



Tax Planning for Freehold Mineral Owners



Presented by: David Hammermeister, CA
Man/Sask Regional Leader, Oilfield Services

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INCORPORATION

A common solution for your income tax related “problems”.

These “problems” include:

- Taxation on income received
- Taxation on death

Taxation on Income Received

- Cannot be split with other family members
- Fully taxable
- i.e. \$100,000 of income results in \$44,000 of tax

Taxation on Death

- Fully taxable on death
- Often very valuable
- i.e. \$1million value results in \$440,000 of tax

Advantages of Incorporation

- Can be “rolled” into corporation
- Can “freeze” value
- Reduced estate taxes
- “Split” income with adult family members
- Control of annual personal income
- Maintain “control” of the mineral rights



Income Splitting Example

	Corporate Cash	Personal Cash
Annual Income	\$100,000	-
"Net" Corporate Income Tax	(\$20,000)	-
Your Dividend	(\$10,000)	\$10,000
Your Taxes	-	(\$3,333)
Spouse's Dividend	(\$30,000)	\$30,000
Spouse's Taxes	-	(\$981)
Son's Dividend	(\$20,000)	\$20,000
Son's Taxes	-	\$0
Daughter's Dividend	(\$20,000)	\$20,000
Daughter's Taxes	-	\$0
Loss of Spousal Tax Credits		(\$3267)
Net	0	\$72,419

Annual After-Tax Comparison

Personally	$\$100,000 - \$44,000 =$	\$56,000
Via Corporation		\$72,419
Difference		\$16,419

Every Year!!!

Estate Tax Reduction Example

Shares Worth	\$1,000,000
Tax on Capital Gain	\$220,000

(vs. \$440,000 if minerals owned personally.)

50% Reduction!!!

It Gets Better!

Initial Value of Preferred Shares
5 Years of \$80,000 Redemption
Value of Shares at End of Year 5
Estate Taxes Now Down to...

\$1,000,000
\$400,000
\$600,000
\$132,000



Disadvantages of Incorporation:

- Set-up costs
- Annual compliance costs
- Potentially a small absolute tax cost
- Spouse and kids have more money than you (in this example at least...)



Word of Caution:

- This is an illustration only
- Several traps to watch out for
- Circumstances vary
- “Bells and Whistles” can be added



Questions?

David Hammermeister, CA

Man/Sask Regional Leader, Oilfield Services

David.Hammermeister@mnp.ca

Phone: 306.634.2603

