



# WEALTH INSIGHTS

## S.85 + Q Wealth's Corporate Class = A Tax Efficient Solution

Do you own:

- ✔ Portfolio investments (shares, bonds) with a substantial unrealized gain in your non-registered account?
- ✔ A significant number of shares of your employer, obtained through exercising stock options?

Is diversification a concern, but realizing the capital gains and triggering the associated tax liability is a deterrent? What if the tax liability could be deferred, thus preserving and diversifying your non-registered investments?

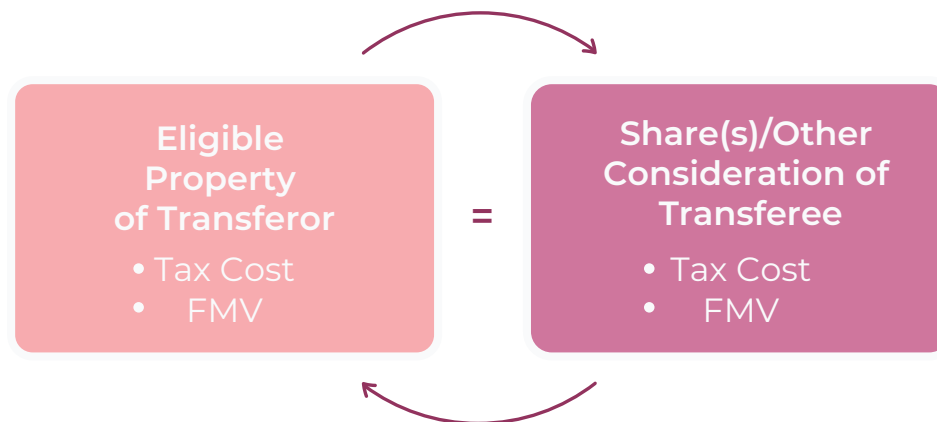
Section 85 "Transfer of Property to a Corporation by Shareholders" of Canada's Income Tax Act (S.85 rollover) combined with Q Wealth's Corporate Class provides the means to diversify tax efficiently. S.85 provides both a tax deferral and potential tax savings opportunity.

### S.85 ROLLOVER EXPLAINED

Normally upon the transfer of property from one taxpayer to another, there is a disposition at fair market value (FMV) and taxable gains are realized. However, a S.85 rollover allows an individual, a partnership, a trust or corporate taxpayer (transferor) to transfer eligible property to a corporation (transferee) without triggering an immediate taxable gain.

Eligible Property of the transferor could include capital property, eligible capital, certain types of inventory and resource properties.

A S.85 rollover is made via a joint election by the transferor and transferee and sets out the exchange of the transferor's eligible property for consideration from the transferee. The consideration must include at least one share of the transferee. Provided that the tax attributes of the transferee's consideration are the same as the transferor's eligible property, S.85 allows the exchange to be tax-free. The transferor, who is now a shareholder of the transferee, must be in the same economic position as before the exchange.



Note that there are additional variables to S.85 rollovers to consider, for example: the transferor may trigger income or capital gains in the exchange; and in addition to a share (or shares) of the transferee, debt or cash can also be received as consideration. Addressing these variables are beyond the scope of this communication, please speak to your tax professional to discuss further.



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### CLIENT SAMPLE

Ms. Wong has worked for a Canadian public company XYZ Co. the last 20 years and through share options, the employee share plan, and share splits she has amassed a significant amount of XYZ Co shares (XYZ shares). Her XYZ shareholdings are as follows:

Assets:	FMV	XYZ Shares		
		#	FMV	ACB
Non-registered Account	\$1,500,000	6,000	\$1,200,000	\$400,000
TFSA	\$150,000	300	\$60,000	NA
RRSP	\$1,000,000	1,250	\$250,000	NA
	\$2,650,000		\$1,510,000	\$400,000

Big picture, Ms. Wong's income and benefits, and a significant amount of her net worth is tied to XYZ Co.

Disposing and diversifying her XYZ Co shares in her TFSA and RRSP accounts is straightforward, and no income taxes would be triggered. However, disposing of her XYZ shares in her non-registered account would trigger income taxes of approximately \$200,000  $((\$1,200,000 - \$400,000) * 50\% \text{ capital gain inclusion rate} * 50\% \text{ combined personal tax rate assumed})$ .

She would like to diversify but is taken aback that her net worth would be reduced by \$200,000 to do so.

### A TAX EFFICIENT SOLUTION, Q WEALTH'S CORPORATE CLASS FUND

Q Wealth and Ms. Wong's tax advisor can satisfy her wishes to have a 100% deferral/tax-free S.85 rollover, with the completion of Form T2057 – *Election of Disposition of Property by a Taxpayer to a Taxable Canadian Corporation*.

**Mrs. Wong's exchange of her XYZ shares for Q Wealth's Corporate Class Fund via a S.85 rollover can diversify her non-registered account tax efficiently and with no immediate tax liability given:**

**Tax value in (XYZ Co. of \$400,000) = tax value out (Corporate Class shares of \$400,000), and  
FMV in (XYZ Co. of \$1,200,000) = FMV out (Corporate Class shares of \$1,200,000)**

Ms. Wong has maintained her net worth at the time of the exchange and her tax liability is deferred until such time she disposes of her Q Wealth Corporate Class shares.

### CONNECT WITH Q WEALTH

If you are interested in engaging in as S.85 rollover using Q Wealth's Corporate Class Fund, please reach out to your Q Wealth portfolio manager to discuss.

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