Essential Financial Strategies for Entrepreneurs with Uros Milekic, CPA

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews and Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Keith: Welcome to the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host Marcelo Taboada. Marcelo, how are you today?

Marcelo: I'm good, Keith. I'm very excited about the interview we had with our guest. I think Uros is a superstar and we're happy to have him on the podcast. And you did part two with him. We're going to talk about what we did for part one, but our guest was Uros Milekic from BDO. He is the Quebec market leader and partner within the business services and outsourcing service line. He works with businesses. He has a remarkable career. He started at a smaller firm and then he's been building his career. He's now a partner as well at BDO.

Keith: Yeah, he's a fantastic guy. And these two shows that we're doing are really based around trying to help entrepreneurs, in particular business owners. And your episode is different than the one I did. Explain what exactly did the episode cover?

Marcelo: We covered a lot of very interesting stuff, but essentially if you're an entrepreneur and you have a business, we talked about things like when to incorporate, when to set up a holding company, how to accumulate wealth, how to take money out of a corporation, CDA, RDTOH, shareholder loans. We talked about IPPs, RRSPs, TFSAs, all these things.

Keith: So you covered whether business owners should do RRSPs or not.

Marcelo: Yeah, salary versus dividends, all that array of things we talked about.

Keith: Yeah, that's great. Cause those are the really big questions that entrepreneurs have. And they have those questions pretty much throughout their entire career.

Marcelo: Correct. And then we talked about how they are the star of the show, right? Like they are the Michael Jordan in the team. They're good at making money. And it's important to have an advisory team around them to help guide them through all this process. And it's an optimization problem because an entrepreneur or business owner can say, "Yeah, I have a great business, a great product, I'm making money." But if you combine it with proper advice and people like Uros and advisory firms like ourselves, we can really bring them to the next level.

Keith: Awesome. Listen, I know it's going to be a fantastic show. I know our listeners will enjoy it. So thank you so much, Marcelo, for co-hosting that with Uros. Enjoy part one.

Marcelo: Uros, it is a pleasure to have you here, my friend.

Uros: I feel the same way, man. I'm extremely excited to be here. I'm grateful. I appreciate the opportunity.

Marcelo: Listen, we both have similar background stories. Like you're an immigrant, I'm an immigrant. I think we connected. I appreciate your story a lot and your career is successful. It's very impressive. So let's just start there. Tell me a little bit about yourself. Why did you decide to become an accountant and a bit of your trajectory so far?

Uros: That's a great question. I'll try to do it justice. First of all, thanks for the compliments; my head's going to be so big it's not going to fit through the door on the way out.

Marcelo: I wish we did video because people need to see the suit you're wearing.

Uros: Yeah. Thank you. Thank you. So look, I started at a small to medium-sized accounting firm back in '08. There was a big financial crisis going on at the time. I was a kid coming out of university going towards my CPA designation and I chose to go with the medium-sized accounting firm which at the time was called FL Fuller Landau in Montreal, Quebec. And they had around 60-ish team

members at the time. There were around five partners. So I joined that group and I learned a lot in a quick amount of time.

Marcelo: It's almost like a trial by fire, right?

Uros: The exposure that you get at those types of firms is invaluable. Like you can't really put a dollar amount of value on that. I found it was very useful to be exposed to that. Obviously, like anyone going through an accounting firm, there are times where you feel different about what you want to do with your career. But I decided at a certain point, once I realized that there's a massive opportunity for me here, if I continue to do good work, I basically channeled my energy and applied myself and focused on what I was doing. A lot of people say the grass is greener on the other side, but the reality is the grass is green where you water it. So, I decided to water and focus my energy.

Marcelo: I love that.

Uros: Yeah, and from that point on, it really started excelling for me in terms of growth and recognition professionally. So in 2016, I became a partner at this firm. And then we were growing by that time, like I could tell you by 2022, we reached around 115 team members, and we were 12 partners roughly. So it's a lot of growth in, you could say, a short amount of time, predominantly because of the quality service offered that we had. And then there was an opportunity for our firm to join forces with BDO Canada. So I'm currently, and this happened at the beginning of 2023, a partner with BDO Canada and it's honestly been the best thing that ever happened to me in terms of professionally for myself as well as for my clients. The amount of services that we can offer to our clients within our four walls is really endless. I feel that the firm really understands from top to bottom where an accounting firm needs to be in terms of growing and surviving in the future with the landscape that we have now. We have a digital service offering, very strong in advisory, very resourceful tax department. It does Canadian local tax, cross-border tax, U.S. as well as international tax considerations. And we have the traditional accounting services that you would know of an accounting firm in terms of year-end compliance and assurance services. I'm a partner in a service line called business services and outsourcing. And what that is predominantly is operational work for our clients. So as an example, if we have a client that needs a position to be satisfied in terms of the bookkeeping to be done or more controller-type services, we can help satisfy those with a team of people whether it's on a short-term or long-term basis. And of course, a business

owner would know if they need a compilation engagement in terms of financial statements and the corporate tax return that goes along with that. So we can do all of that as well.

Marcelo: Amazing. So the depth of services is really big. It's evident that you guys have a suite of services that can just help the business owner from a lot of perspectives. But a lot of mergers don't go well. So why do you think this one went so well for you guys?

Uros: Great question. I think it takes, depending on the level that you're in going into the transaction, it might take a different amount of time to realize what the upside is for you individually and then collectively as a group. So it didn't come right away for me in the first month. I was searching for those answers, but I would say the environment that you're in... Look, if I backtrack, happiness for me at work is based on three things: who you work with, the environment that you work in that it's a collaborative environment, and the ability to be recognized for the work that you do. So if you have those three things where you are, consider yourself lucky. And a lot of those things are set by the leadership team. And again, I couldn't speak more highly than the way I truly feel about the leadership team at BDO Canada. It's fantastic to know that recognition component, which oftentimes is not there in an environment, is really existent here. And it's pushed. Any team member that is willing to roll up their sleeves and do work, that is not going unnoticed.

Marcelo: That's amazing. And I feel the same way about the way we do things here, but one of the things that I always picked up when I do an introduction from a client to yourself, to see if BDO can help them, it's always been evident how passionate you are about what the firm offers, where you are, where the leadership of the company is. And I think that's a great point. And I'm sure that translates sometimes into the way you help your business owners, right?

Uros: Absolutely. And I look at any client relationship as, "Can I add value in this service offering?" And if the answer is no, it's my responsibility as a professional to advise the client, "Hey, this might not be the place for you." And look, that happens sometimes. There'll be someone that'll approach me with a very limited request in terms of what they need, and they can perhaps get that somewhere else and it'll suit their needs. So, it really depends. What I don't like to do is I don't like to shy away from a conversation. And you and I, we have mutual clients that we work with. And maybe we could talk a little bit about our working relationship. I think that would be useful for the audience to

understand. But there's never any pressure. If there's someone that you think I can add value to, I will invite and encourage that conversation to understand what the needs are and then help point them in the right direction. For me personally, I try and focus on improving and not proving. So you're learning something every day. And it's not about an egotistical thing to try and justify why you're in the place you're in. It's really to try and get better every day.

Marcelo: Yeah, and that's amazing because I think in our roles, I always say in your role, my role, sometimes we have to be like triage officers at the hospital. We have to take it in, evaluate it, and then see if we can't help the person. We have to be able to point them in the right direction. And then the client sometimes or a referral comes, and you may not be able to help them, but just having that network and that knowledge and that open-mindedness, you can send them in the right direction. They'll appreciate that. And I think about the role of yourself or like myself here, right? We are, and I hate the word coach because coach is like sometimes very corny in the business world. It's like a business coach, right? What are you talking about? But I think the role and what I want to discuss in this podcast is how you can be, or BDO can be a coach or a person bringing that business owner through the transition. And I know you like basketball, but Michael Jordan and Phil Jackson are two of my personal heroes, and I love this story of back in the day when Jordan was starting with the Bulls, he won the scoring title two years in a row, he was the MVP, but they couldn't win the championship. Because he was like a me player, very selfish, just taking the ball and running with it. He was the best player in the league. And then Phil Jackson comes in and says, "We're going to change the way we play. And it's going to minimize the amount of points you score. And it's going to take away the ball from you, but it's going to shine the light on your teammates." And I find like sometimes the business owner is Michael Jordan, right? They're very good at doing what they do and making money. But open-mindedness to say, "Imagine Michael Jordan at that stage saying, 'Yeah, you know what? This makes sense. I'm going to score fewer points, but now I have a shot at winning a championship.'" That idea of having a coach and being open-minded can be huge for a business owner, right?

Uros: Absolutely. And I think that's a great example. He was a leader with a lot of charisma and personality, and I think he didn't shy away from any type of challenge. And you need, when you look at a leader, it depends on the person as well that's looking to that leader and what they want from that relationship. But generally speaking, they need to be confident. So I think that's important.

And that's one of the traits he certainly had. And you're right. They say if you want to go somewhere fast, you go alone. But if you want to go far, you go with a team. So I think that's important for a business owner as well to understand that as you scale your business, you need to look to surround yourself with the right individuals, whether that be a wealth advisor, an accountant, tax advisor, a lawyer. You need to have that right team that's external and internal as well in order to help you grow the business and alleviate yourself from some of those mundane tasks that inevitably you had to do when you started off. But eventually, you have to let go because if you're doing the same type of stuff that you were doing when you started, it's probably an indicator that you're not evolving.

Marcelo: Yeah, 100%. So let me ask you, so many business owners are 100% focused on growing their business. We talked about that. What advice do you have for them in terms of time management and where to put their focus?

Uros: I think it depends on the stage of where the business is at. Again, when you start, there's a lot of enthusiasm as a startup company to want to do certain things that you have no choice. You're starting off; you'll do anything. But I think as you grow and look to scale the business, you need to find that dynamic. And again, the importance of the team, I'll mention it, I think it's worth mentioning multiple times, is to me imperative. And with that right team, you can foster a collaborative environment, look to implement certain things, whether they're technological advancements that are going to help you gain that market share in whatever business you're in. And I'm a strong believer of quality brings quantity. So I feel that whether you're offering a service or a product, if you're bringing the best service or product to the table and there's a value add to the client that's undeniable, people will come back and you'll have repeat customers from that alone.

Marcelo: Yeah, 100%. You do see sometimes where people, they spend a lot of time talking about marketing and different strategies to tell the story about the product, but if the product's not good, then you have a problem, right?

Uros: Exactly. And part of it is that, like you said, the marketing, so the top-line revenues and growth. And another thing to keep in mind for a business owner is to understand what expenses come with earning that income. So if you're doing things and it's not giving you that gross profit or the return from all those efforts, you need to be aware of that so that you can pivot and make changes so that it is a profitable business.

Marcelo: Yeah. And you see it all the time where people, not in mature businesses that are well-advised and people who have been in business for a long time, but you do see in business owners who are just starting, they don't have a good accounting relationship, or they don't have that advisor or that team around them. And they're just, I think they're leaving money on the table because they may be getting sales and revenues, but there's so much more that they could be doing just by being well-advised. And I do see that a lot in the ones who are starting. You want to nail down that relationship early on, 100%.

Uros: Absolutely. And I think what you want to seek from a relationship, I could speak at least from one with an accounting firm or tax advisor, is to look for proactive services. And obviously, there are compliance things that you need to meet with government requirements, things you need to file. A lot of those are reactive. But you want to create a relationship with whoever your advisor is that's somewhat forward-looking so that you're positioning yourself properly into the future. And that way, you can map out any challenges that you foresee coming for your business so that you can pivot when those challenges occur and not be caught blindsided.

Marcelo: Yeah, I like that word, proactive instead of reactive. I guess that's where you're going. But let me ask you something that it's a big question for a lot of businesses who are starting up. So should business owners always set up a holding company in general? What do you think are the advantages and disadvantages?

Uros: So there's a few considerations with that. You have to look at what the current structure that they have is there an operating company in place? What is the purpose, is the question I would ask. What are they trying to achieve? I can give you an example. There could be legal risks. If you have an operating company with a lot of excess cash in there that's not needed for working capital purposes, you may want to consider getting that out of the operating company. And one of the reasons for that could be a legal risk that asset is exposed. Another reason could be tax implications with respect to having what's called a redundant asset in an operating company that's not being used for active business generated in let's say Canada and that can have certain implications with being able to use certain exemptions if you do ever sell or look to exit and you're selling shares. And again, I don't want to dive too deep. And I know we talked about it a bit off air before we started. With respect to certain tax concepts, first of all, I'm not a tax specialist. I am a partner, like I

said, in our business service and outsourcing division. Because of the experience that I've had at a smaller medium-sized accounting firm in my past, I've gotten the opportunity to deal with a lot of these things for my clients. So it's given me that exposure very early on. So absolutely, there's knowledge there, but I don't want to, by any means, try to say that I'm giving advice like this. I think that would not be wise. The wise thing to do is to sit down with the client, understand what the needs are, understand what the objectives are, what the current structure is. And from there, you can map out various solutions. And then discuss what are the costs of those solutions. If you look at a holding company, going back to your question, as an example, a misconception that sometimes is had is people feel that if they have investment income that's in a company, so whether an operating company or a holding company, that it's going to be taxed very differently than what it would be personally. So that's not true. And I believe that misconception may exist because people are comparing to what active business income is taxed in an operating company. To give you an example, an operating company in Quebec, Canada, let's assume it's a Canadian-controlled private corporation. The first $500,000 of an associated group is taxed federally at 9% and in Quebec at 3.2% if you meet certain requirements. And part of those requirements are remunerated hours. So you have to have a certain number of remunerated hours in the business to be able to be eligible for this reduced rate. The amount, the high rates in an operating company for active business income federally, they go to 15%. So from nine to 15 and provincially the 3.2, if you're not eligible for that 3.2%, it goes to 11.5%. So if we compare the two rates, it's 12.2% in comparison to 26.5%. So even the 26.5% is for active business income in a Canadian-controlled private corporation in Quebec is lower than when you compare it to personally, that income being earned at the highest rate of over 50%. I think people feel that relationship there also translates to passive income that's earned in a holding corporation, but that's not true because passive income is in fact taxed at a much higher rate than active business income. There is another mechanism that maybe we'll get into later. That's called the refundable dividend tax on hand and dividend refund concept. But generally passive income is closer to the 50% range earned in a holding company.

Marcelo: But generally speaking, you said that let's say you have an operating company and you're a manufacturing company and you have at the end of the year, you've paid all your bills, your salaries, you've paid yourself, and you have let's say $300,000 left in that operating company. The holding company, the

purpose it serves is like it protects that money. You can move it intercompany to the holding company and now you can protect it from creditors and that sort of thing, right? Now you can invest the money as well.

Uros: Yeah. So again, you have certain protection by getting it out of the operating company, but if you own the shares and someone's going after you, you really have to consider legally if you are truly protected. It is getting it out of the operating company. So, it is a separate layer. The other thing to consider is, to your point, you can move money from an operating company to a holding company. If the holding company is the shareholder of the operating company, you have to do proper planning because there's other considerations like safe income concept and what retained earnings have been built since you introduced this holding company into the picture. So, there's certainly a handful of considerations to have but also to be mindful of if your group of associated corporations has passive income that's over a certain threshold and that's $50,000 in Canada, it starts grinding down that ability to access that small business rate.

Marcelo: Just so we're clear here, active income would be, let's say, if you're a forestry company, it's income that you earn from that activity specifically, right? Where passive income is something like if you have a portfolio inside the corporation and that's generating dividend interest and that sort of thing, that's passive income, right?

Uros: So, investment income is passive income. Exactly. And then active business income is, let's say, you're selling napkins or pens, and that's your business. And that will form part of your business income, your active business income.

Marcelo: Perfect. So let me ask you, we talk about holding companies, which is great, by the way. So, at what point should the business owner start diversifying into financial investments or anything else that's outside of that? So, let's say just stick with the example that I gave you. When you're a business owner, you have your operating company, you've done $300,000 left in the operating company. Now you can move it into the holding company. At what point is it smart to do that? Is that example even relevant? You tell me.

Uros: Yeah, no, it certainly is relevant. I think you need to understand what your working capital needs as a business owner. So, you brought up an example of you have $300,000 at the end of the year that's left in the account,

but you may need $100,000 of that $300,000 to have a regular cash flow for your salary expenses, your rent, taxes, whatever the case may be. So you need to figure out what your working capital needs are. And working capital is typically defined by your current assets less your current liabilities, so your current obligations. And once you figure out what that dollar amount is, you can understand what your cash flow needs are from month to month. And then working backwards, okay, I have X amount of dollars in my account now, but I only need Y amount of dollars. So, the Delta between those, you can consider, do you leave it in the operating company? Do you move it out? If you move it out, how do you move it out? What are the tax implications for moving it out, if any, and have that money work for you. So whether that money is tied up in real estate or tied up in a GIC or other marketable securities, you have to speak with your investment advisor, so someone like yourself, and have an understanding of, okay, maybe I won't want to tie up all this money in real estate. Maybe I'll take part of it. And then it becomes a question of your risk tolerance level and diversifying your overall investment portfolio.

Marcelo: Yeah, for most of the business owners that we work with, it's a question of being well-advised, being diversified as well because a lot of business owners, Uros, they're putting their life into the business. So they need to diversify a little bit. And I understand you have to strike a nice balance where you say, "Okay, I need to invest in the business," but at the same time, if you're having all this cash left behind, the business owner will accumulate wealth through that corporation. So, at some point, it's not smart to leave that money just in cash not doing anything. So that's where the idea comes from to diversify a little bit. Let's get you a marketable or a diversified portfolio inside your corporation that you we can use as a vehicle to accumulate wealth. So that's the way we see it. It's also, it's a part of strategizing retirement planning and also adding that layer of diversification.

Uros: Exactly. And again, I think that's all tied to what stage the person is in their life. You brought up a good point. Are they closer to retirement? There may be other considerations that person has in terms of what they need for personal living that is higher than someone else. So, all of those things need to be considered and how you invest that money that you have that's excess cash. You obviously are going to look to maximize the return on your investment.

Marcelo: Absolutely. I think the big question a lot of business owners have is, should I take salary or dividends? I think that's the one that floats around every single conversation with business owners.

Uros: Always, as much as there may be a cookie-cutter answer, there really isn't. Again, there are certain concepts that apply for sure, like general things. Are you looking to apply for a mortgage is one question. You may need a steady source of income. So if we look at a salary, it's a steady source of income. A dividend to a financial institution lending you money, it's at your discretion and you don't know if you're going to receive it one year more than another year, whereas the salary is more consistent. So it provides a bit more comfort when you're looking to borrow money personally. A salary is a deductible expense in a business. A dividend is a distribution of a set amount of earnings to its shareholder/shareholders. And again, it depends on what class of shares exist and who you pay the dividend to, but it's really a distribution of earnings. So it's not a deduction in terms of on your income statement for the business.

Marcelo: Yeah, I also see the other benefit too is, I'm sure you weren't going to get to it, that you're generating RRSP room, you're getting your QPP contributions, employment insurance, and when I think about dealing with business owners, it's really, you're looking at a puzzle, right? Because just in the same way you need to strategize between the operating and the holding company, you also need to strategize if you're going to start investing now, you also want to use the RRSPs, the TFSAs, you apply for a mortgage and stuff if you just have dividend income, right?

Uros: Exactly. So, you want to prepare for that. And you bring up a great point with the RRSP room. So, you need earned income to build that RRSP room. And there's a calculation, I won't bore you with the details. I'm sure you already know what it is, that builds that RRSP room up to the max available cap that the government sets every year. You need a salary for that to have that's earned income. You can have a sole proprietorship that's earning unincorporated business income that's taxed personally, that would qualify. But when you have passive income like a dividend, which is investment income, that will not build your RRSP room. The biggest question that we get, or that I should say that I get as an accountant is, which is better from a tax point of view? And again, with the integration system in Canada, they've made it very close. There are certain things that you pay with a salary that you don't pay with a dividend, but there's a dividend tax credit that you get with the

dividends. So, when you factor all those things in, when you factor in the deduction that the salary provides, so even if you're paying more taxes on the salary, personally I'd say you are getting certain deductions in the corporation from paying that salary. So, when you compare all those things together against the dividend, it's not a slam dunk that, "Hey, this is miles apart from a percentage standpoint." It's close to the same. There are certain changes when the government will sometimes increase the dividend rates to kind of combat the inequality that may arise over time with both methods again to try and align that integration system to make it close to the same. There's not that much of a spread between the two. I think you need to consider other aspects. Do you need that steady source of income? Do you want to build that RRSP room? What stage of career are you in personally? And at the same time, there may be a mix of both as a solution. Like you may have part salary and part dividends to top up the excess amounts. Like dividends offer a lot of flexibility in the sense that it's not steady. You don't have to have payroll withholdings that you would have with salary throughout the year. You may decide, "Hey, I need to take this amount of money out now. And I'm going to do a dividend to take it out. And I need it to go fund this purchase in my personal life."

Marcelo: So, most of the combinations that we see, and I'm sure you see this often, is they'll take the salary up to the point that it maximizes the RRSP. And then whatever else they need, they'll just take a dividend, for example. So, it's not a black-and-white situation, right?

Uros: Absolutely. And we see that often, but again, it depends like the stage of career that they're at. And what the cashflow needs are.

Marcelo: Yeah. And even the RRSP, people say sometimes there's a lot of misconceptions about the RRSP and you do put the money there. It is tax-deferred, right? But at some point, you will need to take it out. So, you need to work with your advisor and the people in your team to see if it is worth it and if it makes sense with the planning and the idea of retirement that you have. So I agree with you. I think people should stay away because every case is different, and people should stay away from rules of thumbs. Rules of thumbs are good sometimes, but you need to evaluate every case-by-case basis because otherwise, you can get into problems where the client was not well advised and it ends up being a mistake and you don't want to be in that situation.

Uros: Exactly. And I think a lot of people think that there's, "Hey, what can I do to not pay taxes?" If you're making money, you're going to be paying taxes. That's the unfortunate reality. There are certain strategies that can help you defer some of those taxes. So, a big part of the planning stuff is the deferral of taxes. It's not avoiding the taxes. And the government has rules in place, anti-avoidance rules, that they'll come down hard on you if they feel that you're doing something that will fall into that bucket of anti-avoidance. So you certainly want to look for proper advice from a reputable firm.

Marcelo: 100%. So, we talked about salary and dividends and some of the pros and cons and the good things about them. So, let's talk about any other ways of withdrawing money from a corporation. You mentioned the RDTOH. You mentioned there's the capital dividend account as well. There's shareholder advances. So, let's go through some of those and what your experience is with some of them.

Uros: Yeah. So, let's start with the shareholder advances because it ties in nicely with the dividend discussion that we just had. And oftentimes, an owner will borrow money from their corporation and then at the end of the year, they'll give their accountant the balance sheet and the information and the accountant will see that there's a shareholder advance from a corporation standpoint, a receivable from the shareholder, and they basically then will have a discussion with the shareholder and say, "Hey, you took this money out. Now we're going to have to deal with it." And the rule is with shareholder advances you can have them stay. And I'm going to try to explain this in layman's terms, is you can't have it stay on the balance sheet for two consecutive years. So, in that second year before the fiscal year-end date of the corporation, you need to make sure that you act on it. And that's you clear it by repaying it back. The shareholder repays it back the other ways are you do a bonus to wipe it off or you do a dividend. So, if you do one of those two last things, which is the bonus or the dividend, there's going to be a tax implication because you're going to trigger a transaction. If you don't do anything and it stays for two consecutive years, it becomes a taxable benefit that you need to include as if it was a bonus really like a salary.

Marcelo: It's so crucial you mention that because I've heard people before, not often, but say things like, "Oh, you can borrow interest-free and tax-free from your corporation." That's partly true. You have to be careful.

Uros: You read my mind. That's exactly where I was going, especially now with the rates of what they are. So I just talked about the taxable benefit aspect of if you don't do anything with the capital that you actually borrowed from the corporation, but then there's what you just mentioned, which is where I was getting to and extremely important now is the imputed interest benefit. So, if you borrow this money with zero interest from your corporation, that in itself is a taxable benefit to the shareholder. And a few years back, the prescribed rate from the CRA was 1%. So, it wasn't a major risk in terms of your borrowing money. It's at 1%. And I'm not so sure if the government was or was not looking at it. I feel like now they're probably looking at it more closely because the prescribed rates like in Q2 of 2024, I think it had reached for shareholder advances, the rate was 6%. And so, if you're looking at $100,000 of an advance outstanding for a whole year, that's $6,000 of interest at that rate, and that's taxable income. So, if you look at $6,000 of taxable income at a higher rate, you're talking about around $3,000 of tax liability that exists there. So, you need to be aware of that and discuss that with your advisor if you are borrowing money from the corporation. And then the other thing you mentioned, Marcelo, is the capital dividend account. That's something that we closely monitor when we work on files with our clients because it's an ability to pay out an amount to the shareholder tax-free. And this capital dividend account, which the acronym is CDA, like you said, builds in a few different ways. One of the ways it builds is if you receive a capital dividend from another corporation, then the corporation that received it will increase its CDA room. Another way is the non-taxable portion of a capital gain. So, let's say you sell some stocks in the corporation, and you have a $100,000 capital gain. Depending on where we are in time and what bill passes before June 2024, the inclusion rate for capital gains was 50%, which means that 50% of that capital gain was taxable. The other 50% that's not taxable again before June 2024, at least for certain, was added to this CDA account. And that CDA account will grow over time. It'll get negated if you have a capital loss. That'll reduce the CDA room. If you monitor that CDA account with your advisor, your accountant, tax advisor, you'll be able to see is it worth it to file a CDA election, which will allow you to make this distribution to the shareholder/shareholders on a tax-free basis. So, it's something to discuss. Like we often, when we have a mutual client, we'll be in contact because I'll ask you for, "Hey, I see the year-end results, but now I need to realize gain/loss report up until today to understand what the balance of that CDA account is today." There's other things that also affect the CDA account like the life insurance proceeds that as well are held by corporations.

Marcelo: Yeah, it's a planning tool because at some point, if the client that we have may accumulate a lot of money into a corporation and then they are taking money from, let's say, their investment portfolio held in the holding company, then there's tax implications because if there is a capital gain or a capital loss, you need to be communicating with the tax advisor, with the accounting team to make sure that they understand what's going on and what impact it's going to have in the CDA. So just to put a timestamp today, we're May 21st. So, as we know, there's been a lot of talk about the proposed changes in the capital gains inclusions rate. So, we'll see where we end up, but it'll definitely affect because if now your inclusion rate, Uros, is 67%, right? That reduces the CDA amount that you can claim on a capital gain.

Uros: Exactly. Because again, the concept is, so what was proposed, like you said, is there's a few things, but a couple of the things that were proposed to come into effect after June 24th, 2024. So as of June 25th, 2024, were the capital gain inclusion rate, like you said, going from 50% to close to 67%. So that change will obviously affect the tax paid on a capital gain because there's more of the capital gain that's included in being taxed and the non-taxable portion is smaller now, right? Cause they went from 50 to 67% as the taxable portion. So consequently, the non-taxable portion decreased. And the CDA room, therefore, is not growing as much as it would have pre-that date. So those are, again, factors that you need to consider. I know you are having a lot of conversations with your clients and so am I in terms of what makes sense for them because it really depends on, again, what they're planning to do in the future. Is there a liquidity event coming in the next couple of years? What considerations do they have? Is there anything to be done now before the June date if this bill does pass? There are certain exemptions that they gave. It's important to note for individuals so far in the proposal that they would have the first $250,000 annually with the same inclusion rates that existed before the June deadline.

Marcelo: That's important because I've heard this in the last few months where people say, "Oh, they're coming after every single dollar." And that's actually not true.

Uros: Yeah, so who knows if there's going to be changes in the proposal that'll expand that a little bit, but for now, it's individuals that have that sort of, not exemption, but that first $250,000 is still utilizing those old rates. So that is good. And when you think of a general year, like $250,000 of capital gains is a significant amount. Is it possible to surpass that? Of course, but for the most

part, there's a lot of people that'll be within that limit. The good thing that was proposed is that after that deadline, June 24th, 2024, as of June 25th, the lifetime capital gain exemption is going to $1.25 million, where it was closer to $1 million. It's jumping up to $1.25 million per eligible individual.

Marcelo: Yeah. And we'll talk more about that in detail when we do part two. You're going to do part two with Keith to talk about the succession planning and things to think about. So we'll definitely touch on that subject. Before we move on, and we will go back to the previous point that you made about different strategies in the corporation, if it still makes sense and whether you sell or not. But before that, I want to ask you about the RDTOH. I think it creates a lot of confusion because a lot of people think, "Oh, a dividend is just a straight dividend into the shareholder and that's the end of it." So I think there's more to it. Tell me more about the RDTOH.

Uros: Yeah. So RDTOH stands for refundable dividend tax on hand, and it's a concept or mechanism that exists. Again, if we go back to the first part of the podcast, we talked about a holding corporation. So let's assume there's a holding corporation in play and there's investment income being earned in that holding corporation. We mentioned the tax rate is around 50 percent on that passive income in the holding corporation. So that's a tax that the holding corporation would have to pay on earning that investment income. But part of that investment income federally is going into this bucket called the RDTOH account. And that part is if it's investment income, like interest income, it's going 30.67%. So 30 and two-thirds percent is going into this refundable portion of part one tax that we call. So it's part of the RDTOH account. And then if you receive dividends, to your point, 38 and one-third percent of those taxable dividends that the corporation receives from a non-connected Canadian corporation is referred to as part four tax. So it goes into this RDTOH account as part four tax. And I don't want to get too complicated because I'm probably going to lose a lot of people on that. But the bottom line is there's this RDTOH account. So you're paying tax, but part of the tax is being pulled into this RDTOH account. For dividends, again, from a non-connected corporation, there are eligible dividends that you can receive and non-eligible dividends. So then there's even further two buckets within the RDTOH accounts that are created in terms of eligible and non-eligible. The bottom line is when that holding corporation pays its shareholder/shareholders, it can claim a tax credit equal to around 38 cents on every dollar that it pays up to the limit of the RDTOH account. So again, if it's paying an eligible dividend, you

got to look at the eligible RDTOH account room. If it's paying a non-eligible dividend, you've got to look at the non-eligible RDTOH account room. And that's something that your accountant that's preparing your corporate tax return can work with you as a business owner to determine what you will get back and how it grinds down the federal tax liability.

Marcelo: Perfect. That's a great segue for the next subject I want to talk to you about. When people are doing retirement planning, they have different avenues, right? Like we said, we can invest in a holding company. You can also invest through an operating company. That's to be decided with your advisory team. There are obviously RRSPs and TFSAs. I think the big risk is government and regulatory risk. So as we've seen in 2018, was it 2018 or 2017? The Morneau reforms.

Uros: So it was announced in July 2017, but it came into effect as of January 2018.

Marcelo: So they changed a few things there. The way you can include spouses and the way you have to distribute income in a corporation. They changed a few things that tilted the equation towards different sides. Before the reform, it was easier to have a corporation and to have family included and do income splitting and that type of thing. And now we're seeing the capital gains inclusion. So I think that's one of the arguments that we tend to make when doing the planning for someone. The retirement planning is, yes, we're going to use the holding company and the company as an accumulation of wealth, but it's also important to use your RRSPs and TFSAs because politically, the majority of the population has an RRSP. Not many people have a corporation and a holding company, right? So politically, there's way less risk of the government going after an RRSP and a TFSA and increasing the taxes. With that in mind, what do you think is the most effective way for business owners to save for retirement? Do you agree with what I just said? What are your thoughts?

Uros: Yeah. So in speaking with respect to those announcements in July 2017, with the intention to put an end to tax strategies that allowed, like you said, a lot of families to use a private corporation and reduce the overall tax burden by kind of sprinkling income, if you will, to family members that may not have been involved in the business. So that was the intent when that announcement came and it came into effect in January 2018. And the premise is there used to be a concept like a kiddie tax. So if you're paying a minor income or dividend,

they'll get taxed at the high rate instead of the progressive tax rates that go up to 53%. So they'll tax you automatically if it's deemed to fall under those rules, you'll get taxed at the highest rate. So now it's been expanded since that date, Jan 2018, to include a reasonable test to see if you're paying a family member, they got to meet certain criteria if they're an adult family member over 18 in order to meet this reasonable test and not have it taxed at the highest rate. So you need to be mindful of that. You can't just throw everyone under the sun on payroll and expect to lower your tax burden that way. This is a dangerous path. So it's just to be aware and mindful of the risks that exist there. In terms of the question with respect to utilizing RRSPs and TFSAs, again, you've got to consider your age and your current salary situation. How much cash flow do you need personally to live? And that's an exercise, Marcelo, I'd recommend to all families is to sit down and take the time, whether you're a business owner or not, and understand as a family, or if you're a single individual, what are your cash flow needs? And I think that is extremely important because from there, you can plan. What do you do? How much money do you need? If you have a corporation, how much money should you pull out? Do you leave part of that money if you don't need all of it? Maybe you don't have to do the entirety in salary and dividend. Maybe you leave part of that cash in the operating company. You introduce a holding company. You can shift the money over, invest it in there. Again, you got to be mindful of other considerations like we talked about, but it really depends. I find it stems from what do you need? And then from there you can assess, do you put it in an RRSP? If you put in an RRSP, you get a deduction. And that whole concept is a tax deferral concept because when you withdraw the money, so you get the deduction when you contribute up to your eligible room, but then when you withdraw the money from the RRSP, you get taxed. The whole premise there is that presumably when you're withdrawing the money, you're going to be in a lower tax bracket than when you're making the contribution, right? So over time, you're getting an ROI on that. And then the TFSA is a little bit different. There are certain caps, in terms of what you can contribute. But since it was introduced, when you contribute money into the TFSA up to the available room, you don't get the deduction. But like the RRSP, the money that it's earning in the account while it's in there is tax-free. But when you pull out the money from the TFSA, you didn't get the deduction when you put it in. But TFSA, when you bring it out, you're not getting taxed on it. So those are the main differences. Another thing I'd like to mention, especially for young families, is to consider RESPs. So RESPs, there's a lifetime contribution limit of $50,000 for a beneficiary. If you go to the financial institution, you can set that

up. It's fairly easy to do. And there is actually a grant that if you contribute, the grant is CESG. It's the Canada Education Savings Grant, and each year the government will match your contribution by 20 percent up to a maximum of $500 per child. So if you contribute $2,500 a year for an eligible child, you can get a full grant of $500. And there's a lifetime limit for the grant, which I believe is $7,200 for each child. So this is another useful tool because that money while it's in there is not getting taxed when it's earning income. Then when it's withdrawn, there's tax implications for the beneficiary.

Marcelo: And one of the things that we do is that when we work with business owners, we never do these things blindly, right? We always coordinate with the tax advisor, with the accounting team. And we say, okay, are we maxing the RRSP? Are we taking out from the corporation and putting it into the TFSA? Because it's not a straight transaction where people say, "Hey, I'm taking out $100,000 from my corporation and putting it in the TFSA and it's tax-free." No, that person has to declare that income coming out of the corporation. So what we do is we do advanced planning and we have this beautiful software for planning and we do different scenarios. What happens if you only take dividends? What happens if you take the maximum allowed salary to generate the RRSP room? What happens if you now top up the TFSA? Keeping in mind that person, when they retire, they have a plan and they'll have a cash flow need. And if there's a spouse, do you do the spousal RRSP now? Because now you have to take into account the pension splitting. Is it worth it to do a spousal RRSP? Is it worth it to take money from the Corp and put it into the RRSP? I think all that puzzle is where we come in and we have to run the numbers. And there are rule of thumbs for a reason, and they're valid up to a certain point, but I think when there are a lot of moving parts and you need to figure out what the optimization is, at the end of the day, it's an exercise of optimization. Just because you have the money and you're wealthy, doesn't mean you should be leaving money on the table by not being properly advised. And that's where the planning and the advice comes in.

Uros: Absolutely. And I think when you're looking at a situation, especially for someone that's in those retirement years and closer to 71, when the old age security kicks in.

Marcelo: 71? You're old school, man. Like most people want to retire at 50 now.

Uros: Yeah. Yeah, exactly. But you know what? You can age. That's not necessarily, I was mentioning it more from the concept of old age security of when it kicks in, but people will work. You have some people that have a lot of energy and they'll keep going, pushing through their 80s, and they're very sharp. And I know a few of those individuals. So it's always impressive and inspiring for me to see that. I think if you love what you do, it's no longer work, right? It's more of a passion, like you said at the beginning. But with old age security, and if you think about that, you need to factor in the clawback. So if you're making over a certain limit of income over a certain threshold, the government will take back 15 cents on the dollar for every amount over a certain threshold that changes every year. So you could speak with your accountant and tax advisor and wealth advisor about those things to understand, "Hey, are you losing out on that old age security if you're eligible for it to begin with?"

Marcelo: Like a lot of the mainstream advice is if you don't need the money and you have the health, you delay, right? Because OAS pays you 36 percent more if you delay five years and QPP, CPP pays you 42 percent more if you delay five years. But if you're a business owner who has a holding company and you have an RRSP and you have a TFSA and you're delaying QPP and OAS, why are you delaying the OAS if you're going to get it all clawed back later on? So these things require advanced planning.

Uros: For sure. The flip side of that though, is if you delay it, and sometimes certain things happen in your life where you're not around anymore. Of course. You're not getting that. So you got to factor all those things. Do you want the money sooner? You're going to get less, but you're going to get it during that time. So what can you do? Can you put it to work with someone like yourself and earn that other Delta back?

Marcelo: So with you, let's touch back into the Morneau reforms and the new capital gain laws that are trying to implement now. Do you think it's still worth it for business owners to first incorporate and to accumulate wealth through a corporation?

Uros: So it depends on, again, going back to the first part, what do they need? No, it's a good question. And I get it often. Should someone incorporate their business? I think that's what you're asking. If it is what you're asking me, the answer comes down to what is their business net income? So if they're unincorporated, what are they making? And do they need all that money for

their personal needs? There's also a whole legal discussion around being unincorporated versus incorporated.

Marcelo: But I'm thinking more from the point of, let's think about a doctor, for example, or a lawyer who wants to incorporate. Like a lot of them could say, you know what, there's no benefit anymore of sprinkling income to my wife, taxes are increasing in a corporation in the capital gains. Why shouldn't I just be a sole practitioner and receive salary?

Uros: For a doctor, as an example, that's a health practitioner that's allowed to incorporate in Quebec, you would look at how much they're making in terms of net income. And if that amount is more than what they need, there may be a play in incorporating just from a tax deferral standpoint. If they're making half a million dollars, but they only need half of that, you can start getting into those discussions that, despite the additional costs in incorporating and maintaining that corporation, because it's a life of its own, really, and the costs of the administrative burden that it creates as well, it's much more, not much more complex, but it is more complex than just having everything flow through personally. So once you consider all those things, does it outweigh the benefit that you get from that tax deferral of you're not going to pay tax now at the individual high rates that you would personally. If you took everything out, you're going to pay it at those lower rates that we said, the lower rate for active business income in a corporation, even at the high rates is 26 and a half percent. We talked about in Quebec for federal and Quebec together. So if you're looking at 26 and a half percent, even though you may be paying less because on the federal side, you might get the nine percent. So it could be 20 and a half percent. Again, if that Delta is outweighing the costs of doing all this and the complexities that come with it, then there might be an angle to incorporate. So it goes back to what do you need right now? And then your accountant and tax advisor will work with you to understand if it makes sense, considering all the costs and complexities that are involved. Does it make sense? So that's the tax deferral angle to consider. The other angle to consider is from a legal risk. Like you may have business insurance, but what does that business insurance cover you for? If everything is under your personal name, does it make more sense to have it under the corporation? And it's not like it's foolproof if it's in there, but it's a different layer of protection. And that's something you need to speak with your lawyer on for sure.

Marcelo: Of course. And then the Morneau reforms, just because the laws change, it doesn't mean that family members can't work in the business. It's just that there's now more stringent criteria, right? That you need to respect.

Uros: Exactly. So there's a reasonability test that comes into play and specific criteria that I won't bore you with the details, but it doesn't mean that something, if it's the reality that you have a family member that's over 18, that's working in the business and you're paying a reasonable salary and they meet all the criteria, does not mean that will be disallowed. So as long as you meet the criteria, there are still strategies like that. It's not really a strategy. It's the reality.

Marcelo: Yep. A hundred percent. So I still have a few more questions for you before we wrap up and we're almost done, I promise.

Uros: Sure. Sure. I'm enjoying this. So you can go on as long as you want. And as long as the audience will stay to listen.

Marcelo: Perfect. Perfect. Thanks so much. What strategies are available to maintain the small business status? You talked about the small business status and how it's more tax efficient and more tax favorable for the owner. So what strategies can business owners implement to remain and stay in that status?

Uros: Yeah. So let's look at a corporation that someone's looking to sell the shares of the corporation. I mentioned with the proposed rules, the lifetime capital gain exemption. So that's a concept that exists that if someone is selling the shares of a qualified small business corporation in Canada and they meet certain criteria, they could take advantage of. So let's say that's a million dollars roughly now. If someone sells the shares of this eligible corporation and they have a million-dollar capital gain and they're the only shareholder, in theory, there would be no taxes to pay if they meet all the criteria because it would be fully covered under that lifetime capital gain exemption. If they've used their room before, then they can't reuse it again. It doesn't come back. So what you need to consider is do you qualify? Does your corporation, if you're selling its shares, qualify for this lifetime capital gain exemption? A small business corporation under the tax rules is defined as a Canadian controlled private corporation which at the time of sale all or most, so 90 percent or more, of the fair market value of its assets is used mainly in an active business carried on primarily in Canada. So that's one of the criteria that you have to look at the time of sale. But before the sale, so 24 months, two years prior to

the sale, you also have to meet certain criteria in the sense that you have to have more than 50 percent of the fair market value of your assets of the corporation that are used mainly in an active business in Canada. And there's other criteria that come into play there if you have a group of corporations and how their shares are owned that you have to consider. But this is where that whole concept of excess cash that we talked about comes into play. Because if you have excess cash that's not needed for working capital needs, it may be considered a redundant asset. And that may disqualify you from being able to use the lifetime capital gain exemption at the time of sale. So these are things you need to plan for before you get to the sale date. It's almost like you need to see, are you going to look to eventually divest and exit the business and sell it to a third party? You need to consider what tax planning needs to be done now in order to gear towards that transaction.

We talked about the small business rates. We didn't really dive into the passive income aspect. If you're having in a group of associated companies, if you have investment income, which is passive income over a certain limit, like over $50,000, it'll start grinding down your ability to have access to those lower tax rates on the first $500,000 of taxable income in a corporation. So again, something you need to be mindful of is it's great to have the cash to invest in the corporation, but you have to understand that it has other implications elsewhere. It doesn't mean that you shouldn't do it. It just means that you need to understand that you might not be getting the rates that you were thinking you were getting because you have all this wealth. So the more money you make, the more taxes you pay.

Marcelo: It's also the type of portfolio. A lot of people may think, "Oh, just a diversified portfolio. It's just one uniform thing." It's not right. When a stock appreciates or you have a bond, you can either appreciate by price appreciation or have a dividend that's reinvested. If you have a bond, it'll have interest payments. So if you have securities that prioritize capital appreciation, that will have a less grind on that small business and in the passive income that you mentioned. So if you have, for example, a stock that doesn't pay much dividends, but it just prioritizes capital appreciation and you're not triggering that capital gain, that's advantageous in a corporation.

Uros: If you're not triggering a capital gain, this is an unrealized gain, right? So that is not considered taxable income until it's realized. So timing of when you realize gains, and that's why those discussions when we have for our mutual clients are extremely important, not only for that CDA that we were talking

about, but also from understanding what the tax liability is going to be, what the cash flow needs to cover that tax liability are. Because a corporation has a window of when it needs to pay its taxes by. Otherwise, it starts to have interest on that and then potentially penalties if it misses the deadline altogether. Generally speaking, if your year-end is a December 31st year-end, and you've paid installments up to the required amount based on the previous year in which the government said that you had to pay, if you still have a tax liability, which is often referred to as a tax top-up to make for that year because you did better than the previous year, so you will have more tax liability than the installments that you paid, that you were required to pay, that delta, that excess tax liability needs to be paid by a certain date. And that date is two months after year-end. It could be three months after year-end federally if you meet certain criteria. If not, if so, let's say you don't get that three months on the federal side and it's two months like it is in Quebec, you will start paying interest. The clock starts ticking with interest. So typically I'll work with clients to have their information ready for the year-end in a more timely manner so that we understand what tax liability may exist before this call it deadline to pay, even if they have six months to file, six months after year-end to file the corporate tax return, they still have to pay their tax liability by that two-month mark if they don't meet the three-month mark criteria federally. So I again try and act on these things in a timely manner because it's advantageous to the client, especially when the interest rates are higher, it makes a bigger difference. When they were smaller, it's not such a big deal to wait a little bit, but the worst part of that interest is that it's not a deductible expense for the business. So, you really want to avoid it.

Marcelo: Yeah, perfect. So let me ask you, I have two more questions for you, then we'll wrap up and then we'll see you for part two. But a big key thing to consider for business owners is insurance. So just would love to hear your thoughts about what type of insurance they should be thinking about? And then should they hold it personally? Should they hold it in a corporation? What are your thoughts on that?

Uros: So there's many different policies, as you know better than I do. And I think you need to understand what you want to be covered for. If we're talking about life insurance, general life insurance policies, if you're holding them in a corporation, they're typically not deductible unless there's an agreement like a bank agreement that you have that requires it as part of its covenants that you have to have a policy. You may be able to deduct the premiums. So you've got

to consider the banking agreement. You've got to consider the corporate ownership structure to understand where you should hold the policy. Does the policy become one of those redundant assets like I said before, in terms of disqualifying you potentially when you sell the business. It is possible to transfer ownerships of policies that are owned, but you need to consider also the tax implications, like insurance policies have adjusted cost base, they have a cash surrender value, they have a fair market value, which you may need to get appraised, right? So you need to consider those three elements, different values and what tax implications may exist on a transfer. As far as coverage, consider if you have, I've seen a situation with a client that had a partner, so another shareholder, more than one shareholder, and they had an agreement, a shareholders' agreement, which I would encourage when you have a partner to really consider having a shareholders' agreement because when everything is great, there's no issue. But if there's something that happens, like an unfortunate event of a shareholder passing away, you have to understand who you will be dealing with as the surviving shareholder? Are you going to be dealing with the estate of that person now, in terms of running the company? So, these are all the considerations and discussions that you should have. They're healthy discussions to have ahead of time. And this is where you implicate a lawyer to help draft that shareholders' agreement. But in essence, like in this example with the client that I had, they had an insurance policy that covered the shareholders. And so there was a clause in the agreement that allowed them to basically cover parts of the business costs that were required to continue running the business successfully through this policy. So insurance policies could be very useful. You just have to understand their purpose and the costs that are involved with having them.

Marcelo: Oh, yeah. A hundred percent. They're part of the puzzle because like you said, if you have a key person in the company, that is the, for lack of a better term, the alpha in the company who's helping run it, if that person dies, then the company will be in jeopardy. You want to be properly protected by the shareholders' agreement, by the proper policy. And that's so people who have their money invested in the corporation and are part of this business are not left hanging in a bad spot.

Uros: Exactly.

Marcelo: All right, last question I have for you is about individual pension plans, otherwise referred to as the IPP. This is a strategy that replaces the RRSP

as a strategy for accumulating wealth for a business owner. So how often do you see it? Do you recommend it? What are your thoughts around that?

Uros: So I don't see it super often, but I have seen it for sure. It’s designed for high-income business owners and professionals. So what it does is it offers a higher contribution limit than an RRSP would. So we talked about the RRSP strategy. If your business, say, you have past earnings that are pretty significant and you have unused RRSP room, for whatever reason, you'll go to someone like yourself, who will discuss with an actuary to determine what the past service room is under an IPP. And you would compare that call it supercharged room versus what your regular RRSP room would be and see if it makes sense to do. Another thing it offers as an IPP is creditor protection, which could be useful for sure. So I think once you consider all those things, you also have to consider the cons, which are, it's costlier to create and maintain than an RRSP. And again, the difference is really past service room. The main monetary difference is that extra room that you're getting compared to what you would have under the standard things available, like the RRSP. And if it makes sense to do when you're factoring in the costs and the complexity to do it, then perhaps it's something to consider doing. The other benefit is depending on the cash flow needs of the business, like their cash flow may vary year to year in your business and the IPP will provide flexibility in terms of those contributions that you can do and deduct in the business.

Marcelo: And you can catch up from the previous years and you can deduct it from the business income, which is, I think, the planning is key. But generally speaking, if you have a client who's had really solid T4 income for a long time and they are using the RRSP and now they're accumulating all this money and they plan to stay in the business for a long time, the IPP may be a very viable strategy.

Uros: Of course, and I have one client that in the more recent years had it applied and it's been working great for them. And I have a younger client recently that was approached, I say younger because they're in their forties. And when we looked at the numbers with the actuary, it didn't make sense to do. You need to really have that analysis done to see what is that past service room that we're talking about based on what you just said with your earnings in the past, how long you've been in the business. So typically, if you're younger, it'll make less sense versus if you have more years accumulated and more of this past service room available, it could make more sense to implement.

Marcelo: We've had conversations here. The way we do it usually, obviously, is the client will say, "Okay, I think you're ready." You engage the actuaries. They do an analysis. And only then, you discuss it with their accounting team, their tax advisors. And only then you decide to implement. But there are a lot of things at play that before you get to that conclusion of, yes, it's a go, you have to do the numbers and you have to do the analysis, but it's a worth exercise because if the client is in the right place to do it and they are prime and they have all the pieces fit together, it's a great tool to have.

Uros: Exactly. And I don't think you should ever shy away from a conversation with your advisors about this type of stuff to understand what are the tools at your disposal? What are the costs involved? What are the complexities, administrative burden with having something like that? And what does it mean when you sell a business? What can you do with it? So understanding all those things and having that conversation I think is healthy for sure.

Marcelo: I've heard in the past, which is scary because I've heard business owners say, "Oh, the IPP, not for me. It's too much work. My accountant doesn't believe in that. He says, just take dividends." And it's a shame because I think because it's not understood, sometimes people dismiss it too quickly. And I think it's just a very human thing to do when you don't understand something just to dismiss it, right?

Uros: It's a good point. Yeah, for sure. Again, I think you need to make time for your clients to really help them understand the pros and cons and how it fits into their particular situation and work with their advisors should be collaborating together. I know you and I do, and I think that's very valuable for the clients.

Marcelo: Absolutely. So we've talked a lot about different subjects, but just before we wrap up, is there anything else that we didn't discuss that is worth thinking about for a business owner in order to accumulate wealth? Anything that comes to mind?

Uros: Yeah. So I would say pay yourself first. If you have money that you're getting, make sure to think about what your needs are, how you want to put that money to work, and what strategies you want to deploy based on your risk tolerance level. So I think that's another factor to consider and that'll depend on where you are in your life. Like I said, it's going to be different for different people and families. So I would say if you don't put that money aside

though, and you try to do it later, there is a concept, as you very well know, dollar cost averaging. So if you're not putting that money to work progressively, it becomes increasingly difficult to have a retirement nest egg. So it becomes increasingly difficult to have that goal that you want in terms of liquidity when you retire. So you need to plan ahead for that. And part of planning ahead is understanding your risk tolerance level and understanding your needs. So, I think sitting down, evaluating what those are, having the discussions are all healthy things to do that we need to make time for. It's undeniable that everyone is very busy, but just like needing to sleep, you have to prioritize. And this is certainly something that's on the priority list of if you're making money, how are you maximizing the return on the money that you have?

Marcelo: Yeah, I keep going back to the example I gave at the beginning. It's like business owners, they're like Michael Jordan, right? They're very good at scoring points. They're very good at doing what they do. And there's a reason why their business thrives, right? Because they are good at what they do, but it doesn't mean they don't need a coach and an advisory team. And I think just like Michael Jordan did when he started working with Phil Jackson, he had that open mind to be coached and see a different approach. I think a business owner, you can see it when they are properly advised, they can reach new heights and they can reach new levels of wealth. And we're not going to go in there and tell them how to do their job, but we are going to help them optimize their lives so they can focus on doing business and doing what they do best, which is work on their businesses.

Uros: I couldn't agree more, Marcelo. I think we all have a role to play, and business owners are very interesting individuals because they took that leap of faith when they started their endeavor. And there's a lot of courage involved with that. And I think it's important to understand each person's role in the relationship and how they can continue to add value and push forward together. I really enjoy, the clients that I have are marvelous. And I really mean that it makes my career so much more interesting because I'm nothing without my clients. And that's the reality is if they're not there, I don't have a role to play. So I need them. They need me and it works great. The goal is for me to protect them and advise them and have them understand the rules and play so they can do what they do best.

Marcelo: Couldn't agree more. Uros, I appreciate you, brother.

Uros: I appreciate you. I appreciate your time. I am very grateful to be here. I'm glad that we took the time to sit down and I'm looking forward also to part two with Keith. We'll see you in part two. Thanks so much. Bye for now.

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