



**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)

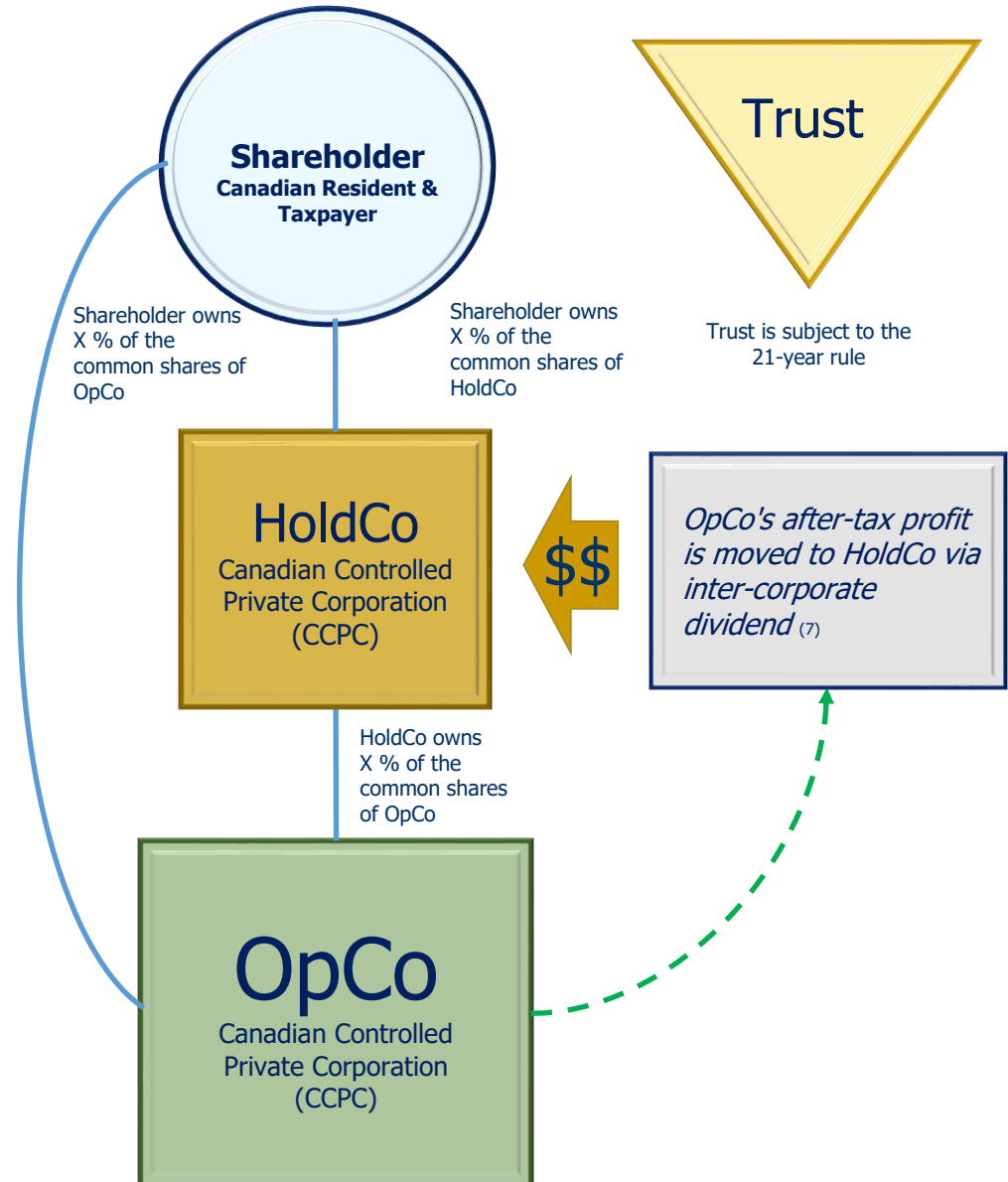
An owner generally establishes a HoldCo to:

- 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

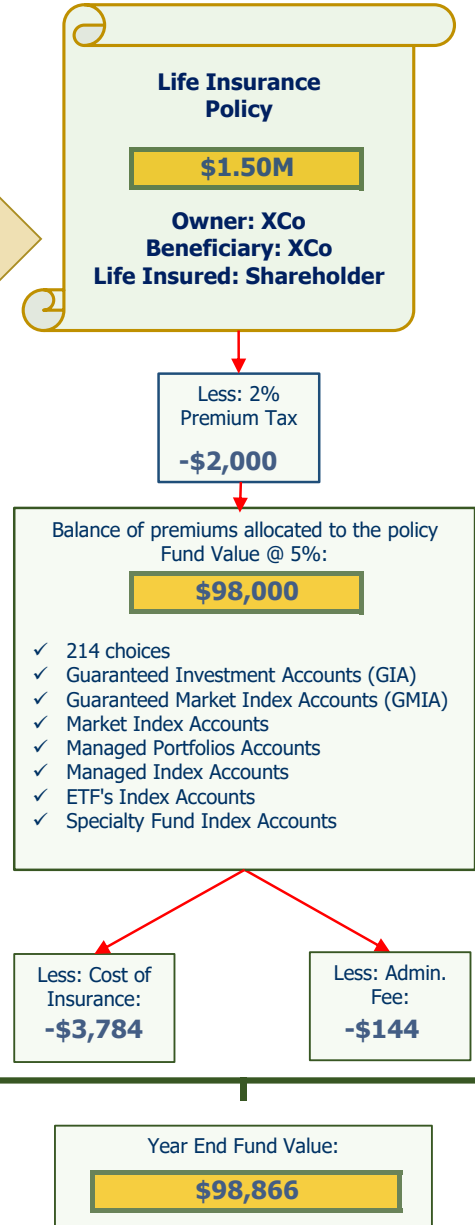
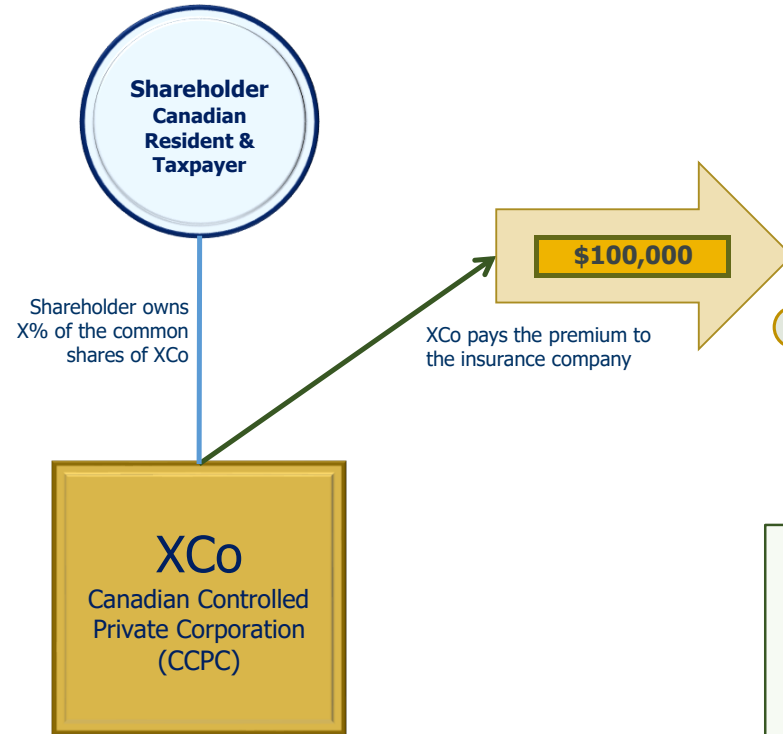


# Corporate Life Insurance Plan

## 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%:	\$	769,197
Tax paid @ 39%:	\$	(299,987)
<b>Net @ age 81:</b>	<b>\$</b>	<b>969,210</b>
NERDTH:	\$	235,887

### 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%:	\$	827,129
Total costs:	\$	(263,226)
<b>Net @ age 81:</b>	<b>\$</b>	<b>1,063,903</b>
NERDTH:		N/A

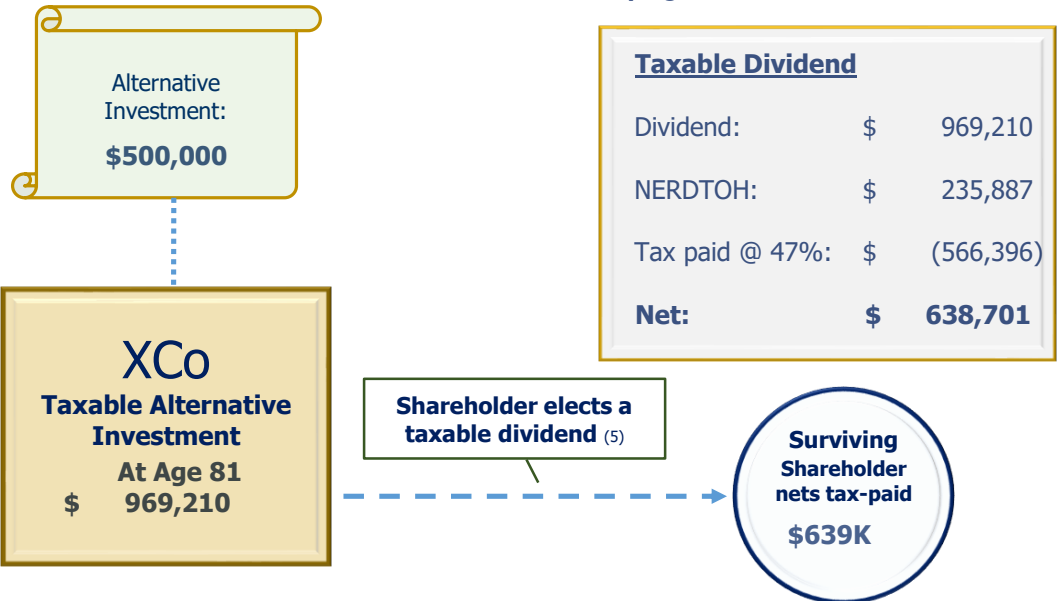
# Corporate Life Insurance Plan

## Problem & Solution - Dividend Tax

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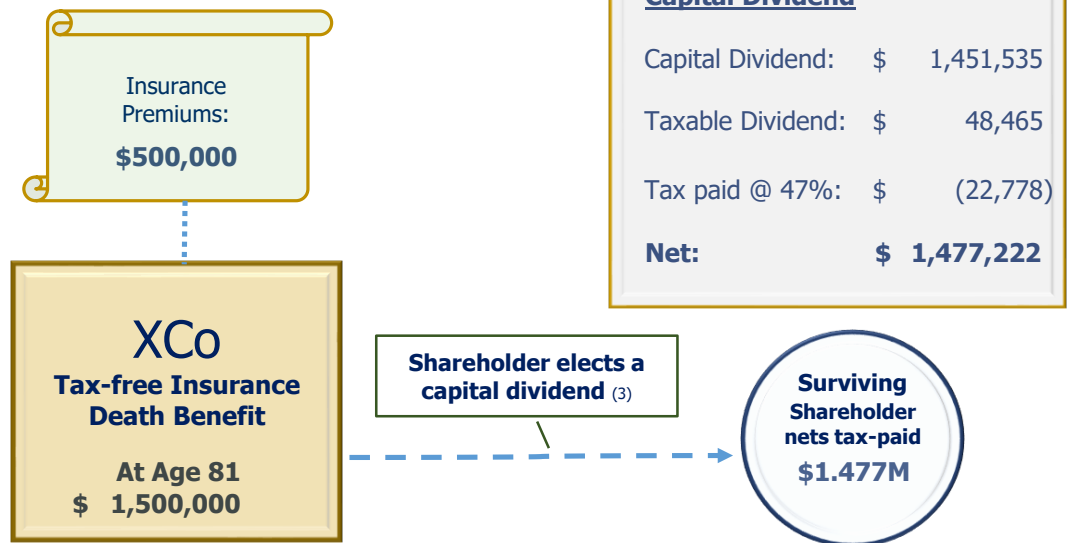
### Problem - Dividend Tax

- 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, 57, Non-smoker  
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

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

Death benefit: \$1.50M  
 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	58	1,454,006	55,429	2523.2%	19,060	103,050	-440.7%	5,928	1,950	-204.0%
2	59	1,408,482	113,362	1142.5%	121,545	209,243	-72.2%	13,147	5,909	-122.5%
3	60	1,363,313	173,874	684.1%	228,404	318,675	-39.5%	21,094	11,940	-76.7%
4	61	1,318,494	237,044	456.2%	353,457	431,445	-22.1%	29,481	20,104	-46.6%
5	62	1,274,028	302,954	320.5%	471,915	547,654	-16.0%	38,059	30,467	-24.9%
6	63	1,277,033	316,257	303.8%	492,717	564,357	-14.5%	45,349	41,146	-10.2%
7	64	1,280,566	329,966	288.1%	527,202	581,570	-10.3%	53,329	52,151	-2.3%
8	65	1,284,694	344,094	273.4%	562,067	599,308	-6.6%	62,023	63,492	2.3%
9	66	1,289,472	358,652	259.5%	597,306	617,587	-3.4%	71,455	75,178	5.0%
10	67	1,294,973	373,654	246.6%	645,979	636,423	1.5%	81,879	87,221	6.1%
11	68	1,301,271	389,114	234.4%	668,342	655,834	1.9%	93,147	99,632	6.5%
12	69	1,308,445	405,045	223.0%	690,950	675,837	2.2%	105,320	112,420	6.3%
13	70	1,316,594	421,462	212.4%	715,063	696,450	2.6%	117,184	125,599	6.7%
14	71	1,325,824	438,380	202.4%	740,794	717,692	3.1%	128,707	139,180	7.5%
15	72	1,336,252	455,814	193.2%	768,247	739,581	3.7%	139,872	153,175	8.7%
16	73	1,348,006	473,780	184.5%	797,541	762,138	4.4%	150,648	167,597	10.1%
17	74	1,360,716	492,293	176.4%	827,632	785,384	5.1%	162,145	182,458	11.1%
18	75	1,374,412	511,372	168.8%	858,532	809,338	5.7%	174,395	197,773	11.8%
19	76	1,389,113	531,032	161.6%	890,276	834,023	6.3%	187,402	213,556	12.2%
20	77	1,404,828	551,292	154.8%	922,887	859,460	6.9%	201,189	229,819	12.5%
21	78	1,421,542	572,169	148.4%	956,448	885,674	7.4%	215,718	246,578	12.5%
22	79	1,439,224	593,684	142.4%	991,045	912,687	7.9%	230,955	263,849	12.5%
23	80	1,457,814	615,854	136.7%	1,026,801	940,524	8.4%	246,831	281,646	12.4%
24	81	1,477,222	638,701	131.3%	1,063,903	969,210	8.9%	263,226	299,987	12.3%
25	82	1,497,318	662,245	126.1%	1,102,589	998,771	9.4%	279,976	318,886	12.2%
26	83	1,500,000	686,507	118.5%	1,143,164	1,029,233	10.0%	296,865	338,362	12.3%
27	84	1,500,000	711,509	110.8%	1,186,044	1,060,625	10.6%	313,585	358,432	12.5%
28	85	1,500,000	737,273	103.5%	1,231,744	1,092,974	11.3%	329,753	379,115	13.0%
29	86	1,500,000	763,823	96.4%	1,280,966	1,126,310	12.1%	344,829	400,428	13.9%
30	87	1,500,000	791,183	89.6%	1,334,919	1,160,662	13.1%	357,818	422,391	15.3%
31	88	1,500,000	819,378	83.1%	1,394,709	1,196,062	14.2%	367,886	445,023	17.3%
32	89	1,505,032	848,432	77.4%	1,461,752	1,232,542	15.7%	373,951	468,347	20.2%
33	90	1,537,085	878,372	75.0%	1,537,085	1,270,135	17.4%	375,384	492,381	23.8%
38	95	1,984,932	1,042,343	90.4%	1,984,932	1,476,012	25.6%	376,104	624,007	39.7%
43	100	2,563,505	1,232,891	107.9%	2,563,505	1,715,259	33.1%	376,824	776,969	51.5%

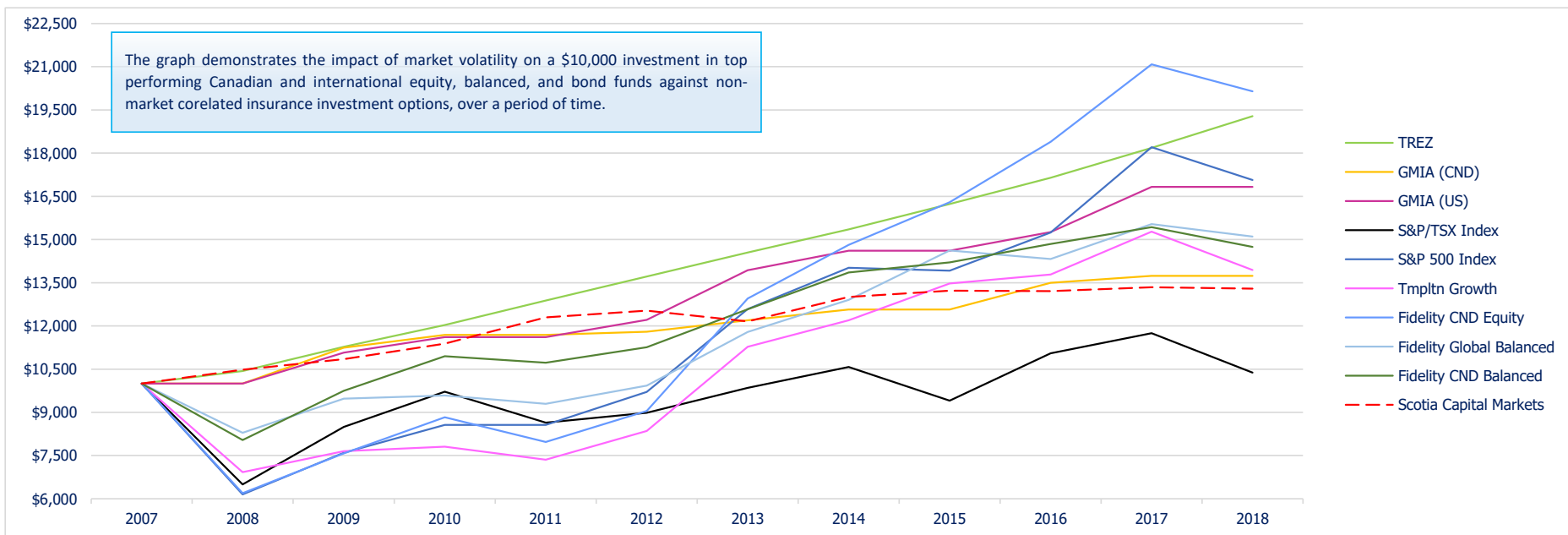
# Investment Options

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## 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

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President

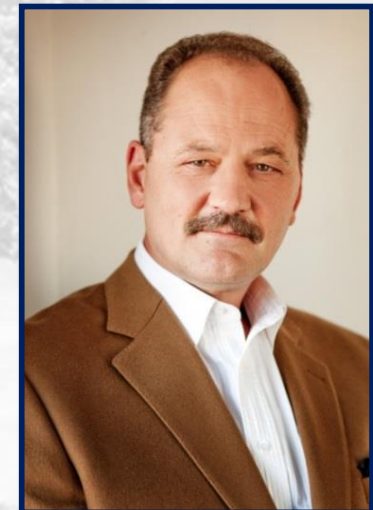
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