

Utilization of a Holding Company



SUMMARY

1. What is a holding company?
2. Advantages
3. Disadvantages

The operating company can pay dividends to the holding company tax-free if it has >10% voting control.

What is a holding company?

A holding company is a parent business entity that doesn't manufacture, sell or provide services relating to the operations of the business. A holding company simply just 'holds' interest in a subsidiary company.

Advantages

Accumulate wealth

- It is a common tool that is used by business owners to accumulate wealth, while still allowing the operating company to maintain its active business status for the purposes of the capital gains exemption.

Tax Free Dividends

- The operating company can pay dividends to the holding company tax-free if it has >10% voting control of the operating company, or the operating company is controlled by a related person.

Creditor Protection

- Since the holding company is separate legal entity, it provides protection from creditors attacking the operating company.
- Holding companies can also be setup to hold capital assets (such as real estate, equipment or vehicles) to provide further protection from creditors.

Advantages (continued)

Flexibility for multiple shareholders

- Since each shareholder has different lifestyles, family dynamics, and personal cash requirements, a holding company allows shareholders to invest, distribute funds personally and manage assets without the involvement of the other operating company shareholders.

Small Business Deduction

- If structured properly, you can use a holding company to multiply the small business deduction, subject to the specified corporate income rules.

Disadvantages

Formation and ongoing compliance costs

- To setup a holding company requires incorporation costs, and in most cases annual fees for annual tax return and financial statements.

Record keeping

- Since the holding company is a separate entity, it is important to keep records of all transactions and any assets and liabilities it has

Complexity

- The use of holding companies adds another element of complexity.

A holding company provides significant flexibility for multiple shareholders.

