential



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