



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)

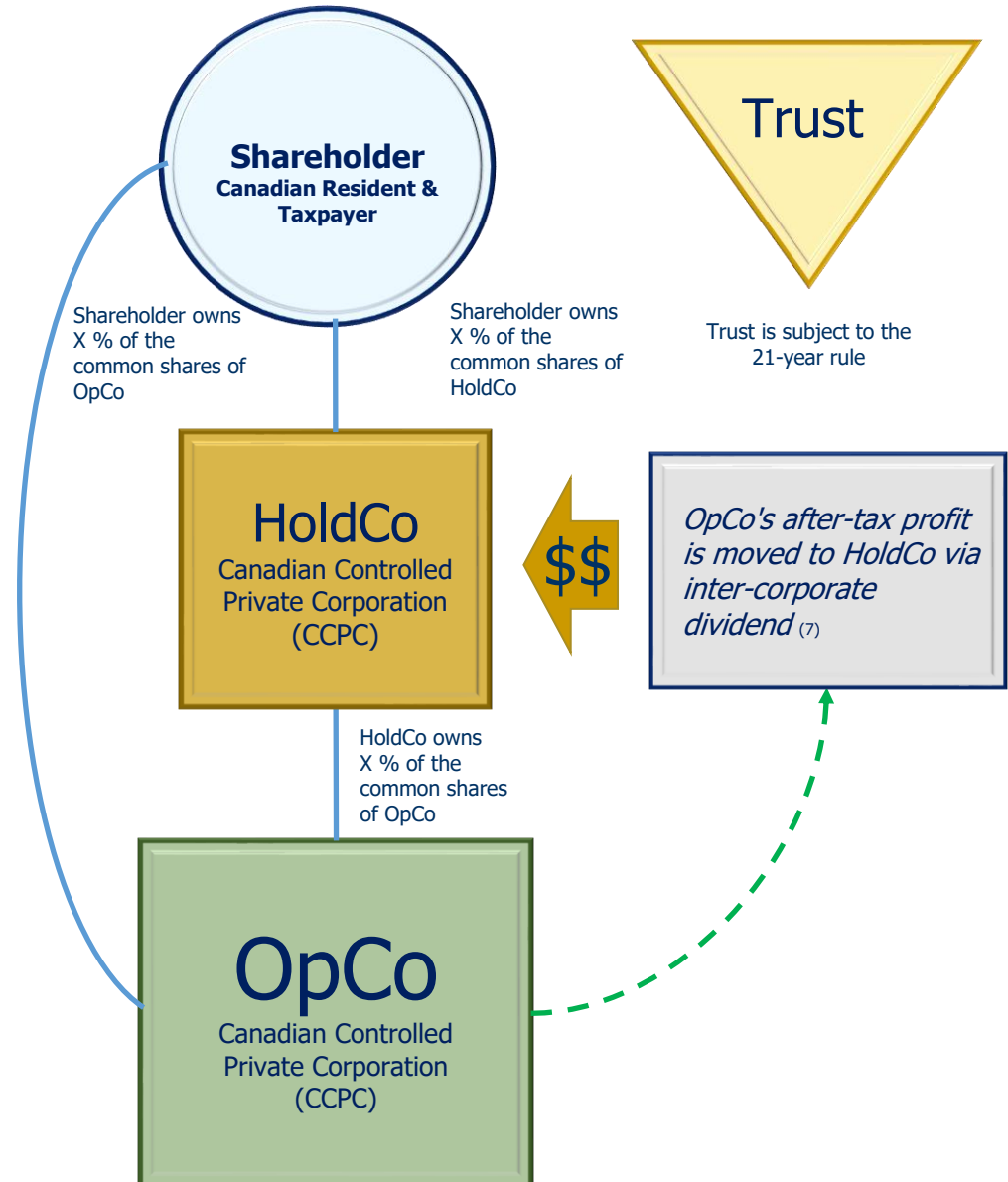
An owner generally establishes a HoldCo to:

- 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

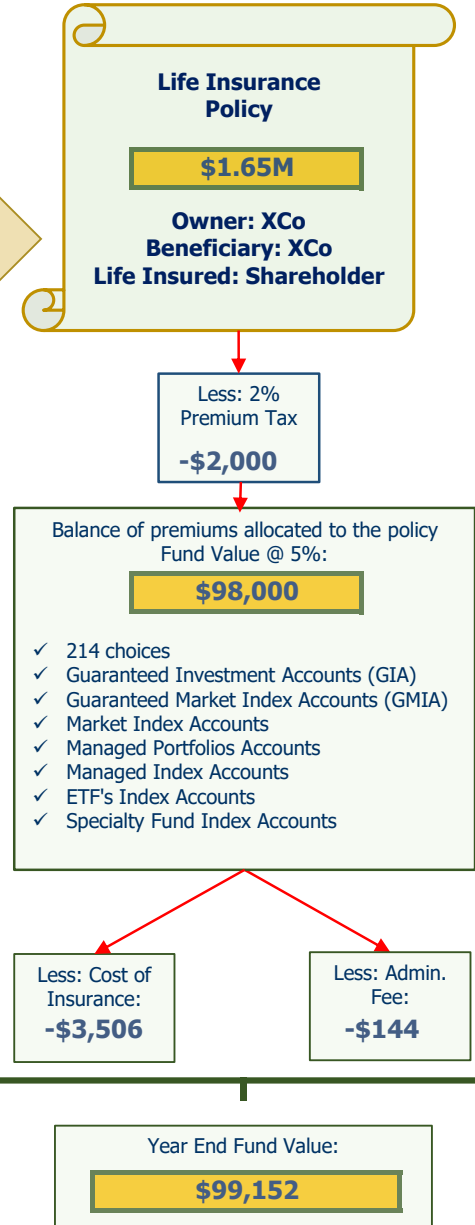
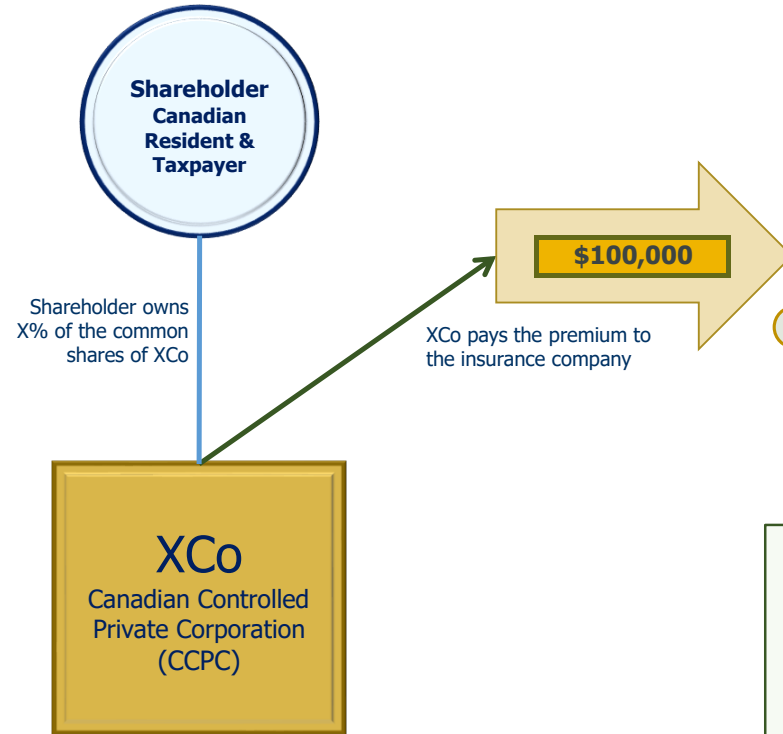


Corporate Life Insurance Plan

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 81

Total investment:	\$	500,000
Total Income @ 5%:	\$	867,596
Tax paid @ 39%:	\$	(338,362)
Net @ age 81:	\$	1,029,233
NERDTH:	\$	266,063

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 81

Total investment:	\$	500,000
Policy fund @ 5%:	\$	950,657
Total costs:	\$	(292,316)
Net @ age 81:	\$	1,158,341
NERDTH:		N/A

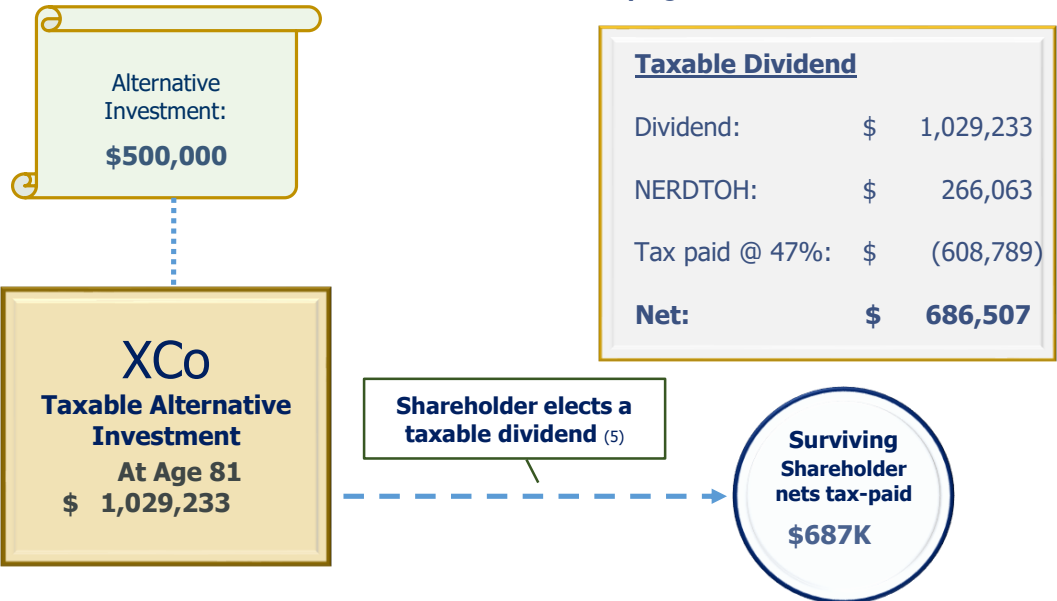
Corporate Life Insurance Plan

Problem & Solution - Dividend Tax

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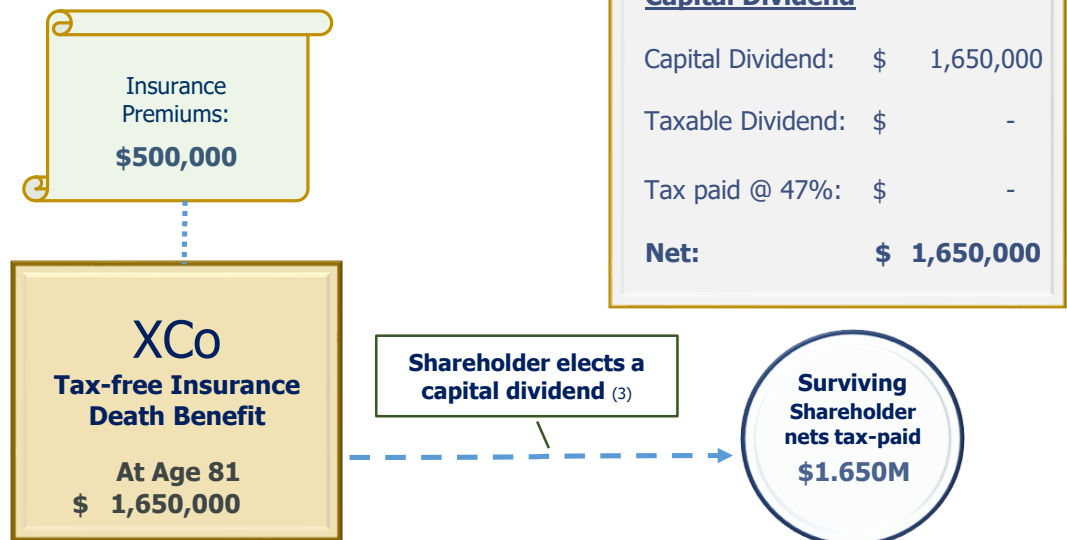
Problem - Dividend Tax

- 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⁾
- NERDTOH 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, 55, Non-smoker
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

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

Death benefit: \$1.65M
 Deposit years: 5

After-tax Estate Benefit

Cash Value

Cumulative Costs & Taxes

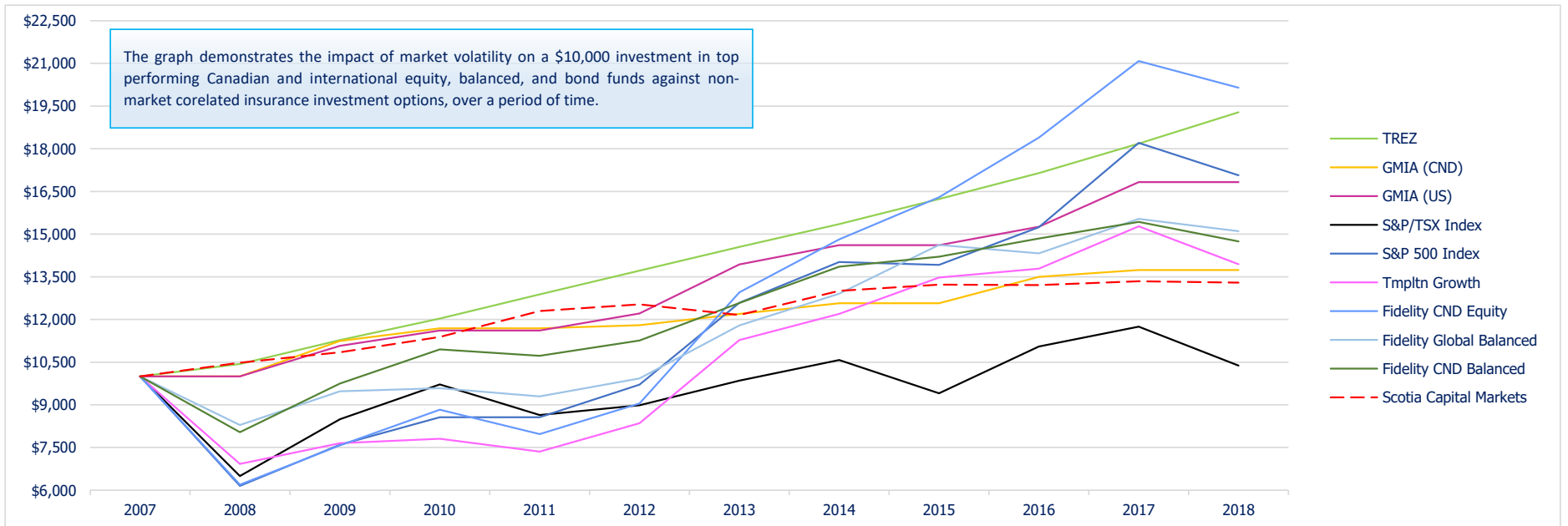
		After-tax Estate Benefit			Cash Value			Cumulative Costs & Taxes		
Year	Age	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Difference %
1	56	1,603,939	55,429	2793.7%	22,674	103,050	-354.5%	5,650	1,950	-189.8%
2	57	1,558,305	113,362	1274.6%	125,543	209,243	-66.7%	12,509	5,909	-111.7%
3	58	1,513,003	173,874	770.2%	232,813	318,675	-36.9%	20,090	11,940	-68.3%
4	59	1,468,026	237,044	519.3%	357,719	431,445	-20.6%	28,131	20,104	-39.9%
5	60	1,423,376	302,954	369.8%	476,563	547,654	-14.9%	36,411	30,467	-19.5%
6	61	1,426,161	316,257	350.9%	497,815	564,357	-13.4%	43,357	41,146	-5.4%
7	62	1,429,430	329,966	333.2%	532,246	581,570	-9.3%	50,970	52,151	2.3%
8	63	1,433,240	344,094	316.5%	567,135	599,308	-5.7%	59,245	63,492	6.7%
9	64	1,437,655	358,652	300.8%	602,481	617,587	-2.5%	68,208	75,178	9.3%
10	65	1,442,739	373,654	286.1%	650,804	636,423	2.2%	78,101	87,221	10.5%
11	66	1,448,572	389,114	272.3%	674,014	655,834	2.7%	88,793	99,632	10.9%
12	67	1,455,233	405,045	259.3%	697,576	675,837	3.1%	100,327	112,420	10.8%
13	68	1,462,828	421,462	247.1%	722,642	696,450	3.6%	111,604	125,599	11.1%
14	69	1,471,462	438,380	235.7%	749,310	717,692	4.2%	122,604	139,180	11.9%
15	70	1,481,255	455,814	225.0%	777,685	739,581	4.9%	133,306	153,175	13.0%
16	71	1,492,350	473,780	215.0%	807,882	762,138	5.7%	143,687	167,597	14.3%
17	72	1,504,419	492,293	205.6%	838,889	785,384	6.4%	154,823	182,458	15.1%
18	73	1,517,517	511,372	196.8%	870,706	809,338	7.0%	166,757	197,773	15.7%
19	74	1,531,689	531,032	188.4%	903,360	834,023	7.7%	179,501	213,556	15.9%
20	75	1,546,970	551,292	180.6%	936,858	859,460	8.3%	193,094	229,819	16.0%
21	76	1,563,384	572,169	173.2%	971,233	885,674	8.8%	207,547	246,578	15.8%
22	77	1,580,945	593,684	166.3%	1,006,499	912,687	9.3%	222,889	263,849	15.5%
23	78	1,599,639	615,854	159.7%	1,042,740	940,524	9.8%	239,085	281,646	15.1%
24	79	1,619,436	638,701	153.6%	1,080,035	969,210	10.3%	256,108	299,987	14.6%
25	80	1,640,276	662,245	147.7%	1,118,507	998,771	10.7%	273,892	318,886	14.1%
26	81	1,650,000	686,507	140.3%	1,158,341	1,029,233	11.1%	292,316	338,362	13.6%
27	82	1,650,000	711,509	131.9%	1,199,776	1,060,625	11.6%	311,219	358,432	13.2%
28	83	1,650,000	737,273	123.8%	1,243,120	1,092,974	12.1%	330,383	379,115	12.9%
29	84	1,650,000	763,823	116.0%	1,288,792	1,126,310	12.6%	349,496	400,428	12.7%
30	85	1,650,000	791,183	108.5%	1,337,315	1,160,662	13.2%	368,169	422,391	12.8%
31	86	1,650,000	819,378	101.4%	1,389,402	1,196,062	13.9%	385,855	445,023	13.3%
32	87	1,650,000	848,432	94.5%	1,446,338	1,232,542	14.8%	401,485	468,347	14.3%
35	90	1,659,324	941,021	76.3%	1,659,324	1,348,795	18.7%	426,092	542,672	21.5%
40	95	2,142,852	1,115,146	92.2%	2,142,852	1,567,421	26.9%	426,812	682,450	37.5%
45	100	2,767,520	1,317,495	110.1%	2,767,520	1,821,486	34.2%	427,532	844,884	49.4%

Investment Options

Market Analysis

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

Year	TREZ Annual Capital 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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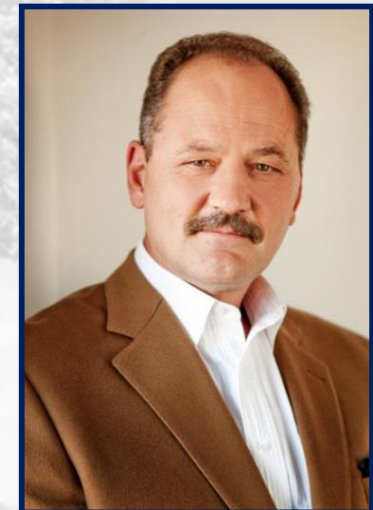
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