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Information Sheet

Section 86 Estate Freeze Transaction - Minimizing Estate Tax

Overview:

A Section 86 Estate Freeze Transaction is a strategy used to minimize estate tax by freezing the value of your shares in an operating company (OPCO) and passing on future growth to your family members through a trust structure. This allows you to lock in the current value of your shares for tax purposes and transfer any future appreciation tax-free to your beneficiaries.

Steps Involved in the Section 86 Estate Freeze Transaction

Step 1: Cancel Your Common Shares

- Begin by cancelling your common shares in OPCO. This step is essential to reset the value of your shares for the purposes of the transaction.

Step 2: Issue Freeze Shares to You

- OPCO issues freeze shares to you at a nominal value of $1 per share.
- For example, if the company is worth $500,000, you will receive 500,000 freeze shares.
- The freeze shares will be voting shares, allowing you to retain control of the company.

Step 3: Issue New Common Shares to the Family Trust

- OPCO issues new common shares to the newly created Family Trust.
- These shares are also priced at $1 per share, but their value fluctuates based on the performance of OPCO
- The Family Trust receives 100 common shares
- These new common shares are non-voting.

Step 4: OPCO Pays Dividends to the Family Trust

- OPCO pays dividends to the Family Trust either monthly or quarterly.
- The amount of dividends is based on OPCO's performance.

Step 5: Family Trust Pays Dividends to the Beneficiary Corporation (HOLDCO)

- The Family Trust immediately pays a dividend equal to the amount it received to HOLDCO, the Beneficiary Corporation
- The Family Trust owns common shares (non-voting) and you own the special shares (voting) in HOLDCO

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Step 6: Transfer Shares to Children Within 21 Years

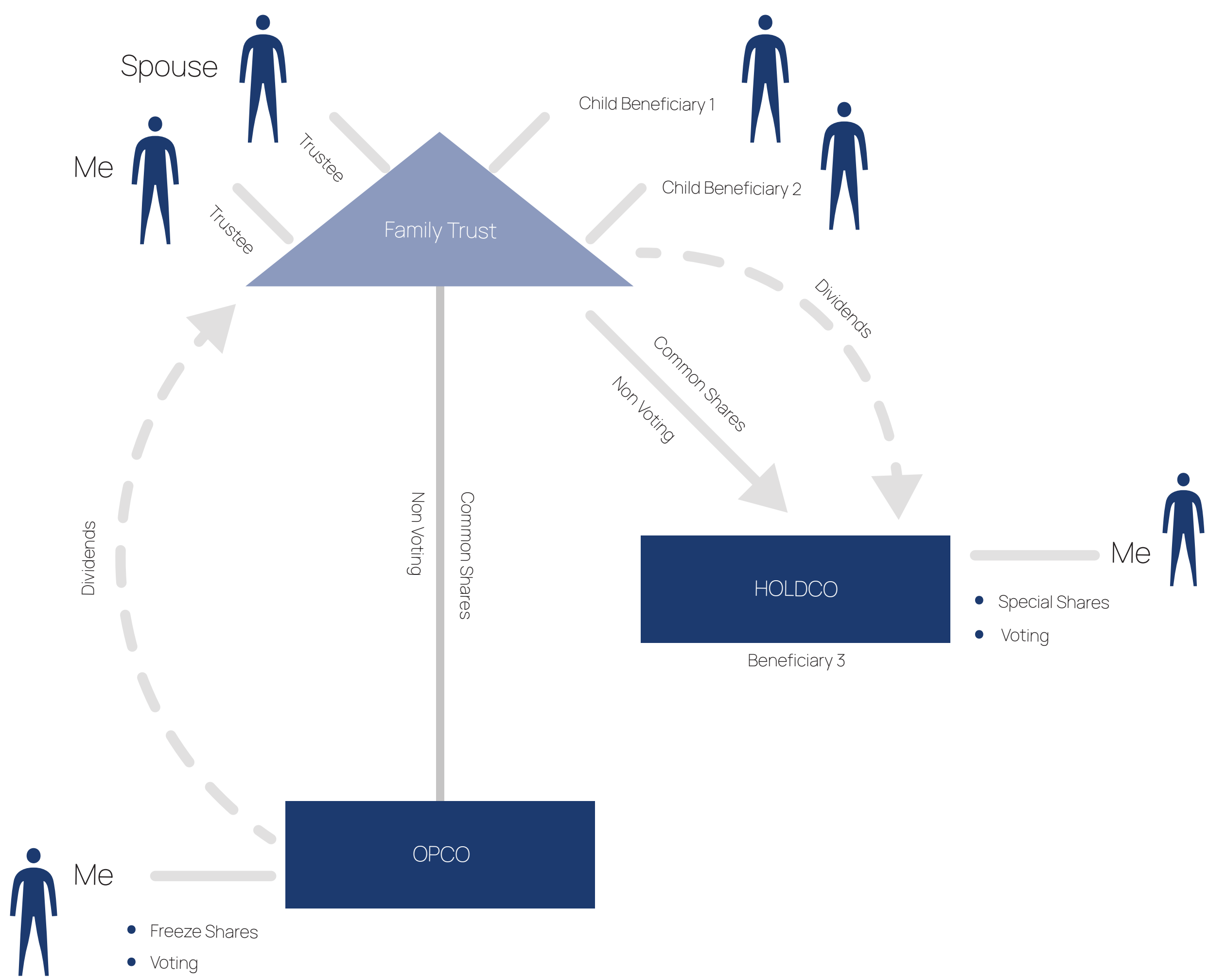
- Within 21 years, you can transfer the shares of OPCO and HOLDCO to your children on a tax-free basis.
- This step leverages tax advantages provided under the Section 86 Estate Freeze Transaction to avoid estate tax.

Step 7: Selling OPCO Before 21 Years

- If you sell OPCO before the 21-year period, you can claim the Lifetime Capital Gains Exemption (LCGE), which allows you to exempt up to $1,250,000 per individual shareholder and individual beneficiary.
- This ensures you maximize tax savings on any capital gains when you exit the business.

Overview of the Section 86 Estate Freeze Transaction

Below is a simplified diagram to visually represent the freeze transaction:



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Fees:

Fee for Section 86 Estate Freeze Transaction

- The fee for executing the freeze transaction is $6,500, which includes legal documents and accounting fees.

Additional Costs:

- The valuation fee is not included in this price.

Why Choose This Strategy?

Minimize Estate Tax:

- The future appreciation in the value of the company is passed on to the family tax-free, reducing the estate tax burden on your estate.

Maximize Control:

- You maintain control of the company through voting shares, while your children benefit from the future growth of the company

Tax Benefits:

- The strategy allows you to take advantage of the Lifetime Capital Gains Exemption (LCGE), which can provide significant tax savings when you sell the company.

Final Thoughts:

The Section 86 Estate Freeze Transaction is a powerful estate planning tool that allows you to lock in the current value of your shares, minimize estate tax, and pass on future growth to your children. It is crucial to work with legal and financial professionals to ensure the transaction is executed correctly and in accordance with tax laws.

Contact Information:

For more information or to discuss how this transaction can work for your specific situation, please contact:

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