



corporate | solutions

Helping You Make An Informed Decision

Life Insurance Solutions For Corporate Owners

Corporate Life Insurance Plan

Opportunity Overview

This strategy is designed for a Canadian resident taxpayer who:

- Owns shares of a Canadian Controlled Private Corporation (CCPC)
- Is in good health, relative to their age, with no major health challenges
- Has excess cash
- Cares about the next generation and tax planning

The strategy allows you to take excess cash and:

- o **Grow It – Fully Sheltered From Tax** ⁽¹⁾
 - **39% tax efficient on a balanced portfolio (passive income)** ⁽²⁾
 - **25% tax efficient on capital gains (passive income)** ⁽²⁾
- o **Move It To The Next Generation Tax Free** ⁽³⁾
 - **47% tax savings on non-eligible dividends paid to shareholder(s)** ⁽⁴⁾⁽⁵⁾
- o **Reduce the impact of the Small Business Deduction grind**
 - **Business limit reduced when passive income exceeds \$50k** ⁽⁶⁾

Corporate Life Insurance Plan

Common Tax Planning Concepts

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Incorporation - Establishing an Operating Company (OpCo)

An owner generally establishes an OpCo to:

- Benefit from the small business tax rate (12.5% in Ontario)
- Benefit from the small business capital gains exemption (SBCGE \$866,912 for 2019)
- Income split (subject to Tax on Split Income rules - TOSI) ⁽⁸⁾
- Limit legal liability in certain circumstances
- Create an entity with an unlimited life span

Reorganization - Establishing a Holding Company (HoldCo)

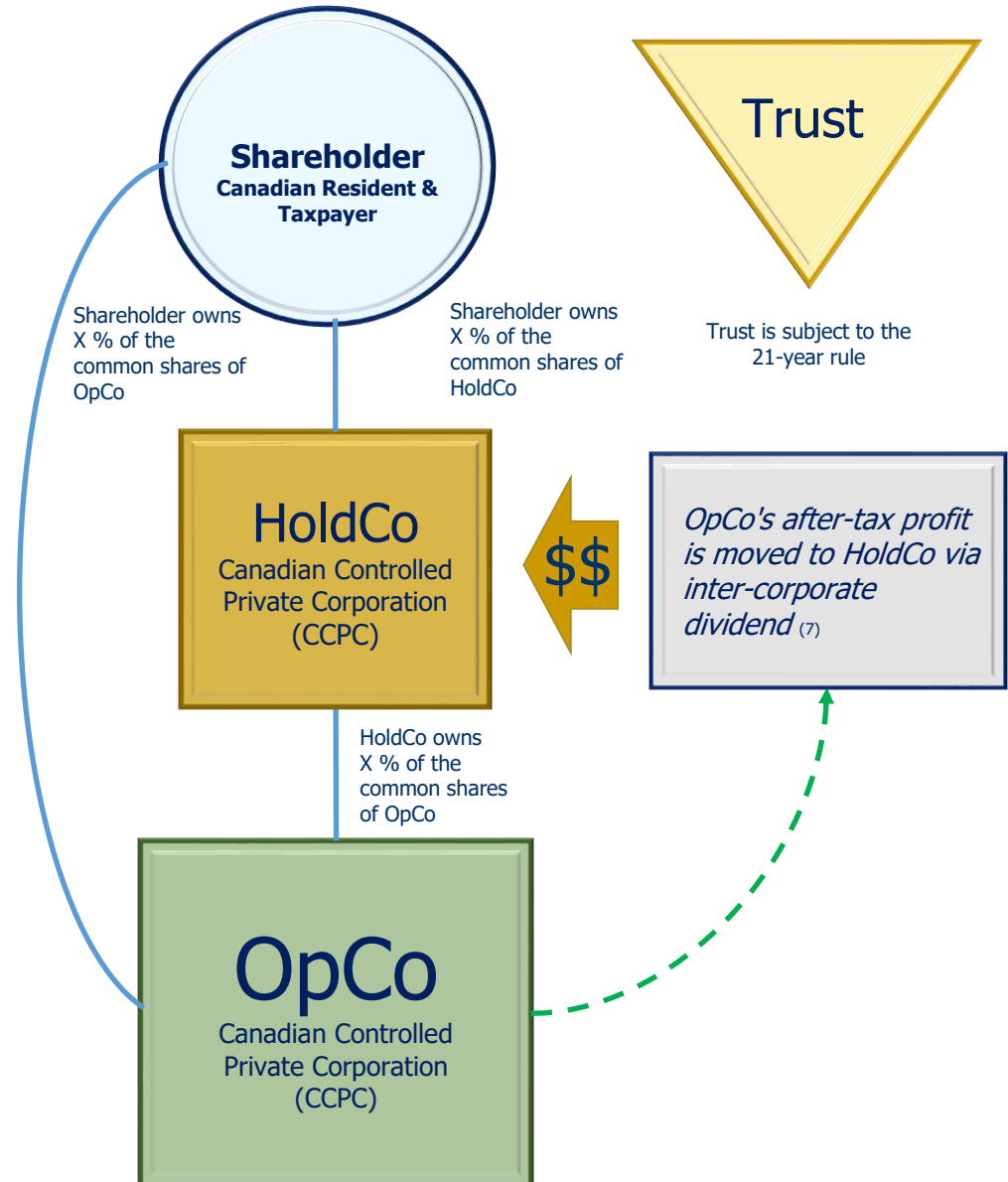
An owner generally establishes a HoldCo to:

- Create a layer of creditor protection
- Hold after-tax profits not needed for operations & growth
- Income split (subject to Tax on Split Income rules - TOSI) ⁽⁸⁾
- Purify OpCo for a future sale
- Accomplish personal planning objectives outside of OpCo

Family Trust

A settlor (original property owner) generally sets up a family trust to:

- Quantifying the future tax liability - An estate freeze
- Protect against family law or marital regime claims
- Protect & control of assets for minors, individuals, or special needs dependents
- Income split (subject to TOSI and attribution rules)
- Ensure confidentiality regarding inter-generational & family wealth transfer

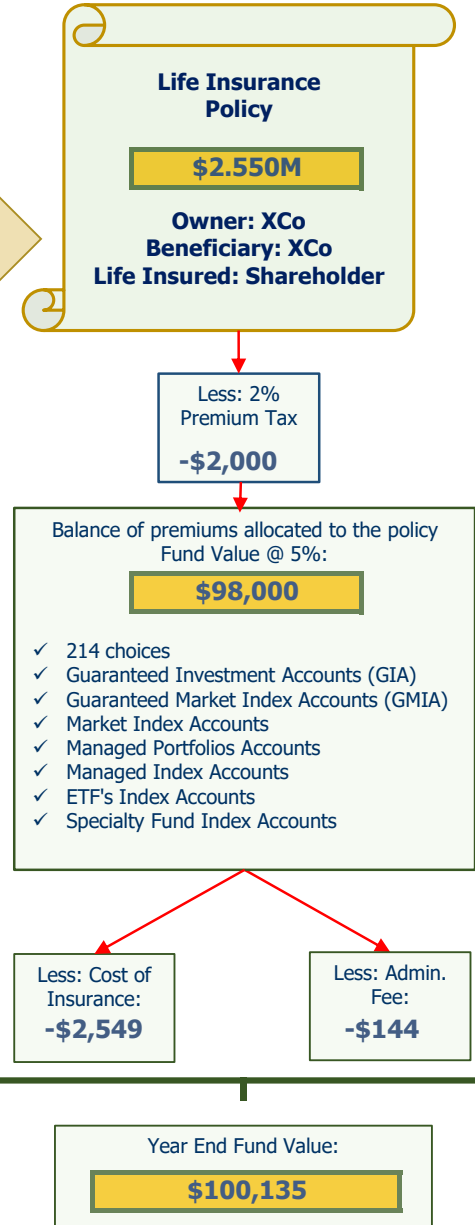
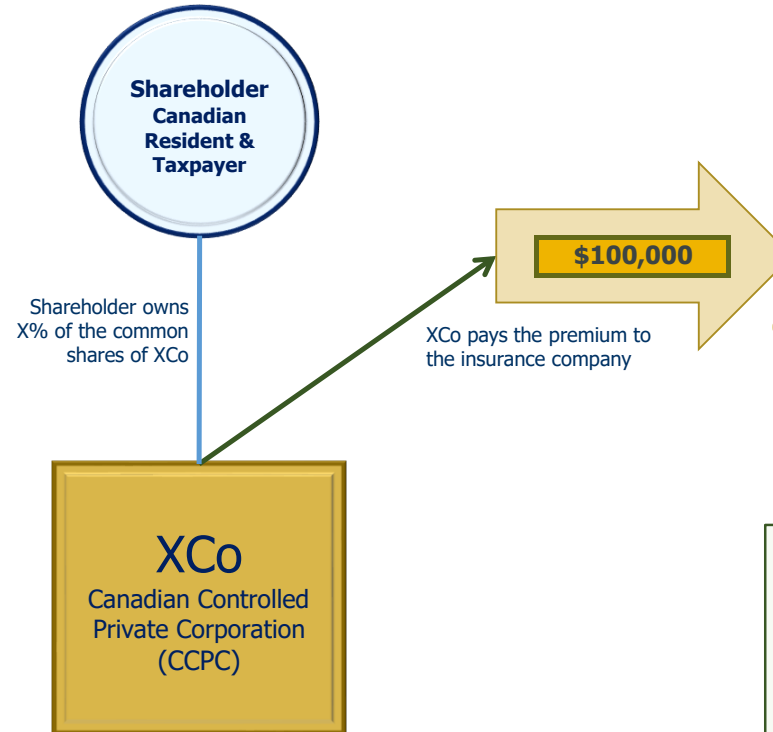


Corporate Life Insurance Plan

Corporate Structure & Permanent Life Insurance

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- Steps
1. Shareholder applies for a permanent life insurance policy
 2. The insurance company makes an offer of life insurance to the shareholder
 3. The shareholder accepts the offer & XCo pays a premium to put the policy in force
 4. Shareholder chooses the investment options
 5. Ownership & beneficiary changed to XCo (Articles & Business Identification Number (BIN) required)



The assumptive 5% return on the Fund Value is net of all fees & MER's.

The policy fee of 1.75% breaks out as follows:

- .375% - Federal Investment Income Tax against insurance company's assets
- .375% - Asset Based Compensation which is paid to the broker
- .500% - Compensation Recovery to cover commission amortization costs
- .250% - Administration, Contingency, Investment Expenses, Profit and Capital Costs
- .250% - Cumulative Fund Bonus credited to the policy after the fifth policy year

Corporate Life Insurance Plan

Problem & Solution - Corporate Passive Income

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Problem - Corporate Passive Income

- Profit not needed for growth, operations or personal needs are invested in an Alternative Investment
- Passive investment income generated by the Alternative Investment is taxed at the top corporate rate
- Passive income in excess of \$50k grinds Small Business Deduction (SBD)
- XCo books refundable tax - NERDTH - offsets corporate tax on non-eligible dividends when declared (5)



Alternative Investment @ Age 79

Total investment:	\$	500,000
Total Income @ 5%:	\$	1,326,023
Tax paid @ 39%:	\$	(517,149)
Net @ age 79:	\$	1,308,874
NERDTH:	\$	406,647

Solution - Permanent Life Insurance

- ✓ XCo purchases a permanent tax-exempt life insurance policy on the life of the shareholder(s) as one of the assets it owns
- ✓ XCo is the owner, beneficiary and premium payor
- ✓ Growth of the life insurance policy is fully tax-exempt - no taxable passive income is generated (1)
- ✓ Reduces the impact of the SBD grind (6)
- ✓ The cash surrender value of the life insurance policy is an asset on XCo's balance sheet
- ✓ Premiums are not deductible, in specific circumstances premiums may be deductible



Insurance Investment @ Age 79

Total investment:	\$	500,000
Policy fund @ 5%:	\$	1,612,681
Total costs:	\$	(397,036)
Net @ age 79:	\$	1,715,645
NERDTH:		N/A

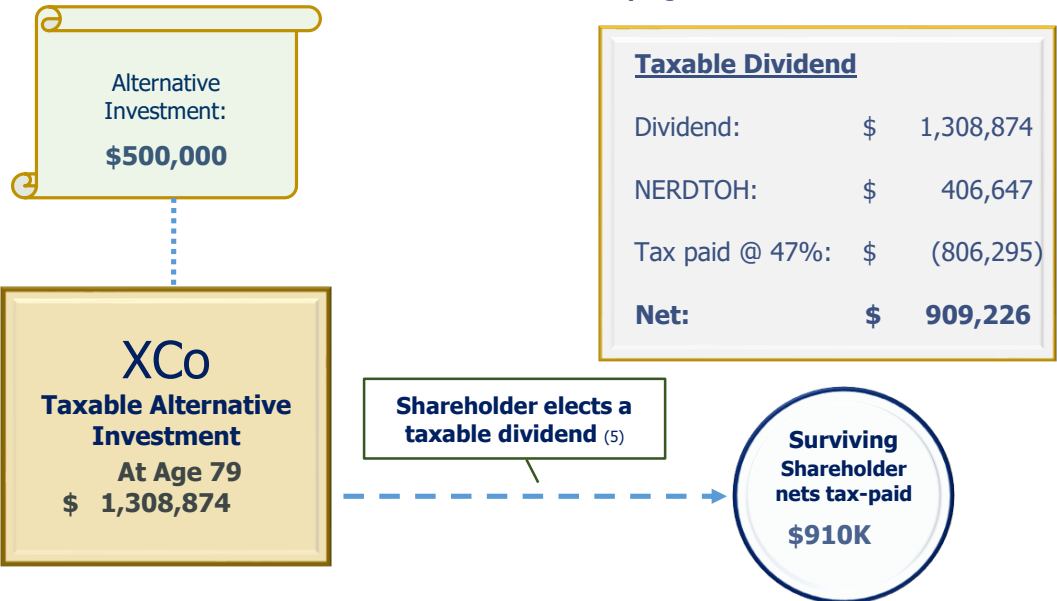
Corporate Life Insurance Plan

Problem & Solution - Dividend Tax

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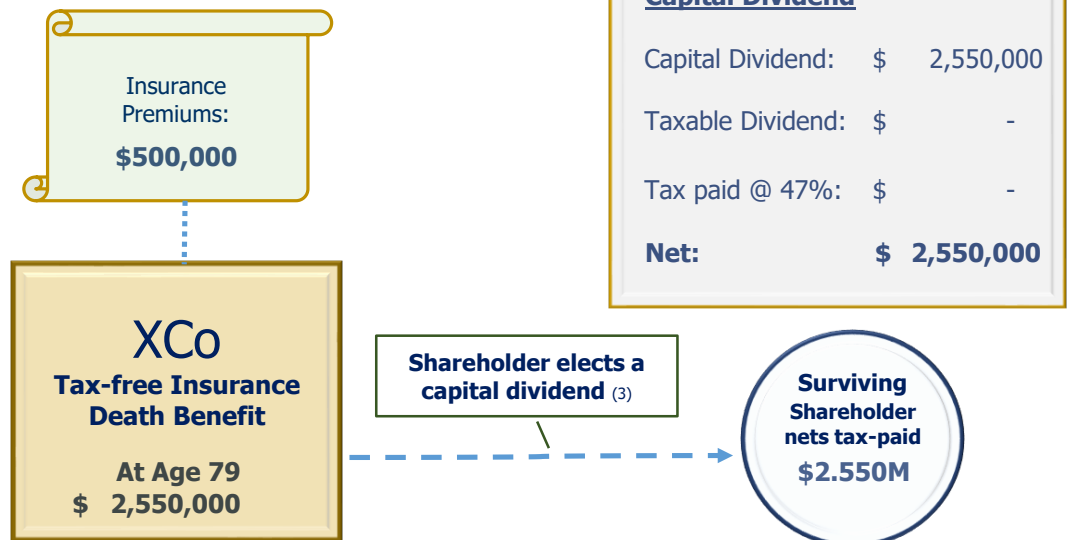
Problem - Dividend Tax

- Surviving shareholder(s) of XCo can elect to take dividends from XCo's retained earnings for personal use
- These surviving shareholders are often a combination of a spouse, children, and grandchildren
- Dividends declared by surviving shareholders are taxed at the taxpayers top marginal rate ⁽⁴⁾
- NERDTH subject to ordering rule ⁽⁵⁾



Solution - Permanent Life Insurance

- ✓ The XCo purchases a permanent tax-exempt life insurance policy on the life of the shareholder(s) as one of the assets it owns
- ✓ At death the life insurance proceeds are paid tax-free to the beneficiary (XCo) ⁽¹⁾
- ✓ Death benefits paid to XCo (beneficiary) qualify for capital dividend account (CDA) treatment ⁽³⁾
- ✓ Capital dividends declared by surviving shareholders are tax-free dividends



Permanent Life Insurance vs. Alternative Investment

Summary

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Date: September 3, 2019
 Prepared for: Male, 45, Non-smoker
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

Permanent Life Insurance: \$ 500,000
 Alternative Investment: \$ 500,000

Death benefit: \$2,550M
 Deposit years: 5

After-tax Estate Benefit

Cash Value

Cumulative Costs & Taxes

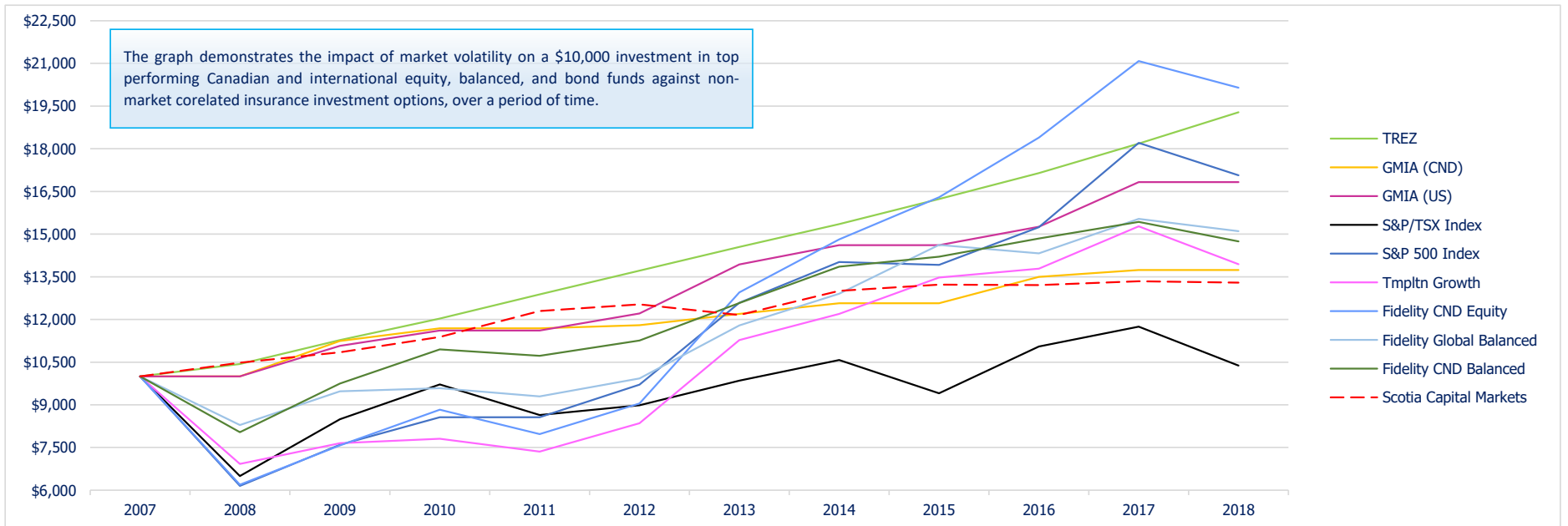
		After-tax Estate Benefit			Cash Value			Cumulative Costs & Taxes		
Year	Age	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Difference %
1	46	2,503,696	55,429	4416.9%	43,081	103,050	-139.2%	4,693	1,950	-140.7%
2	47	2,457,648	113,362	2068.0%	147,294	209,243	-42.1%	10,290	5,909	-74.1%
3	48	2,411,810	173,874	1287.1%	256,118	318,675	-24.4%	16,471	11,940	-38.0%
4	49	2,366,195	237,044	898.2%	379,419	431,445	-13.7%	23,113	20,104	-15.0%
5	50	2,320,800	302,954	666.1%	499,908	547,654	-9.6%	30,074	30,467	1.3%
6	51	2,322,673	316,257	634.4%	523,061	564,357	-7.9%	35,538	41,146	13.6%
7	52	2,324,850	329,966	604.6%	556,417	581,570	-4.5%	41,511	52,151	20.4%
8	53	2,327,358	344,094	576.4%	590,540	599,308	-1.5%	47,957	63,492	24.5%
9	54	2,330,225	358,652	549.7%	625,447	617,587	1.3%	54,899	75,178	27.0%
10	55	2,333,503	373,654	524.5%	670,552	636,423	5.1%	62,469	87,221	28.4%
11	56	2,337,240	389,114	500.7%	697,443	655,834	6.0%	70,589	99,632	29.1%
12	57	2,341,491	405,045	478.1%	725,167	675,837	6.8%	79,275	112,420	29.5%
13	58	2,346,318	421,462	456.7%	754,466	696,450	7.7%	87,846	125,599	30.1%
14	59	2,351,790	438,380	436.5%	785,429	717,692	8.6%	96,296	139,180	30.8%
15	60	2,358,000	455,814	417.3%	818,135	739,581	9.6%	104,633	153,175	31.7%
16	61	2,365,036	473,780	399.2%	852,704	762,138	10.6%	112,830	167,597	32.7%
17	62	2,372,741	492,293	382.0%	888,602	785,384	11.6%	121,502	182,458	33.4%
18	63	2,381,184	511,372	365.6%	925,849	809,338	12.6%	130,696	197,773	33.9%
19	64	2,390,435	531,032	350.1%	964,474	834,023	13.5%	140,454	213,556	34.2%
20	65	2,400,572	551,292	335.4%	1,004,547	859,460	14.4%	150,778	229,819	34.4%
21	66	2,411,683	572,169	321.5%	1,046,087	885,674	15.3%	161,723	246,578	34.4%
22	67	2,423,857	593,684	308.3%	1,089,093	912,687	16.2%	173,366	263,849	34.3%
23	68	2,437,188	615,854	295.7%	1,133,416	940,524	17.0%	185,926	281,646	34.0%
24	69	2,451,759	638,701	283.9%	1,179,071	969,210	17.8%	199,455	299,987	33.5%
25	70	2,467,668	662,245	272.6%	1,226,039	998,771	18.5%	214,041	318,886	32.9%
26	71	2,485,007	686,507	262.0%	1,274,362	1,029,233	19.2%	229,710	338,362	32.1%
27	72	2,503,849	711,509	251.9%	1,324,082	1,060,625	19.9%	246,490	358,432	31.2%
28	73	2,524,278	737,273	242.4%	1,375,218	1,092,974	20.5%	264,433	379,115	30.2%
29	74	2,546,353	763,823	233.4%	1,427,837	1,126,310	21.1%	283,548	400,428	29.2%
30	75	2,550,000	791,183	222.3%	1,481,974	1,160,662	21.7%	303,875	422,391	28.1%
34	79	2,550,000	909,226	180.5%	1,715,645	1,308,874	23.7%	397,036	517,149	23.2%
40	85	2,550,000	1,115,146	128.7%	2,148,874	1,567,421	27.1%	553,649	682,450	18.9%
45	90	2,703,251	1,317,495	105.2%	2,703,251	1,821,486	32.6%	614,749	844,884	27.2%
50	95	3,491,498	1,551,917	125.0%	3,491,498	2,116,731	39.4%	615,469	1,033,648	40.5%
55	100	4,509,831	1,803,468	150.1%	4,509,831	2,459,834	45.5%	616,189	1,253,008	50.8%

Investment Options

Market Analysis

Date: January 14, 2019
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

Year	TREZ Capital	Annual Return	CND GMIA	Annual Return	US GMIA	Annual Return	S&P/TSX Index	Annual Return	S&P 500 Index	Annual Return	Tmpltn Growth	Annual Return	Fidelity CND Equ.	Annual Return	Fidelity Glo. Bal.	Annual Return	Fidelity CND Bal.	Annual Return
2007	\$10,000		\$10,000		\$10,000		\$10,000		\$10,000		\$10,000		\$10,000		\$10,000		\$10,000	
2008	10,435	4.4%	10,000	0.0%	10,000	0.0%	6,497	-35.0%	6,151	-38.5%	6,923	-30.8%	6,193	-38.1%	8,290	-17.1%	8,038	-19.6%
2009	11,275	8.1%	11,247	12.5%	11,070	10.7%	8,491	30.7%	7,593	23.5%	7,651	10.5%	7,575	22.3%	9,478	14.3%	9,749	21.3%
2010	12,029	6.7%	11,690	3.9%	11,608	4.9%	9,718	14.5%	8,564	12.8%	7,805	2.0%	8,829	16.6%	9,587	1.2%	10,951	12.3%
2011	12,883	7.1%	11,690	0.0%	11,608	0.0%	8,642	-11.1%	8,564	0.0%	7,353	-5.8%	7,971	-9.7%	9,293	-3.1%	10,726	-2.1%
2012	13,720	6.5%	11,795	0.9%	12,209	5.2%	8,988	4.0%	9,712	13.4%	8,353	13.6%	9,047	13.5%	9,927	6.8%	11,262	5.0%
2013	14,550	6.1%	12,199	3.4%	13,937	14.2%	9,847	9.6%	12,587	29.6%	11,274	35.0%	12,952	43.2%	11,788	18.7%	12,580	11.7%
2014	15,351	5.5%	12,570	3.0%	14,616	4.9%	10,578	7.4%	14,021	11.4%	12,199	8.2%	14,812	14.4%	12,904	9.5%	13,853	10.1%
2015	16,234	5.8%	12,570	0.0%	14,616	0.0%	9,405	-11.1%	13,918	-0.7%	13,472	10.4%	16,300	10.0%	14,623	13.3%	14,206	2.6%
2016	17,146	5.6%	13,495	7.4%	15,257	4.4%	11,051	17.5%	15,246	9.5%	13,783	2.3%	18,389	12.8%	14,327	-2.0%	14,844	4.5%
2017	18,180	6.0%	13,739	1.8%	16,829	10.3%	11,748	6.3%	18,207	19.4%	15,274	10.8%	21,083	14.7%	15,537	8.4%	15,430	4.0%
2018	19,284	6.1%	13,739	0.0%	16,829	0.0%	10,380	-11.6%	17,071	-6.2%	13,942	-8.7%	20,147	-4.4%	15,103	-2.8%	14,745	-0.4%
Average		6.2%		3.0%		5.0%		1.9%		6.7%		4.3%		8.7%		4.3%		4.5%



Assumptions

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We help private Canadian shareholder's implement and manage permanent life insurance plans, fully sheltered from tax, and move residual wealth to the next generation tax-free. The objective is to minimize the impact of market volatility over time by seeking out policy returns that are not correlated to the broader equity markets. Our focus is capital preservation, risk reduction, and consistency over time.

This presentation demonstrates the advantages of using permanent life insurance as part of your overall tax and estate planning strategy. We highlight the impact of planning with, and without, life insurance, using apples-to-apples comparisons, with conventional tax and estate planning structures.

This presentation uses the following assumptions:

• Interest Rate & Cost of Borrowing Assumptions Net of Fees & MER's:

- Alternative Investment: 5.0%
- Permanent Life Insurance: 5.0%
- Cost of Borrowing: 5.0%

• Tax Rate Assumptions:

- T5 Income: 50.0%
- Capital Gains: 25.0%
- Non-eligible Dividends: 47.0%
- Passive Income: 39.0%
- Refundable Tax: 30.7%
- Capital Gains Inclusion: 50.0%

• Ontario's Combined Top Marginal Tax Rates for individuals earning in excess of \$220,000:

- T4 & T5 Income: 53.5%
- Capital Gains: 26.8%
- Eligible Dividends: 39.3%
- Non-eligible Dividends: 47.4%

• Small Business Income Threshold:

- \$ 500,000

• Small Business Exemption Grind Starts At:

- \$ 50,000

• Ontario's Combined Tax Rates For Income Earned by a CCPC:

- Income up to \$500,000: 12.5%
- Active Business Income: 26.5%
- Passive Income: 50.2%
- Refundable Tax: 30.7%

Footnotes & Notice To Reader

Notice To Reader

This analysis is provided for general information and discussion purposes only. This document is made available only for the purposes of assisting in determining a level of interest in the proposed life insurance plan. It will not form part of the insurance contract. It is subject to underwriting and approval and is intended to demonstrate benefits based on specific assumptions. These assumptions will change over time and should be considered hypothetical. Interest rates for loans and investment accounts are assumptions; they are neither guarantees nor estimates of future performance. Consult the contract for specific details including policy charges and surrender charges. If there is any discrepancy between any illustration provided to you and your policy contract, your contract governs. Every implementation is different; such as, but not limited to, the client's specific facts and circumstances. Care and attention should be paid to Subsection 55(2) as it relates to safe income. All post-mortem planning (164(6) & 88(1)(d)) will vary based on the deceased's will, current tax legislation, the intentions of the beneficiaries and may be subject to stop-loss rules 112(3.2). All loans, unless otherwise stated in writing, are assumed to be personal loans secured with personal assets. Loans secured with corporate assets for a personal benefit could result in a deemed benefit for tax purposes.

Any taxpayer considering this insurance plan should consult with his or her tax advisor for advice as to the income tax consequences to him or her and any other relevant parties having regard to his or her own particular circumstances prior to implementation.

A copy of the assumptions used for all illustrations will be made available upon request. Errors & Omissions Excepted.

Footnotes

1. Section 148 of the ITA - Life Insurance Rules
2. January 1, 2019 - Federal and Provincial tax rate for passive investment income earned by a CCPC
3. Subsections 83(2) & 89(1)(d) - Reg. 2101: Capital Dividends and Life Insurance Capital Dividends Payable by Private Corporations
4. January 1, 2019 - Top marginal tax rate in Ontario for individuals with taxable income in excess of \$220,000
5. Subsection 129(1)(a) of the ITA - Ordering Rules for Refundable Dividend Tax On Hand (RDTOH) Accounts
6. Subsection 125(1)(a) of the ITA - Passive Income Small Business Deduction (SBD) Grind Rules
7. Subsection 55(2) of the ITA - Inter-corporate Dividend Safe Income Rules
8. Subsection 120.4(1) of the ITA - Tax On Split Income (TOSI)

Contact Information

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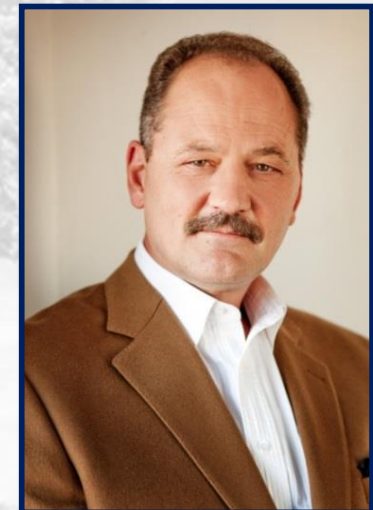
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