



## Estate Freeze & LCGE Multiplication Analysis

The following analysis was produced by the Apex CPA Skill based on the T2 corporate tax return and GIF1 financial data for Marchetti Precision Components Inc. The output covers the ITA s.86 estate freeze design, the LCGE multiplication strategy for eligible family members, TOSI risk assessment under ITA s.120.1, and the annual cost-of-delay calculation. **All positions require review and sign-off by a CPA registered with CPA Canada before implementation.**

### Client & Corporate Profile

Field	Detail
Legal name	Marchetti Precision Components Inc.
Province of incorporation	Ontario (OBCA)
CRA Business No.	89XXXXXXXXXX RC0001
Fiscal year-end	December 31
NAICS code	332999 — Precision machining, automotive Tier 2
Owner / principal	Robert Marchetti, age 64, President & CEO
Share structure	100% common shares held by Robert Marchetti
Holdco in place?	No — restructuring recommended
Family trust in place?	No — recommended as part of freeze structure

### Normalised EBITDA — Three-Year Summary

	FY 2023	FY 2024	FY 2025 (LTM)
Reported EBITDA	\$1,743,000	\$1,820,000	\$1,983,000
+ Owner comp above market	\$162,000	\$168,000	\$180,000
+ Non-arm's-length rent	\$40,000	\$42,000	\$45,000
+ Non-recurring legal fees	\$0	\$18,000	\$27,000
+ Personal vehicle/expenses	\$19,000	\$21,000	\$22,000
= Normalised EBITDA	\$1,964,000	\$2,069,000	\$2,277,000
Weighted avg EBITDA (40/30/30)			\$2,139,000
EV at 4.0x multiple			\$8,556,000

### ITA s.86 Estate Freeze — Recommended Structure

Step 1 — CBV valuation: Obtain FMV of Marchetti as at the freeze date. Based on current normalized EBITDA of \$2,277,000 at 4.0x sector multiple, the estimated FMV is **\$8,556,000**. This becomes the redemption amount on the owner's new preferred shares. A formal CBV estimate valuation under CICBV PS-110 is required before the T2054 is filed.

Step 2 — Share exchange: Robert exchanges all common shares for fixed-value preferred shares with a redemption amount equal to the FMV at the freeze date (\$8,556,000) under ITA s.86. Future appreciation accrues to new common shares.



Step 3 — New common shares: Issue new common shares to eligible family members (or to a newly incorporated family trust). Each family member whose shares qualify will access the full LCGE on their eventual gain above the nominal subscription price.

Step 4 — T2054 election: File Form T2054 with the T2 return for the taxation year of the exchange. The agreed amount must equal the FMV at the freeze date and must be supportable under CRA scrutiny.

LCGE Multiplication Analysis — Marchetti Family

Table with 6 columns: Family Member, Age, LCGE Available, 24-Month Holding Period Met?, QSB Test (est.), Estimated Tax Saving. Rows include Robert Marchetti (owner), Linda Marchetti (spouse), Marco Marchetti (son), Sofia Marchetti (daughter), and Combined LCGE pool.

Note: Tax saving estimated at ~25% effective combined federal/Ontario capital gains rate. Post-June 25, 2024, the 2/3 inclusion rate applies to capital gains above the \$250,000 annual threshold. The LCGE shelters the full eligible gain at zero inclusion for qualifying shares.

TOSI Risk Assessment (ITA s.120.1)

Linda Marchetti (spouse, age 61): TOSI does not apply if Linda meets the excluded shares test (>=10% of votes and FMV, >=90% of income from active business) or the labour test. Recommend structuring new common shares to meet the excluded shares test.

Marco Marchetti (son, age 38): Age >= 25. TOSI does not apply if Marco meets the labour test (meaningful contribution to the business). Marco is VP Operations — this likely satisfies the labour test. CPA to document and confirm.

Sofia Marchetti (daughter, age 34): Age >= 25. TOSI does not apply if Sofia meets the labour test or excluded shares test. Sofia's role in the business should be documented before dividends are declared on her shares.

Cost-of-Delay Calculation

Based on a 5% annual EBITDA growth rate and a 4.0x exit multiple, the Marchetti business is growing in enterprise value by approximately \$455,000 per year. At a combined federal/Ontario capital gains inclusion rate of 33.3% (2/3 inclusion above the \$250,000 threshold at a 50% marginal rate), each year of delay without an estate freeze generates approximately \$75,000 in future capital gains tax exposure on Robert's shares that could be shifted to the next generation's LCGE pool. At four family members, the combined annual delay cost is approximately \$25,000 per year in foregoing LCGE capacity.

Cross-referral triggers: CBV Skill required for T2054 valuation anchor (HIGH urgency). CEPA Skill — exit readiness score should be refreshed once freeze is implemented. CFP Skill — model Robert's after-tax retirement income from the expected exit proceeds. Commercial Lending Skill — assess BDC succession financing if Marco and Sofia are the intended successors.

Disclaimer: This output was produced by the Apex Invest AI CPA Skill based on data provided for the fictional Marchetti Precision Components Inc. case study. It does not constitute filed tax advice and requires review and sign-off by a CPA registered with CPA Canada before any tax planning strategy is implemented or communicated to a client.