



What is a Holding Company and When Should You Incorporate One?

What is a Holding Company?

A holding company is an incorporated company that is primarily used for holding investments. Unlike operating companies, which are used to active businesses, holding companies “hold” your investments.

Investments owned by a holding company could come in many forms including:

- Shares in public companies like Apple or Facebook
- Interest earning investments such as cash, GICs, term deposits or bonds
- Real estate including residential or commercial rental properties or land
- Shares in private companies such as a local incorporated plumbing business

Why Should I Incorporate One?

There are several benefits to opening a holding company in Canada.

These include the following:

- **Asset Protection**
- **The Lifetime Capital Gains Exemption (LCGE)**
- **Tax Savings**
- **Tax Deferral**
- **Estate Planning**



Asset Protection

Hold assets in a holding company instead of an operating company. Operating companies are exposed to risk through everyday business activities. Transferring some of the assets of the operating company to the holding company can provide a layer of protection if creditors come after those assets.

Lifetime Capital Gains (LCGE) Exemption

There are specific criteria that need to be met to claim the LCGE. A holding company can help business owners meet these criteria.

The LCGE provides owners of Canadian Controlled Private Corporations (most small, incorporated businesses in Canada) with tax-free capital gains of up to \$866,912. This means

that business owners can sell their company at a gain of \$867k and pay no tax as long as specific conditions are met.

Tax Savings

In some situations, corporations have a lower tax rate than individuals. Holding investments in a corporation instead of personally can help save taxes. The amount of tax savings depends on several factors including the province of residence, the level of corporate and personal income and the type of income earned.

Tax Deferral

Using holding companies can provide flexibility around the timing of when income is earned. This means that income, and therefore taxes owing, can be deferred from one period to the next.

Estate Planning

Holding companies can help facilitate succession planning (transferring assets or the ownership of a business to the next generation).

