WELCH TIMES

WINTER 2025

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Congratulations

CPA Ontario 2024 Fellow

Kathy Steffan

We are incredibly honoured to announce that Kathy Steffan, Partner in our Welch LLP Toronto office, has been named a CPA Ontario 2024 Fellow!

Congratulations, Kathy! We look forward to the incredible accomplishments you will continue to make throughout your career.

Welch LLP's

2025 Promotions

Our newest Partner:

Christina Morgan

Our newest Principals:

Brad Guillemette
Kayla Cavanagh

Our newest Senior Managers:

Cody Lombardo
Kamal Mahey
Mo Mansour
Rebecca McKay
Stacy Grimshire

Our newest Managers:

Antoine Paradis
Nicole Rogers
Terry Poon
Andrew Famme
Chris Satterthwaite
Kyle Bacciaglia
Maddie Puttick
Soha Zaghal
Rana Masood
Morgan Dekker

"On behalf of all partners, I thank you for the talent and dedication that you bring to Welch!"

- Jim McConnery, Managing Partner

Contributions

REVENUE RECOGNITION AND RELATED MATTERS

In May 2024, the Accounting Standards Board (AcSB) released a Feedback Statement addressing responses to its March 2023 Exposure Draft, Contributions – Revenue Recognition and Related Matters. This project aims to enhance the consistency and clarity of financial reporting for not-for-profit organizations (NPOs).

KEY PROPOSALS IN THE EXPOSURE DRAFT

The Exposure Draft proposed the deferral method as the single revenue recognition model for restricted contributions, replacing the current options (deferral method or restricted fund method). Specifically, it suggested:

- Recognizing restricted contributions as liabilities until restrictions are met, aligning with performance obligations.
- Standardizing definitions, such as "restricted contributions" and "endowments."
- Introducing enhanced disclosure requirements to improve transparency for financial statement users.

FEEDBACK HIGHLIGHTS

Stakeholders raised several concerns:

- Complexity: Some worried the single recognition model would obscure fundraising results or misclassify funds as liabilities.
- Implementation costs: Smaller NPOs feared additional costs related to the transition.
- Sector diversity: Many argued a one-size-fits-all approach may not reflect the unique needs of diverse NPOs.

AcSB'S RESPONSE

In light of the feedback, the AcSB decided to retain the current accounting policy choice, allowing NPOs to continue using either the deferral or restricted fund method.

While the Board recognizes the value of consistency, it acknowledged that imposing a single method could have unintended consequences for preparers and users alike.

LOOKING AHEAD

In a new exposure draft, the AcSB plans to propose refinements to both existing methods, focusing on improving the quality and understandability of NPO financial statements.

Many aspects of the original Exposure Draft will be carried forward such as:

- definitions (e.g., "restricted contributions" and "endowments")
- recognition of restricted contributions using the deferral method and other recognition topics (e.g., contributed materials and services), and
- certain presentation and disclosure requirements.

If you have any questions, please reach out to your Welch advisor for guidance.

Author: Melanie Platt, CPA, CA, Partner

Exciting news from HOOPP for Incorporated Doctors

In a December 10, 2024 news release, the Healthcare of Ontario Pension Plan (HOOPP) has announced that incorporated doctors can now qualify for HOOPP benefits in retirement. While the announcement didn't go into specifics on the cost to the Medical Professional Corporation (MPC) for these benefits it certainly does add another option for doctors to consider when thinking about retirement.

As an incorporated doctor, you have the opportunity to accumulate wealth through your corporation via investments, Individual Pensions Plan (IPP) and now opting in to HOOPP. In addition to this, many doctors utilize salary and dividend strategies as well as, utilizing tax savings vehicles like RRSPs as part of their retirement plan. Any one or more of these planning opportunities can work, the key is to determine which one is correct for you.

Opting in to HOOPP will allow you to participate in a pension plan while still benefiting from the tax advantages of your corporations and should be considered as part of your overall plan. The new offering from HOOPP should integrate seamlessly with your business structure allowing you to contribute to the pension plan without disrupting the flow of your corporate finances.

Key Benefits

TAX EFFICIENT:
Contributions to the HOOPP pension plan made through the corporation should be tax-deductible, reducing the overall corporate tax burden

PREDICTABLE:
Unlike investments that can fluctuate, HOOPP's pension plan should provide a stable, predictable retirement income

LONG-TERM SECURITY:
HOOPP offers a well-established, professionally managed pension fund that prioritizes long-term growth, reducing the need for you to actively manage your investments

Key Considerations

CORPORATE COST:
What is the overall cost to the corporation of the plan?

PEOPLE INCLUDED:
Does this include all of your employees as well?

PERSONAL COST:
The personal tax cost of the salary requirements to qualify for the plan?

LIMITATIONS:
Are there benefit limitations, if any, in retirement?

VALUE AT DEATH:
The value or transfer of the pension upon death of the doctor before or after retirement

The new HOOPP offering for incorporated doctors represents another option for retirement planning that should be considered. I know I will be keeping an eye out for the details in 2025 to determine if any of our medical clients might benefit from this alternative.

For further guidance on the impact of how the HOOPP affects you and your retirement, please reach out to your Welch LLP advisor.

Author: Joshua Smith, CPA, CA, Partner

SR&ED RULES TO EXPAND

ELIGIBLE EXPENSES

FOR CANADIAN R&D

In the 2024 Fall Economic Statement published on December 16th, 2024, the Canadian Government announced new enhancements to the Scientific Research and Experimental Development (SR&ED) program, expanding the eligible expenses, increasing limits for Canadian-Controlled Private Corporations (CCPCs), and allowing Canadian Public Corporations access to refundable tax credits for their SR&ED claims. These changes will offer Canadian corporations sustainable opportunities for non-diluted funding to reinvest in Canadian based R&D over a longer term as they scale up, go public, and succeed.

We see this as a great move by the government to encourage R&D that diversifies the economy, supports skilled work in Canada, and helps remove some of the frictions that can arise as companies we work with are finding success that under the current rules can cost them access to the refundable credits offered in the SR&ED program.

The Canadian government is proposing $1.9 billion over the next six years with significant reforms to the program to expand eligibility. Changes would go into effect for tax years beginning on or after December 16th, 2024. The proposed reforms include:

- Increased Expenditure limit for the enhanced 35% federal credit rate from $3 million to $4.5 million, allowing CCPCs to claim up to $1.575 million in fully refundable tax credits;
- Extend eligibility of the enhanced, refundable credit to Canadian Public Corporations for up to $4.5 million of qualifying SR&ED expenditures. Currently, Canadian Public Corporations are only eligible for a 15%, non-refundable federal credit;
- Restoring eligibility of capital expenditures which have been ineligible since January 1, 2014, for both deduction against income, and investment tax credit components of the SR&ED program, for property and leases acquired on or after December 16th;
- Increased taxable capital phase-out thresholds for determining expenditure limit. Currently, previous years' taxable capital in excess of $10 million reduces the expenditures eligible for the enhanced 35% tax credit down to $0 at $50 million of taxable capital. The proposed changes increase the starting threshold to $15 million and the limit to $75 million.

Note that the legislation for these changes is not yet available, and the proposal is subject to change. We will be monitoring for updates and how they impact the SR&ED program.
As Canadian companies expand and grow their R&D programs, these changes will allow them access to important funding and encourage further investments in R&D in Canada as companies grow and/or transition from private to public.

Welch is proud to provide SR&ED services from strategic help, claim writing, and review. For further guidance on how you can utilize SR&ED to help grow your business in Canada, please contact your Welch LLP advisor.

Author: Ted Wormald, Technical Advisor

TAX TIPS FOR 2024 YEAR-END

As we close out 2024, now is the time to review your financial strategies and take action to reduce taxes and prepare for the year ahead. Whether you're an individual taxpayer, business owner, or employer, the tips below will guide you through opportunities for tax savings, compliance, and financial optimization.

1. OPTIMIZE INVESTMENT GAINS AND LOSSES

CAPITALIZE ON THE CAPITAL GAINS INCLUSION RATE:
The inclusion rate for capital gains was proposed to increase to 66.67% as of June 25, 2024. However, individuals can still benefit from the previous 50% inclusion rate for the first $250,000 of capital gains annually. If you still have not reached $250,000 of cumulative capital gains for 2024, consider crystallizing gains to reach this threshold before year-end to take advantage of this lower capital gain inclusion rate.

LOSSES CARRYFORWARD:
If you have capital losses carryforward from prior years, you may consider selling some of the winners in your non-registered accounts to utilize these loss carryforwards in 2024.

TAX-LOSS SELLING:
If you have investments with accrued losses, you may consider realizing these accrued losses to offset against your capital gains, such as selling underperforming investments. Be cautious with the "superficial loss" rule, which can disallow losses if you repurchase the same or similar securities within 30 days of selling. Moreover, be cautious with selling foreign investments as currency fluctuations may *result in unexpected gains or losses.*

2. MAXIMIZE TAX-SHELTERED ACCOUNTS

RRSP CONTRIBUTIONS:
Contributions for 2024 can be made until March 3, 2025. Contributions are deductible up to 18% of your prior year's earned income (to a max of $31,560). If you are unsure of your RRSP contribution room, you can check it on your CRA My Account or on your latest Notice of Assessment.

SPOUSAL RRSP CONTRIBUTIONS:
The higher-income spouse can consider making a contribution to a spousal RRSP for future income splitting with a lower-income spouse such that the higher-income spouse can get a deduction when contributing, and the future withdrawals may be taxed in the hands of the lower-income spouse.

CONVERT RRSP TO RRIF:
If you turn 71 this year, ensure final contributions are made and your RRSP is converted to a RRIF by December 31, 2024.

OVERCONTRIBUTION TO RRSP:
If you had employment income or business income in the year you turn 71, consider overcontributing to your RRSP in December 2024 by the amount of earned income that will be created on January 1, 2025. The overcontribution will be absorbed by your new RRSP contribution room, and the tax savings from deducting this contribution will more than offset the nominal overcontribution penalty tax.

CONVERT A PORTION OF RRSP TO A RRIF AT AGE 65:
If you don't have any pension income and are at least 65 years old (and younger than 71 years old), you may consider transferring $14,000 from your RRSP to your RRIF at the age of 65, and then consider withdrawing $2,000 a year from your RRIF from age 65 to 71 (a total of 7 years) to benefit from the pension income credit, which would allow you to receive $2,000 RRIF annually tax free.

TFSA CONTRIBUTIONS:
The 2024 contribution limit is $7,000. If you've never contributed, your total room could be as high as $95,000, allowing significant tax-free growth. You should plan withdrawals carefully to avoid overcontribution penalties.

3. TAX BENEFITS FOR HOMEOWNERS

FIRST HOME SAVINGS ACCOUNT (FHSA):
Contribute up to $8,000 annually (up to $16,000 with carryforward) to save for your first home. Contributions are tax-deductible, and withdrawals for home purchasing are tax-free.

HOME BUYERS' PLAN (HBP):
Withdraw up to $60,000 from your RRSP tax-free to purchase your first home, thanks to the increased limit effective April 6, 2024. You must start repaying the withdrawal within five years under a temporary extension. If possible, delay withdraws until early 2025 to extend the purchase and repayment timeline by an additional year.

HOME ACCESSIBILITY TAX CREDIT (HATC):
Seniors and individuals with disabilities can claim 15% of eligible renovation expenses up to $20,000 to make their homes safer and more accessible. Eligible expenses paid by December 31, 2024 could yield up to $3,000 in tax credits.

MULTIGENERATIONAL HOME RENOVATION TAX CREDIT (MHRTC):
This refundable credit supports creating secondary units for qualifying relatives. You can claim 15% of renovation costs, up to $50,000 for a maximum credit of $7,500. Expenses must be incurred, and renovations must be completed in 2024 to qualify for this refundable credit. Claiming the MHRTC may affect your ability to claim the principal residence exemptions when you eventually sell your property. Consider speaking to your Welch advisor before you undertake the renovation.

FIRST-TIME HOME BUYER'S TAX CREDIT:
If you purchased your first home in 2024, you can claim this non-refundable tax credit worth up to $1,500. You need to ensure that this home qualifies as your principal residence, and file this claim as part of your 2024 personal tax return.

4. EDUCATION AND DISABILITY SAVINGS

RESP CONTRIBUTIONS AND WITHDRAWALS:
Secure up to $500 annually in Canada Education Savings Grants (CESG) with a $2,500 contribution for each child under 18 by December 31.Consider having Educational Assistance Payments (EAPs) made through the RESPs before December 31, 2024 for your (grand)child who is a beneficiary of the plan if they attend a post-secondary institution in 2024. The maximum EAPs allowed for a 13-week education is $8,000 for a full-time student and $4,000 for a part-time student.

RDSP CONTRIBUTIONS:
Contribute to a Registered Disability Savings Plan (RDSP) to maximize federal grants and bonds. Eligible individuals should act before December 31, 2024 to benefit from this year's contributions.

5. CHARITABLE DONATIONS

Donating to a registered charity is a great way to reduce your taxes. Donations of cash or gifts "in-kind" of publicly traded securities are eligible for tax credits of up to 55% , depending on your province or territory of residence, once total annual donation amounts exceed $200 in a calendar year. The last day to make a donation for 2024 is December 31st, and be sure to ask for an official charitable receipt.

The capital gains from gifting publicly traded securities such as stocks or mutual funds with accrued gains are not subject to tax, while you still receive a tax receipt for the full fair market value of the securities you donated.

If your income is over $173,205 and you are planning to make significant charitable donations, be aware that changes to the 2024 Alternative Minimum Tax (AMT) rules may impact your tax benefits. Under the new rules, only 80% of the donation tax credit is allowed for AMT calculations, compared to the full 100% previously permitted. Additionally, for in-kind donations of publicly traded securities, 30% of the capital gains on these securities will now be included in AMT calculations whereas previously no portion of these gains was included. Please consult with your Welch advisor for more information on AMT changes that may have an impact on your taxes.

6. ALTERNATIVE MINIMUM TAX (AMT)

Significant changes to the AMT system were introduced in 2024, including an increased AMT rate, a higher AMT exemption, and an expanded AMT base that limits specific deductions, exemptions and credits. These updates may result in a higher AMT liability in 2024, particularly for individuals with taxable income exceeding $173,205 who benefit from lower-taxed income sources or significant deductions, such as:

- capital gains,
- stock options,
- Canadian dividends,
- unused non-capital losses, net capital losses, or limited partnership losses carried forward from previous years,
- non-refundable tax credits, such as the donation tax credit, and
- various deductions, such as moving, child care, employment and intwerest/ financing costs.

Please consult with your Welch advisor for more information if you think that you may be impacted by any of these AMT changes.

FOR BUSINESS OWNERS AND EMPLOYERS: OPTIMIZE CORPORATE TAX STRATEGIES

1. OWNER-MANAGER COMPENSATION STRATEGIES

For tax efficiency, many owners choose a combination of salary and dividends. Paying yourself a salary allows you to contribute to Canada Pension Plan and RRSPs, while dividends are generally taxed at a lower rate. However, given the changes to AMT and other recent tax reforms, review your personal and business tax situation with your Welch advisor to determine your optimal strategy.

2. CONTRIBUTIONS TO EMPLOYEE BENEFITS AND RETIREMENT PLANS

Business owners can make contributions to employee retirement plans and group benefit programs, and these contributions are tax-deductible. The year-end is a good time to review your company's employee benefit plans, especially if you haven't fully utilized your tax deductions. If you offer a Group RRSP or other retirement savings plans to employees, consider making contributions before December 31st to help reduce your business's taxable income for the year.

3. PLAN AROUND THE SMALL BUSINESS DEDUCTION (SBD)

If your corporation earns more than $50,000 of passive investment income in a taxation year, the SBD limit could be reduced for the following taxation year. You may consider deferring passive income by realizing capital gain in 2025. Alternatively, an Individual Pension Plan or corporately owned exempt life insurance might be appropriate, since income earned in these plans does not impact access to the SBD. Speak to your Welch advisor to discuss whether these strategies may be appropriate in your situation.

4. CAPITAL EXPENDITURES

Review your needs for capital purchases at year-end to determine whether it makes sense to make the purchase before the year-end or defer to next year. You are entitled to claim capital cost allowance (CCA) on depreciable capital property if the property is purchased and available for use before the end of the year.

The accelerated investment incentive property (AIIP) rules allow for faster CCA claims on most new depreciable capital property acquired after November 20, 2018 and available for use before 2028.

The temporary immediate expensing rules allow an unincorporated business to fully expense eligible depreciable asset purchases of up to $1.5 million annually for property acquired after December 31, 2021, and available for use before January 1, 2025. However, certain long-term assets like buildings and intangibles such as goodwill are excluded.

Effective April 16, 2024, the federal government has proposed immediate expensing for productivity-enhancing assets (e.g., patents, network infrastructure, and data-processing systems) available for use before 2027. Assets available for use after 2026 and before 2028 will still benefit from accelerated investment incentive rules.

5. MANAGING CAPITAL DIVIDEND ACCOUNT (CDA) AND TAX-LOSS SELLING

Before engaging in selling losers in your investment portfolio, review your corporation's Capital Dividend Account (CDA) to determine if there is an existing positive balance. The CDA is a notional account that tracks the non-taxable portion of capital gains and certain other amounts. This balance allows corporations to pay tax-free capital dividends to shareholders, provided the dividends do not exceed the CDA balance. It is important to note that realizing the net capital losses will reduce the CDA balance and may eliminate the ability to pay capital dividends, so you should consider paying capital dividends to the extent possible before triggering capital losses Consult with your Welch advisor to review your corporation's CDA balance.

6. LOSS UTILIZATION WITHIN A GROUP

If you operate multiple corporations within a group, you may have one or more profitable entities and others experiencing losses. The CRA generally allows loss utilization within a related corporate group through specific strategies. There may be strategies to allow a corporate group in this situation to achieve better overall tax and financial results. Given the complexity of corporate reorganizations and the potential for unexpected tax implications, please consult with a tax specialist before pursuing any loss utilization strategies.

Year-end tax planning is all about being proactive and making the most of available deductions, credits and strategies. Whether you're an individual taxpayer or own a corporation, taking a little time now to consider these matters can result in big savings come tax time.

Author: Anni Zhu, CPA, CA, Senior Manager

FAMILY TRUSTS COULD HAVE AN UNEXPECTED TAX LIABILITY FOR 2024

What is the new Alternative Minimum Tax (AMT) provision, and what it means for prescribed rate loan planning.

On June 20, 2024, Bill C-69 implemented a number of changes to the AMT regime.

AMT is a parallel tax calculation which was originally introduced to ensure that individuals and trusts that benefit from significant tax exemptions, deductions and tax credits would have to pay a certain minimum amount of tax. AMT paid for a year is carried forward and can be refunded as a credit against taxes otherwise payable over the following seven years.

A very common type of tax planning strategy where a trust may hold marketable securities, often for the benefit of lower-income beneficiaries such as children or grandchildren of the trustee(s). This type of planning is often referred as "prescribed rate loan" planning.

Generally, a prescribed rate loan arrangement is established by having a high-income family member loan funds to a trust at an interest rate that is fixed at the CRA prescribed rate at the time the loan is made. The proceeds of the loan are then used to invest in marketable securities, with the resulting income (i.e., dividends, interest and/or capital gains) net of expenses being distributed to lower-income beneficiaries, who might pay little or no income tax.

Generally, the deductible expenses under a prescribed rate loan arrangement include loan interest expense and investment management fees. Although the loan interest expense paid by the trust is included in the taxable income of the lender, this strategy is intended to reduce the family's overall tax liability.

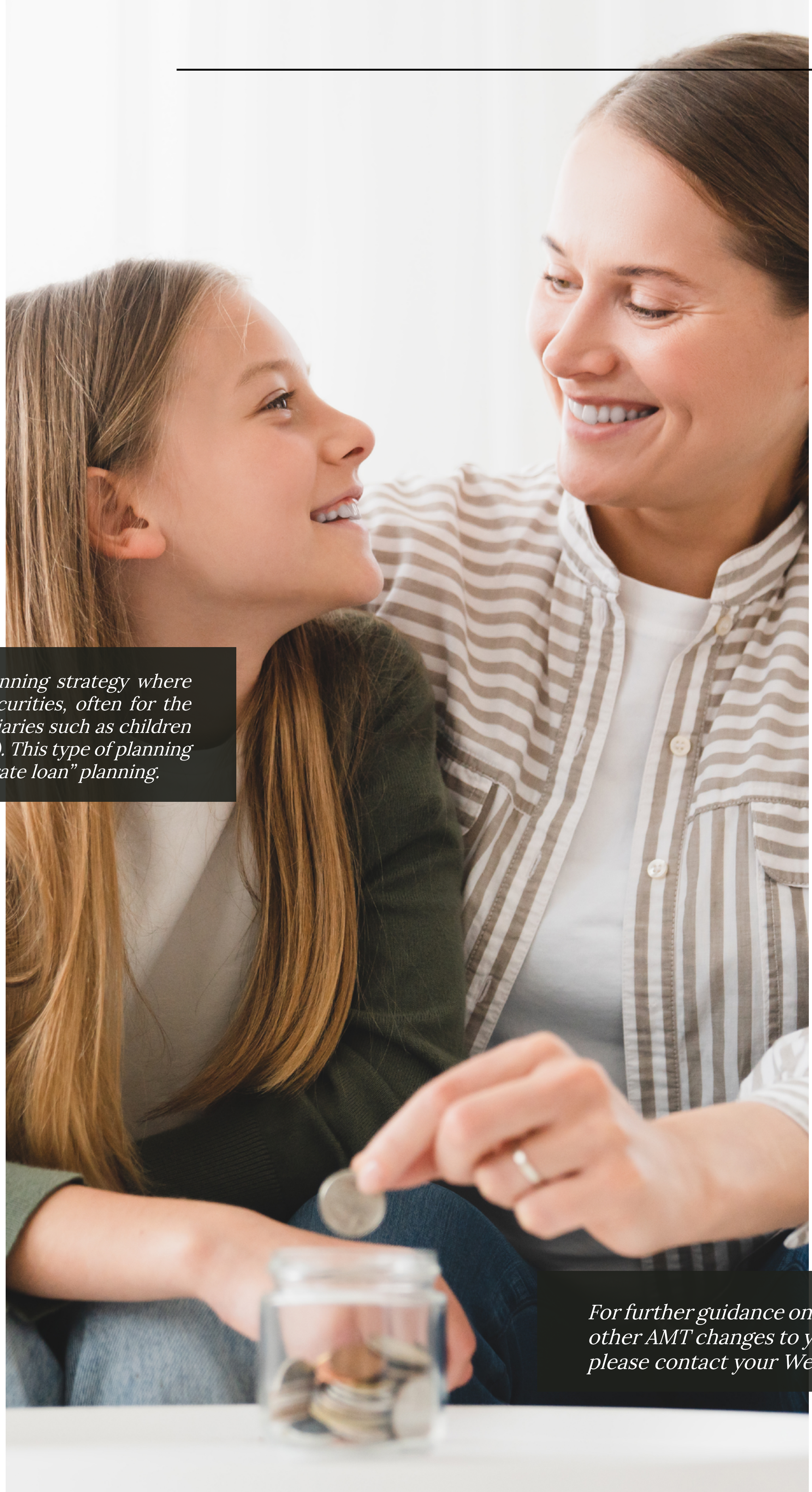
Prior to the new AMT legislation, as long as the net income of the trust was fully distributed to beneficiaries, the trust would have no tax owing as these distributions are deductible from the trust's taxable income.

However, beginning in 2024, the trust's deduction of interest expense will be limited to 50% for AMT purposes. In addition, on August 12, 2024, the Department of Finance released draft legislation which will also limit the deduction of investment management fees to 50% for AMT purposes.

The federal AMT tax rate is now 20.5% for 2024. Accordingly, if a trust deducts interest expense and investment management fees of $10,000 and fully distributes the net income to beneficiaries, it will still have a federal tax balance owing of $1,025 (i.e., $10,000 x 50% x 20.5%).

Provincial AMT is also calculated as a percentage of the federal AMT. For Ontario residents, the provincial AMT rate is currently 33.67% of the federal AMT. However, the October 30, 2024 Ontario Fall Statement proposed to lower this rate to 24.63% beginning in 2024. Therefore, an additional provincial AMT of $252 ($1,025 x 24.63%) would be payable by the trust for 2024.

Author: Tricia MacPherson, CPA, CA, Senior Manager



While the AMT can be refunded to the trust in subsequent years where regular tax exceeds AMT, since the nature of these trusts is generally to distribute all income to beneficiaries, it is likely that AMT could become a permanent cost with little likelihood of recovery in the seven-year carry forward period.

In order to avoid AMT, consideration could be given to leaving some income in the trust to generate regular tax and reduce the impact of AMT. However, as the income of a family trust is taxed at the highest marginal tax rate (i.e., 53.53% in Ontario), this strategy may also reduce the overall tax savings benefit of the prescribed rate loan trust structure.

Therefore, it appears that for 2024 and going forward, most trusts that earn investment income from portfolios of marketable securities will have a tax balance payable. Note that this may also include any other trust that incurs interest expense and/or investment management fees where the trust received investment capital from sources other than a prescribed rate loan such as an inheritance or proceeds from the sale of a corporation.

For 2024, the tax payment will be due on or before the T3 Trust Return filing deadline of March 31, 2025.

For further guidance on the impact of this and other AMT changes to your current situation, please contact your Welch LLP advisor.

GST/HST
TAX HOLIDAY

On November 21, 2024, the Prime Minister announced a two-month long GST/HST tax holiday in respect of the sale of a select list of goods. The intent was to provide relief for Canadian consumers during the winter holiday season. Also, by extending the period to mid-February, this provides an opportunity to assist businesses during what is usually a slow period following the extensive spending that occurs up until the latter part of December.

The proposed legislation received Royal Assent on December 12, 2024, just in time for the proposed start date of December 14, 2024. The holiday is set to end on February 15, 2025. The following items are subject to the tax holiday:

- Children's clothing, footwear, diapers, car seats and select toys
- Print newspapers
- Printed books
- Christmas trees
- Prepared foods and restaurant meals (including take-out etc.)
- Snack foods and alcoholic beverages (excluding spirits but including wine, beer, ciders, and spirit coolers up to 7 per cent ABV)
- Video-game consoles, controllers or physical game media

Vendors of these goods will need to obtain a clear understanding of what goods are subject to this relief and will need to ensure their systems are able to handle the change. CRA has published detailed guidance about the holiday which can be found here: GST/HST break - Canada.ca.

Thankfully, CRA's expectations are such that businesses who make reasonable efforts to comply with the legislation will not be the focus of CRA compliance actions. However, CRA will be on the lookout for businesses who willfully and egregiously refuse to comply with the temporary measures, such as a business that collects the GST/HST and does not remit it to the CRA.

Customers that have been charged GST/HST in error and are not able to recover the overpayment from the supplier will have the opportunity to claim a rebate from CRA as long as the claim is for at least $2 and is claimed within 2 years of the overpayment.

Author: Mona Tessier, CPA, CA, Partner

NAVIGATING CANADIAN TAXES FOR NON-RESIDENTS OWNING REAL PROPERTY: AN OVERVIEW

In recent years, Canada has established itself as an attractive destination for foreign investors looking to invest in real estate. However, navigating the complexities of Canadian tax laws can be a daunting task. This blog explores the implications of owning Canadian real property, focusing on your income tax, and filing obligations including the upcoming withholding tax increase in 2025.

TAX & FILING OBLIGATIONS FOR NON-RESIDENTS OWNING CANADIAN RENTAL PROPERTY

As a non-resident property owner, any rental income generated from your Canadian real estate is subject to Canadian taxation. Non-residents are required to file an annual tax return to report this income and discharge their tax obligations.
The tax rate on rental income for non-residents is set at 25%. This amount is withheld at source, meaning that a quarter of your rental revenue is automatically retained by the government before you receive your funds (unless you engage a Canadian withholding tax agent and receive prior approval to withholding on the "net" basis). Maintaining accurate records of all rental income and related expenses is essential for ensuring compliance and facilitating tax reporting.

SELLING YOUR PROPERTY

For non-residents, selling Canadian real estate involves specific compliance with section 116 of the Income Tax Act. This section lays out the rules for withholding taxes on property sales involving non-residents. For example, when a non-resident sells a property in Canada, the buyer is currently mandated to withhold 25% (or 50% if a depreciable property) of the gross selling price to cover potential tax liabilities. The rate applicable to this withholding is intended to approximate the combined federal and provincial tax payable on capital gains at the highest marginal tax rates. Effective January 1, 2025, this withholding rate will be raised from 25% to 35%. To avoid withholding this amount, the seller must obtain a clearance certificate from the Canada Revenue Agency (CRA). Here's a breakdown of the process:

Prepare Documentation: Gather necessary documents, including proof of the property's purchase price, the sale price, and any related transaction costs. This includes completing ALL Canadian income tax returns if you are selling a rental property. You MUST be update to date on ALL of your filing obligations with CRA.

Timely Application: Submit your application for a clearance certificate to the CRA well in advance of closing the sale. You only have 10 days from the date of close.

CRA Approval: After reviewing your application, the CRA will issue a clearance certificate if all conditions are satisfied. This certificate relieves the buyer from withholding the specified amount, allowing them to pay you the full sale price.

Failure to comply with section 116 can result in significant penalties, so it's advisable to consult your Welch LLP representative if you have any doubts.

Author: Tanya Bown, CPA, CA, Tax Specialist

DEMYSTIFYING COMPANY VALUATIONS: UNDERSTANDING THE WORTH OF YOUR BUSINESS

Determining the fair market value of a company is a complex process that requires a deep understanding of various quantitative and qualitative factors. Whether you are a business owner or an investor, this blog post will guide you through the essential concepts and methods used to assess the fair market value of a company.

In Canada, professional valuators carry the Chartered Business Valuator (CBV) designation and follow the Practice Standards of the CBV Institute.

GOING-CONCERN VALUE OR LIQUIDATION VALUE?

When it comes to valuing a company, there are two (2) main premises of value: Going-Concern Value, and Liquidation Value. Going-Concern Value refers to the value of a business when it is expected to continue operating as an enterprise. On the other hand, Liquidation Value represents the value when the business is no longer viable or insolvent and its assets are sold individually.

As most businesses are sold as going concerns, this blog will focus on understanding business valuation from a Going-Concern Value perspective.

SELECTING AN APPROPRIATE VALUATION METHODOLOGY

Valuing a company requires a comprehensive approach that considers financial, qualitative, and market-related factors. Choosing the appropriate valuation methodology depends on several factors, including the nature of the business being valued, the purpose of the valuation, the availability of information, etc. Various methods and approaches are employed, each with its own advantages and limitations. The three primary valuation methods include:

1. **Income-Based:** This approach assesses a company's worth by considering its ability to generate future after-tax cash flows. Valuation methods like the discounted cash flow (DCF) method or the capitalized cash flow (CCF) method are used to estimate the present value of expected future after-tax cash flows. Income-based valuation methods emphasize the company's profitability and growth potential and are effective when a company is generating a reasonable return on its assets.

2. **Asset-Based:** This approach determines a company's worth based on its adjusted net book value (ANBV). It considers the company's tangible assets (such as working capital, property and equipment, investments, and other long-term assets) minus its short- and long-term liabilities. Asset-based valuation methods are commonly used for investment or real estate holding companies with no active operations of their own.

3. **Market-Based:** Also known as comparative or relative valuation, this approach involves comparing the company's metrics, such as Revenue or EBITDA multiples, with those of similar publicly traded companies or recent M&A transactions in the industry in which the target company operates. This approach often serves as a secondary valuation technique to confirm the reasonableness of the value conclusion determined by other approaches.

FACTORS INFLUENCING COMPANY VALUATION

Several critical factors influence the valuation of a company, including:

1. **Financial Performance:** The historical and projected financial performance, including revenue growth, profitability, and cash flow stability, play a significant role in determining the value of a company. A company with a consistent track record of strong financials is typically more valuable.
2. **Industry and Market Conditions:** The industry in which a company operates, and its growth prospects and risks greatly influence a company's valuation. A company operating in a high-growth industry with favourable market conditions often commands a higher valuation.
3. **Intellectual Property and Intangible Assets:** Intangible assets, such as patents, trademarks, brands, customer relationships, and proprietary technologies, can significantly contribute to a company's value. These assets provide a competitive advantage and may lead to higher valuations.
4. **Management Team:** The expertise, experience, and track record of a company's management team are critical factors in determining its value. A strong and capable management team can enhance a company's growth potential and increase its valuation.
5. **Market Position and Competitive Advantage:** A company's market share, competitive positioning, and unique selling proposition can impact its valuation. Companies with a significant market presence and a sustainable competitive advantage are typically valued higher.

FAIR MARKET VALUE MAY NOT EQUAL PRICE

It is important to note that the fair market value determined by the aforementioned approaches typically represents a company's notional, or intrinsic, value, which may be different from the actual price achieved in an open market transaction (e.g., an acquisition).

Price may not equal fair market value due to several factors, including potential synergies perceived by strategic and/or special purchasers, market sentiment, emotions, an uneven balance of negotiating skills, deal structure, and other external factors.

SEEK PROFESSIONAL ASSISTANCE

Valuing a company is a complex process that often requires specialized knowledge and expertise. Engaging the services of professional valuation experts, such as CBVs or investment bankers, can provide a more accurate and unbiased assessment of a company's worth. These professionals utilize valuation approaches as discussed above and have access to market data and industry benchmarks, ensuring a comprehensive and reliable valuation.

READY TO DISCOVER THE TRUE VALUE OF YOUR BUSINESS?

Understanding the worth of your company is a crucial step in making informed decisions, whether you're planning to sell, attract investors, or navigate growth opportunities. At Welch Capital Partners, we combine industry-leading valuation expertise with a deep understanding of market dynamics to deliver insights tailored to your unique needs. Contact our team today to schedule a consultation and take the first step toward unlocking your business's full potential at info@welchcapitalpartners.com.

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