



Financial Restructuring Strengthens Welding Company's Bottom Line

Service is king at Tommy's Welding, a Winnipeg enterprise founded in 1979 by Joseph Thompson, who goes by the nickname of Tommy. Over the last 35 years, Mr. Thompson and his team have consistently delivered on their promise of outstanding service and built a successful business with more than 70 employees and big-name clients in Manitoba, Saskatchewan, British Columbia and Ontario.

"We have gained a reputation in the industry for the quality of service we provide," says Donna Thompson, the founder's wife and business administrator at Tommy's Welding, which provides onsite and mobile welding services. "Because of this reputation, we are able to command large contracts working for companies in the oil and gas industries as well as schools and governments."

But as the Thompsons have learned, success can also create challenges for a small business. With higher revenues and a bigger payroll, Tommy's Welding faced more expenses and greater tax liabilities. So while sales were increasing, the company's bottom line wasn't improving significantly.

"With growth, everything increases," says Ms. Thompson. "Purchasing increases because you need to buy more equipment and material to meet the requirements of new projects, and tax liabilities go up because you're in a higher tax bracket."

The Thompsons realized that in order to ensure long-term success for their business, they needed to find a way to manage its growth and keep the company's financials well balanced. After consulting with an experienced accountant and tax lawyer, they decided the best way to move their business forward was to restructure it.

Acting on the advice of the firm's accounting and legal experts, the Thompsons added a holding company and a family trust to the business's financial structure. As a result, with an ability to place certain corporate assets in the holding company and distribute residual earnings through the trust, Tommy's has achieved cost and tax efficiencies as well as significantly improved stability.

Mark Goodfield, a chartered accountant and tax partner at Cunningham LLP in Toronto, says there are many benefits to the strategy adopted by Tommy's Welding. Depending on the number of shareholders and the percentage of voting and value shares it holds, a holding company may enable income splitting and tax-free dividend flow from the operating company.

"And thus, the holding company has more pre-tax money to invest," says Mr. Goodfield, who writes a blog called *The Blunt Bean Counter*. "By utilizing a holding company, you can also creditor-proof excess funds."



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Adding a holding company and family trust to his company's financial structure has given Tommy Thompson more flexibility to invest in his welding business and expand production capacity. Pauline Boldt, 26projects.com



Mr. Goodfield says a family trust with a spouse, children and a holding company included as beneficiaries may provide multiple capital gains exemptions if the company is sold in the future for a substantial gain.

“Overall, our bottom line is better,” says Ms. Thompson, who underlines the importance of choosing business advisors who are qualified and reputable. “By adopting new strategies to accommodate increases in several areas of our business, we have become a more financially efficient operation.”

This in turn has made it easier for Tommy’s Welding to secure the financial backing it needs to bid on larger projects.

“You need capital to manage large projects,” explains Ms. Thompson. “With solid backing from our bank, we now have the confidence to go out and bid on larger projects.”

Over the last five years, as new projects were awarded, Tommy’s Welding expanded its production capacity by buying new trucks as well as state-of-the-art welding equipment that allows two welders to work simultaneously on one machine.

The Thompsons also streamlined their processes for even greater efficiencies. One particularly valuable change was the introduction of a cloud-based employee time-tracking system that lets welders clock in their working hours on their smartphone or on the web. With this new system, Tommy’s Welding can capture billable hours more accurately and ultimately strengthen the company’s bottom line, says Ms. Thompson.

Today, Tommy’s Welding is the largest provider of mobile welding services in Manitoba, says Ms. Thompson. Since restructuring, the company has realized solid growth and is ready to take the next step: expand into a national operation.

“Our long-term goal is to have offices in more locations and to capture more work throughout the country,” says Ms. Thompson. “We’re well on our way there.”

CIBC Tips: Enhance Your After-Tax Income

As your business grows, so do your revenues and, unfortunately, your taxes. Consider the strategies below to help manage your growth, segregate business assets and maximize tax efficiencies.

1. **Pay yourself in dividends** You will have more money available to invest, either in the business or in portfolio investments, if you pay yourself dividends in a later year, as opposed to dividends, a salary or bonus in the current year. This method may also allow you to pay less tax than you would if the income were distributed as salary.
2. **Reduce your exposure with a holding company** The dividend-only strategy, however, can leave the cash in your operating company exposed to claims from creditors. To mitigate this, you can create a holding company to act as the owner of your company. You may transfer cash from your operating company to your holding company as tax-free dividends, decreasing the amount that may be at risk in your operating company.
3. **Use a family trust** Family trusts may provide further asset protection and allow the flexibility to sprinkle and split income among family members. This may even help to multiply the \$800,000 lifetime capital gains exemption that may be available upon sale of your company.

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