



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

# 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) <sup>(8)</sup>
- Limit legal liability in certain circumstances
- Create an entity with an unlimited life span

### Reorganization - Establishing a Holding Company (HoldCo)

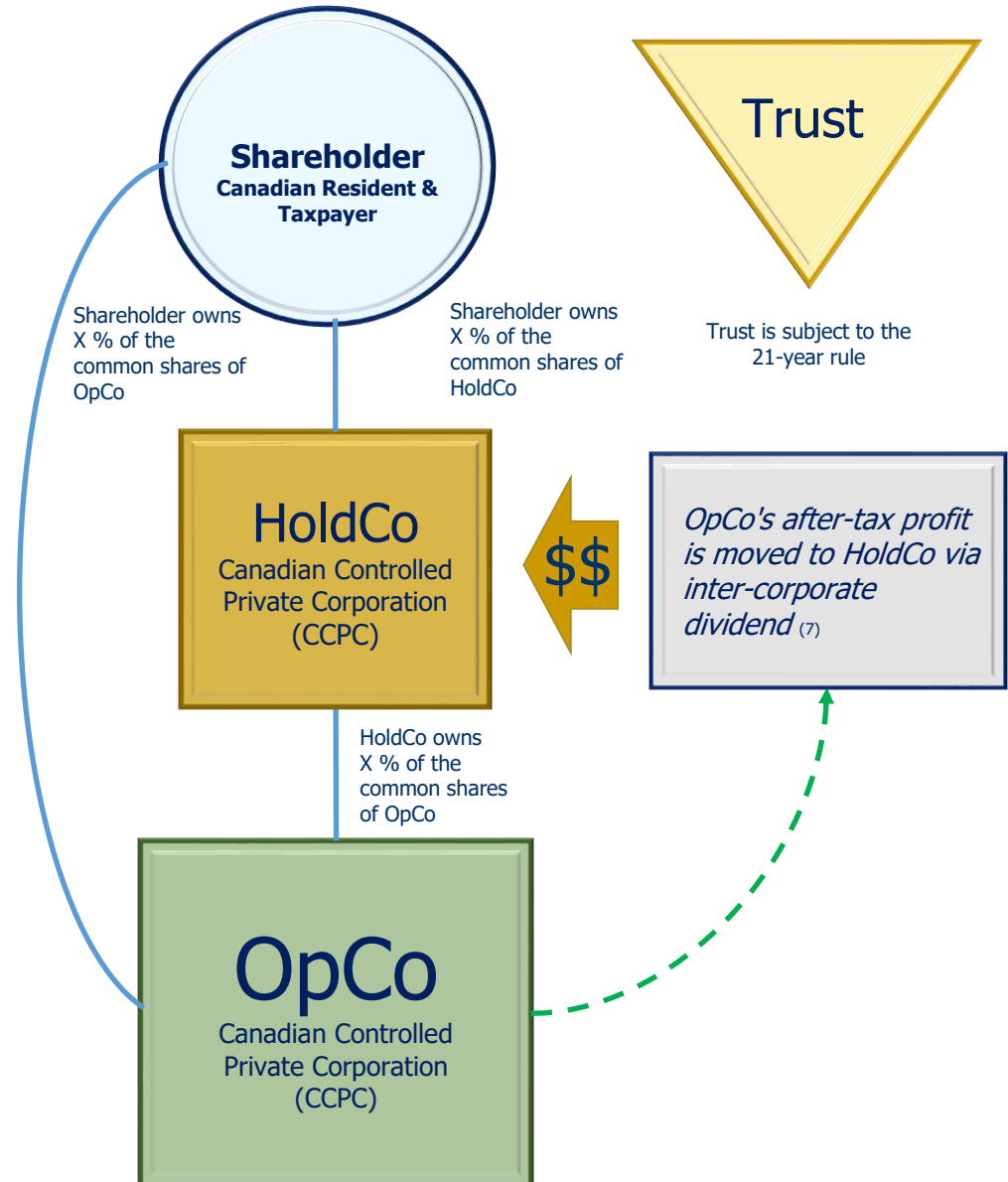
An owner generally establishes a HoldCo to:

- 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) <sup>(8)</sup>
- 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

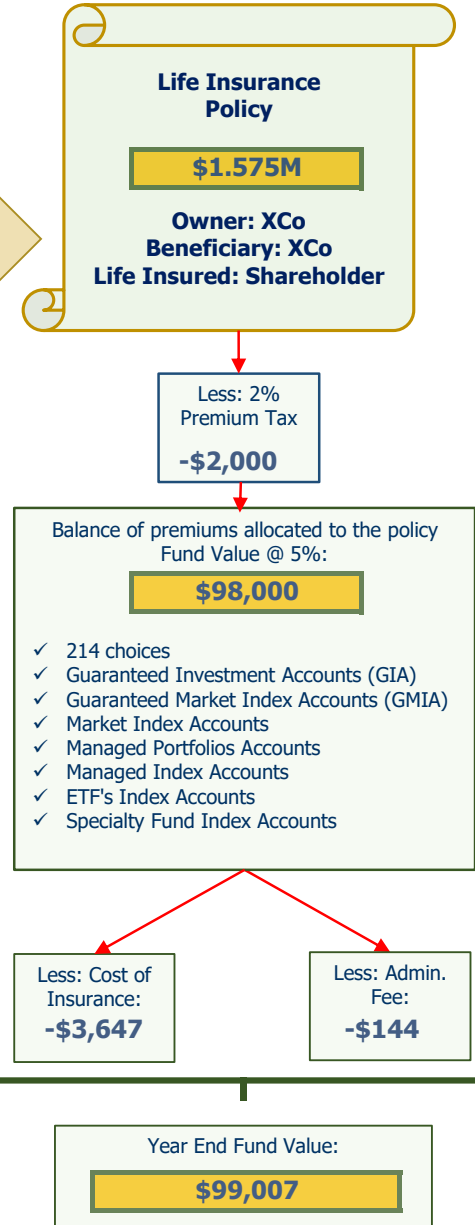
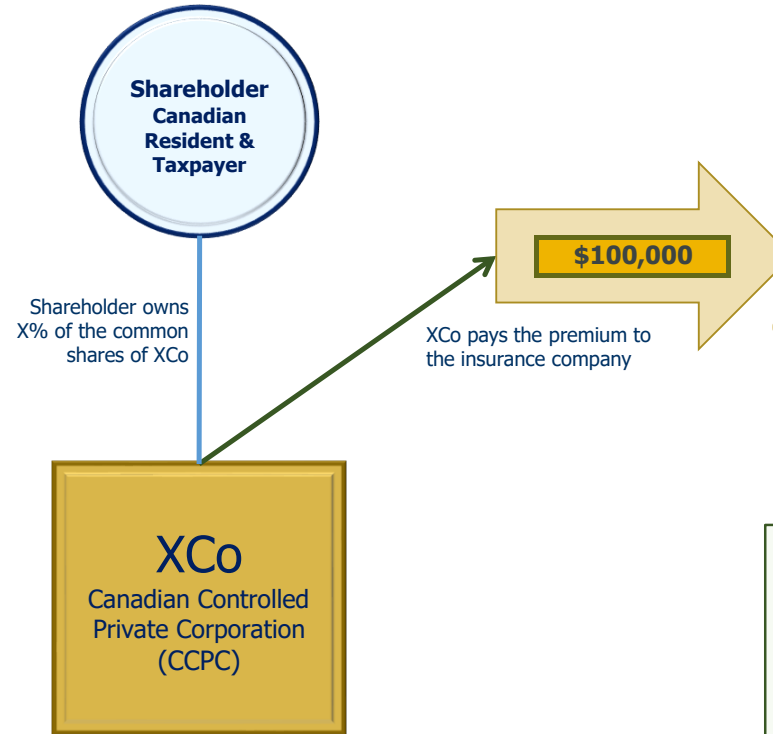


# Corporate Life Insurance Plan

## 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%:	\$	817,657
Tax paid @ 39%:	\$	(318,886)
<b>Net @ age 81:</b>	<b>\$</b>	<b>998,771</b>
NERDTH:	\$	250,748

### 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%:	\$	886,902
Total costs:	\$	(278,329)
<b>Net @ age 81:</b>	<b>\$</b>	<b>1,108,574</b>
NERDTH:		N/A

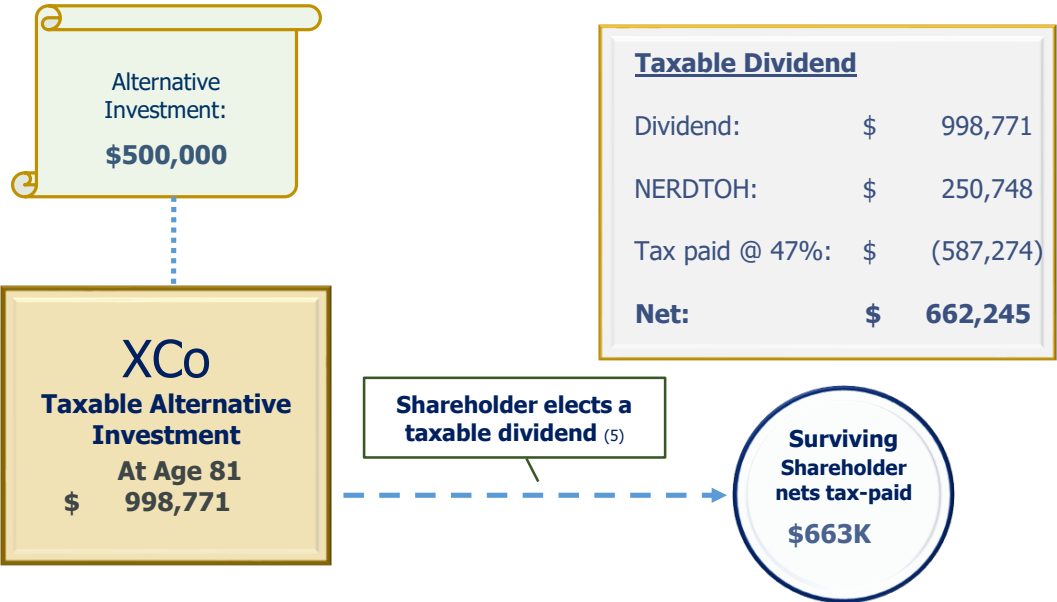
# Corporate Life Insurance Plan

## Problem & Solution - Dividend Tax

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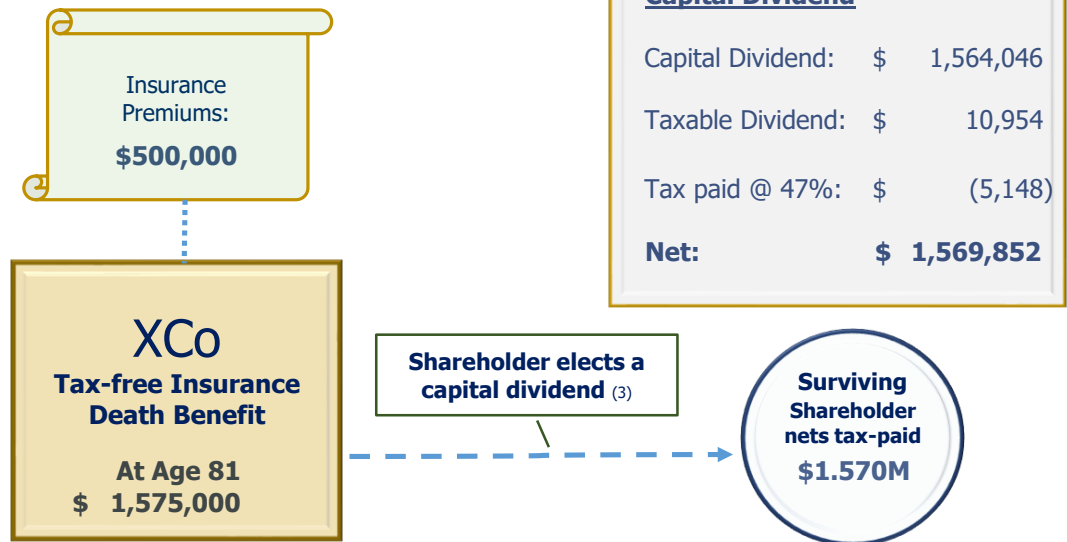
### Problem - Dividend Tax

- 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 <sup>(4)</sup>
- NERDTH subject to ordering rule <sup>(5)</sup>



### 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) <sup>(1)</sup>
- ✓ Death benefits paid to XCo (beneficiary) qualify for capital dividend account (CDA) treatment <sup>(3)</sup>
- ✓ 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, 56, Non-smoker  
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

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

Death benefit: \$1.575M  
 Deposit years: 5

### 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	57	1,528,973	55,429	2658.4%	20,826	103,050	-394.8%	5,791	1,950	-197.0%
2	58	1,483,394	113,362	1208.6%	123,499	209,243	-69.4%	12,833	5,909	-117.2%
3	59	1,438,161	173,874	727.1%	230,552	318,675	-38.2%	20,609	11,940	-72.6%
4	60	1,393,266	237,044	487.8%	355,530	431,445	-21.4%	28,830	20,104	-43.4%
5	61	1,348,709	302,954	345.2%	474,168	547,654	-15.5%	37,270	30,467	-22.3%
6	62	1,351,605	316,257	327.4%	495,185	564,357	-14.0%	44,396	41,146	-7.9%
7	63	1,355,010	329,966	310.7%	529,626	581,570	-9.8%	52,212	52,151	-0.1%
8	64	1,358,983	344,094	294.9%	564,481	599,308	-6.2%	60,721	63,492	4.4%
9	65	1,363,581	358,652	280.2%	599,756	617,587	-3.0%	69,937	75,178	7.0%
10	66	1,368,881	373,654	266.3%	648,238	636,423	1.8%	80,117	87,221	8.1%
11	67	1,374,952	389,114	253.4%	670,992	655,834	2.3%	91,121	99,632	8.5%
12	68	1,381,883	405,045	241.2%	694,033	675,837	2.6%	103,008	112,420	8.4%
13	69	1,389,772	421,462	229.8%	718,578	696,450	3.1%	114,610	125,599	8.7%
14	70	1,398,725	438,380	219.1%	744,729	717,692	3.6%	125,905	139,180	9.5%
15	71	1,408,865	455,814	209.1%	772,585	739,581	4.3%	136,877	153,175	10.6%
16	72	1,420,324	473,780	199.8%	802,270	762,138	5.0%	147,495	167,597	12.0%
17	73	1,432,759	492,293	191.0%	832,737	785,384	5.7%	158,870	182,458	12.9%
18	74	1,446,212	511,372	182.8%	864,013	809,338	6.3%	171,014	197,773	13.5%
19	75	1,460,714	531,032	175.1%	896,105	834,023	6.9%	183,964	213,556	13.9%
20	76	1,476,289	551,292	167.8%	929,046	859,460	7.5%	197,727	229,819	14.0%
21	77	1,492,949	572,169	160.9%	962,854	885,674	8.0%	212,332	246,578	13.9%
22	78	1,510,679	593,684	154.5%	997,608	912,687	8.5%	227,743	263,849	13.7%
23	79	1,529,451	615,854	148.3%	1,033,389	940,524	9.0%	243,932	281,646	13.4%
24	80	1,549,205	638,701	142.6%	1,070,317	969,210	9.4%	260,833	299,987	13.1%
25	81	1,569,852	662,245	137.0%	1,108,574	998,771	9.9%	278,329	318,886	12.7%
26	82	1,575,000	686,507	129.4%	1,148,392	1,029,233	10.4%	296,260	338,362	12.4%
27	83	1,575,000	711,509	121.4%	1,190,073	1,060,625	10.9%	314,415	358,432	12.3%
28	84	1,575,000	737,273	113.6%	1,234,026	1,092,974	11.4%	332,488	379,115	12.3%
29	85	1,575,000	763,823	106.2%	1,280,761	1,126,310	12.1%	350,102	400,428	12.6%
30	86	1,575,000	791,183	99.1%	1,330,971	1,160,662	12.8%	366,723	422,391	13.2%
31	87	1,575,000	819,378	92.2%	1,385,896	1,196,062	13.7%	381,323	445,023	14.3%
32	88	1,575,000	848,432	85.6%	1,446,638	1,232,542	14.8%	393,069	468,347	16.1%
34	90	1,591,616	909,226	75.1%	1,591,616	1,308,874	17.8%	403,386	517,149	22.0%
39	95	2,055,381	1,078,197	90.6%	2,055,381	1,521,030	26.0%	404,106	652,790	38.1%
44	100	2,654,517	1,274,557	108.3%	2,654,517	1,767,575	33.4%	404,826	810,417	50.0%

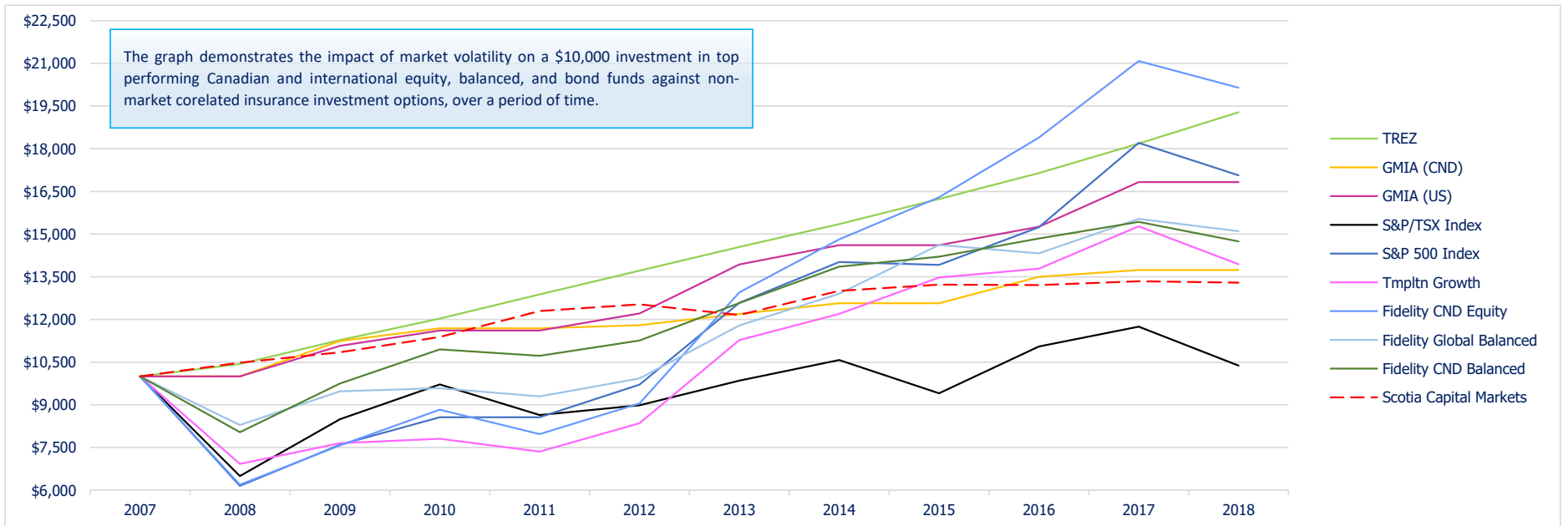


# Investment Options

## 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	<b>19,284</b>	6.1%	<b>13,739</b>	0.0%	<b>16,829</b>	0.0%	<b>10,380</b>	-11.6%	<b>17,071</b>	-6.2%	<b>13,942</b>	-8.7%	<b>20,147</b>	-4.4%	<b>15,103</b>	-2.8%	<b>14,745</b>	-0.4%
<b>Average</b>		<b>6.2%</b>		<b>3.0%</b>		<b>5.0%</b>		<b>1.9%</b>		<b>6.7%</b>		<b>4.3%</b>		<b>8.7%</b>		<b>4.3%</b>		<b>4.5%</b>





# 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

**Aaron Ledlie**

Independent Insurance Broker  
President

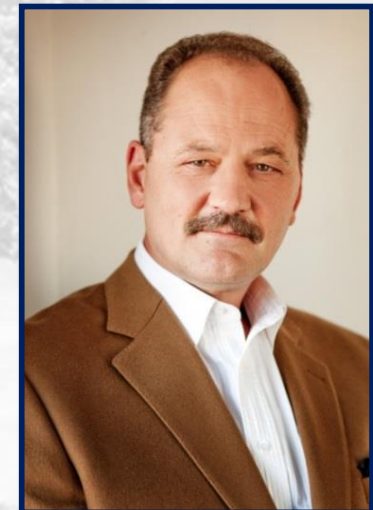
aaron@csiplan.ca  
Cell: 705-427-5945



**Raymond Matt, CFP, CLU, TEP, CHS**

Independent Insurance Broker  
Founder

raymond@csiplan.ca  
Cell: 416-452-2334



**MLP Corporate Solutions Inc.**

543 Yonge Street  
Midland, ON L4R 2C6  
Bus: 705-526-2807  
Fax: 705-526-0615  
www.csiplan.ca