



**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)

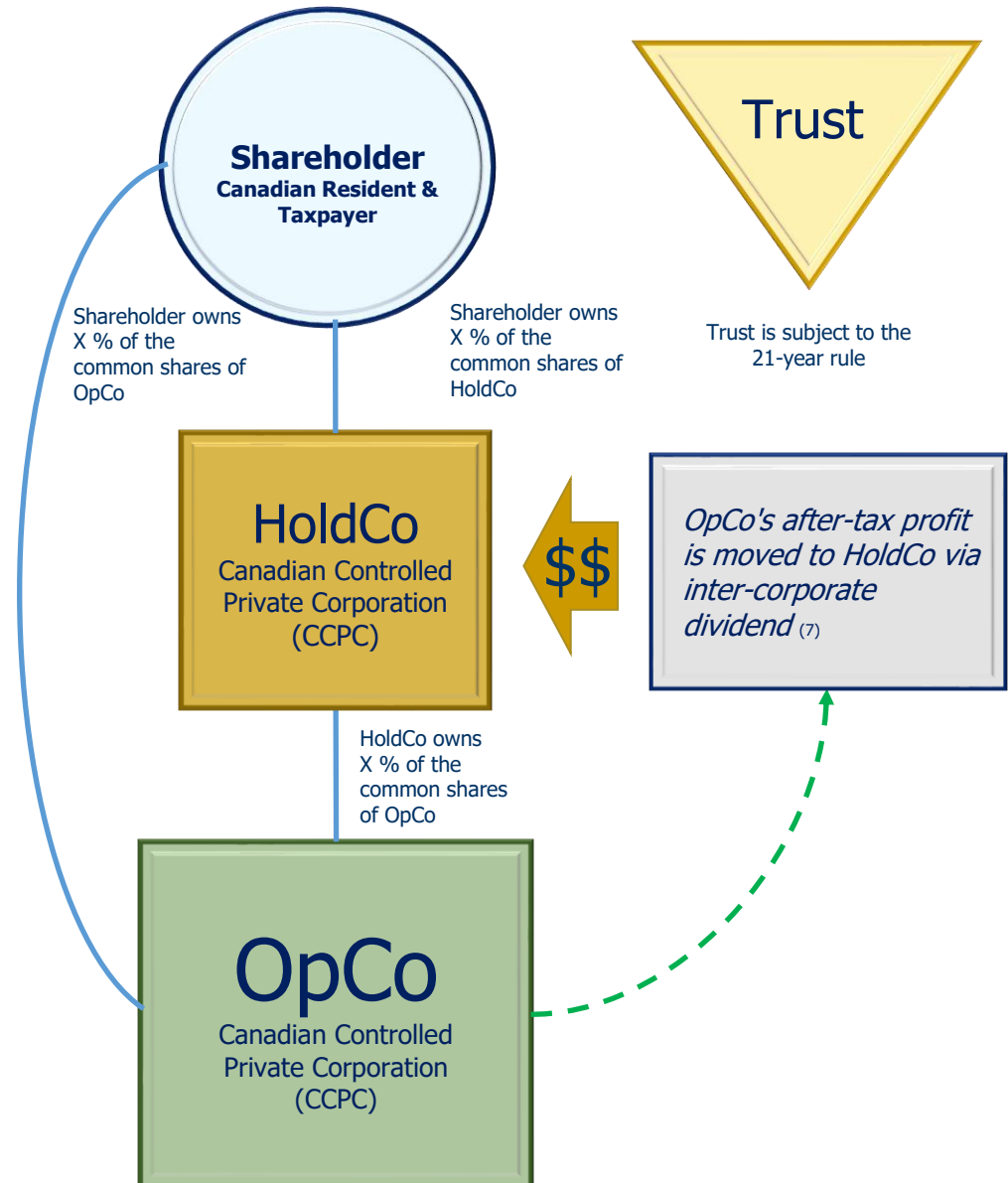
An owner generally establishes a HoldCo to:

- 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

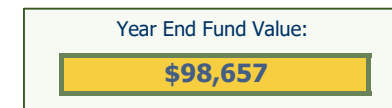
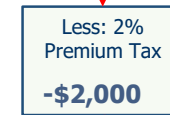
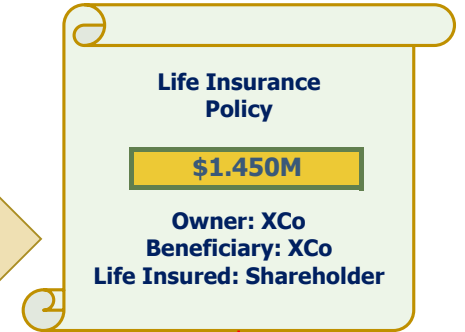
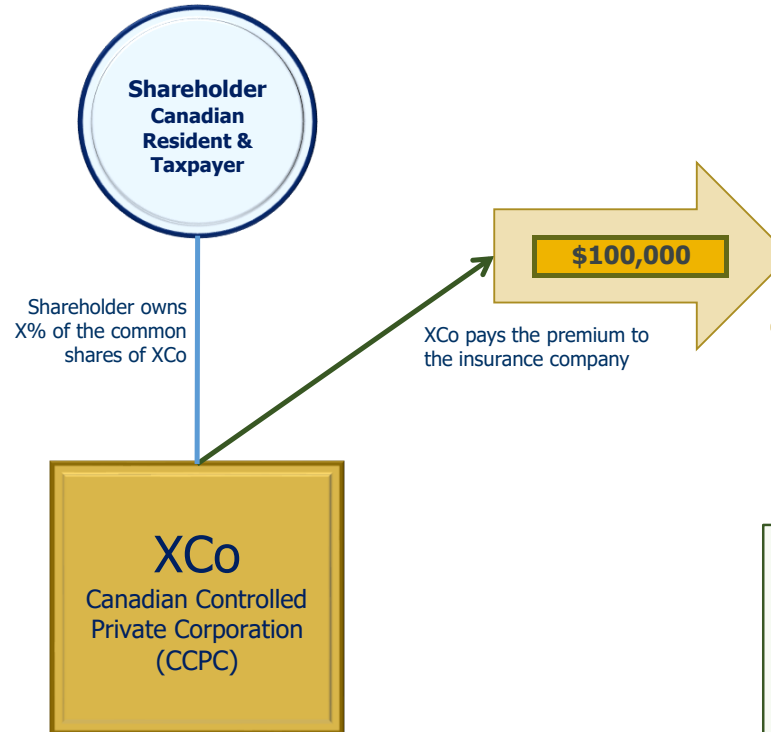


# Corporate Life Insurance Plan

## 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 82

Total investment:	\$	500,000
Total Income @ 5%:	\$	769,197
Tax paid @ 39%:	\$	(299,987)
<b>Net @ age 82:</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 82

Total investment:	\$	500,000
Policy fund @ 5%:	\$	817,614
Total costs:	\$	(275,703)
<b>Net @ age 82:</b>	<b>\$</b>	<b>1,041,911</b>
NERDTH:		N/A

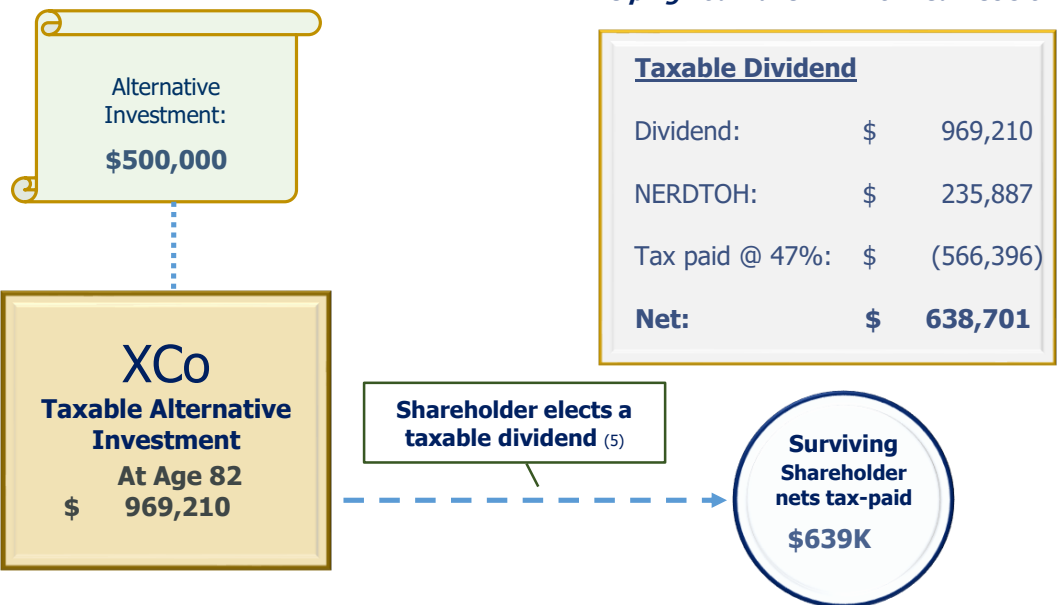
# Corporate Life Insurance Plan

## Problem & Solution - Dividend Tax

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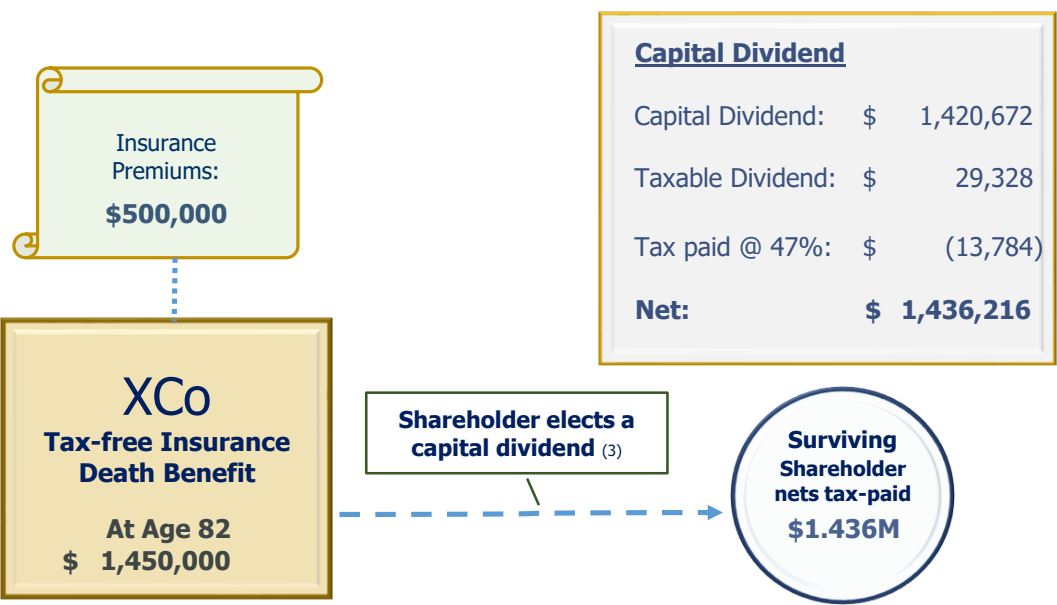
### Problem - Dividend Tax

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

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

Death benefit: \$1.450M  
 Deposit years: 5

### After-tax Estate Benefit

### Cash Value

### Cumulative Costs & Taxes

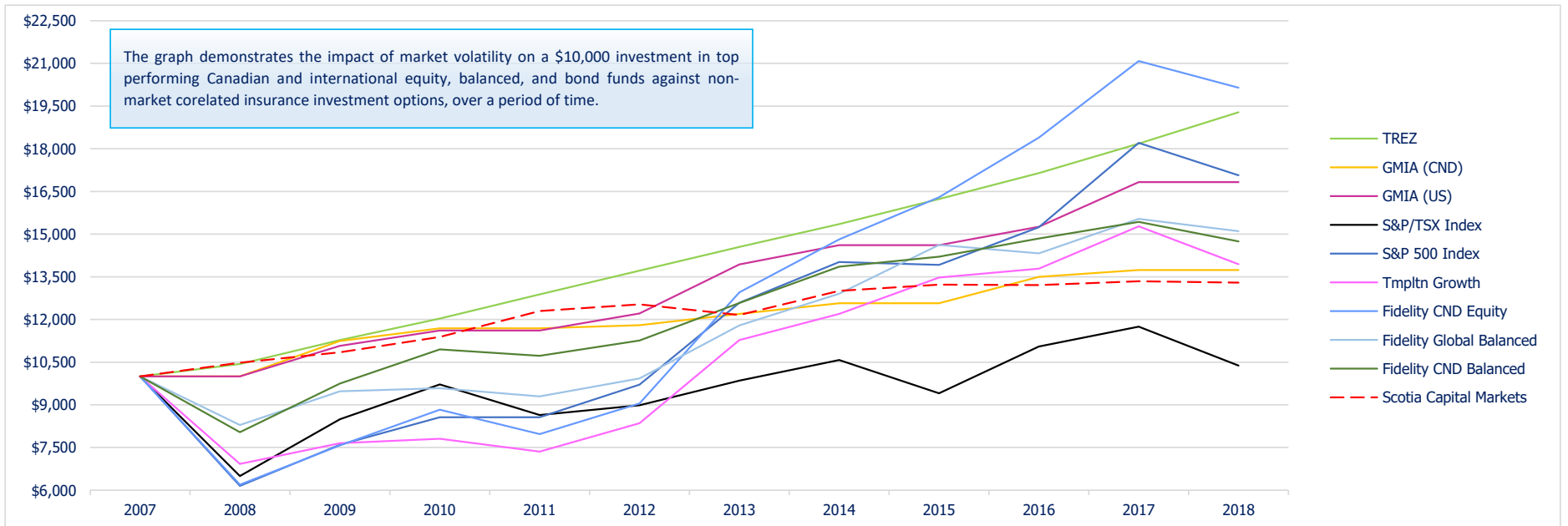
Year	Age	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Difference %
1	59	1,404,056	55,429	2433.1%	16,081	103,050	-540.8%	6,132	1,950	-214.4%
2	60	1,358,614	113,362	1098.5%	118,278	209,243	-76.9%	13,619	5,909	-130.5%
3	61	1,313,550	173,874	655.5%	224,805	318,675	-41.8%	21,867	11,940	-83.1%
4	62	1,268,857	237,044	435.3%	349,970	431,445	-23.3%	30,554	20,104	-52.0%
5	63	1,226,631	302,954	304.9%	468,070	547,654	-17.0%	39,420	30,467	-29.4%
6	64	1,227,716	316,257	288.2%	488,438	564,357	-15.5%	47,053	41,146	-14.4%
7	65	1,231,457	329,966	273.2%	522,894	581,570	-11.2%	55,409	52,151	-6.2%
8	66	1,235,828	344,094	259.2%	557,661	599,308	-7.5%	64,522	63,492	-1.6%
9	67	1,240,888	358,652	246.0%	592,735	617,587	-4.2%	74,409	75,178	1.0%
10	68	1,246,708	373,654	233.7%	641,595	636,423	0.8%	85,363	87,221	2.1%
11	69	1,253,365	389,114	222.1%	663,124	655,834	1.1%	97,218	99,632	2.4%
12	70	1,260,942	405,045	211.3%	684,789	675,837	1.3%	110,041	112,420	2.1%
13	71	1,269,537	421,462	201.2%	707,936	696,450	1.6%	122,530	125,599	2.4%
14	72	1,279,260	438,380	191.8%	732,669	717,692	2.0%	134,659	139,180	3.2%
15	73	1,290,222	455,814	183.1%	759,103	739,581	2.6%	146,399	153,175	4.4%
16	74	1,302,551	473,780	174.9%	787,357	762,138	3.2%	157,719	167,597	5.9%
17	75	1,315,852	492,293	167.3%	816,308	785,384	3.8%	169,805	182,458	6.9%
18	76	1,330,147	511,372	160.1%	845,978	809,338	4.3%	182,672	197,773	7.6%
19	77	1,345,452	531,032	153.4%	876,373	834,023	4.8%	196,350	213,556	8.1%
20	78	1,361,759	551,292	147.0%	907,554	859,460	5.3%	210,815	229,819	8.3%
21	79	1,379,049	572,169	141.0%	939,581	885,674	5.7%	226,052	246,578	8.3%
22	80	1,397,276	593,684	135.4%	972,546	912,687	6.2%	242,014	263,849	8.3%
23	81	1,416,367	615,854	130.0%	1,006,593	940,524	6.6%	258,606	281,646	8.2%
24	82	1,436,216	638,701	124.9%	1,041,911	969,210	7.0%	275,703	299,987	8.1%
25	83	1,450,000	662,245	119.0%	1,078,742	998,771	7.4%	293,133	318,886	8.1%
26	84	1,450,000	686,507	111.2%	1,117,419	1,029,233	7.9%	310,648	338,362	8.2%
27	85	1,450,000	711,509	103.8%	1,158,358	1,060,625	8.4%	327,940	358,432	8.5%
28	86	1,450,000	737,273	96.7%	1,202,127	1,092,974	9.1%	344,570	379,115	9.1%
29	87	1,450,000	763,823	89.8%	1,249,814	1,126,310	9.9%	359,624	400,428	10.2%
30	88	1,450,000	791,183	83.3%	1,302,341	1,160,662	10.9%	372,408	422,391	11.8%
31	89	1,450,000	819,378	77.0%	1,360,883	1,196,062	12.1%	382,022	445,023	14.2%
32	90	1,450,000	848,432	70.9%	1,426,979	1,232,542	13.6%	387,279	468,347	17.3%
33	91	1,501,403	878,372	70.9%	1,501,403	1,270,135	15.4%	387,828	492,381	21.2%
37	95	1,842,165	1,007,549	82.8%	1,842,165	1,432,326	22.2%	388,404	596,077	34.8%
42	100	2,379,064	1,192,458	99.5%	2,379,064	1,664,492	30.0%	389,124	744,511	47.7%

# 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	<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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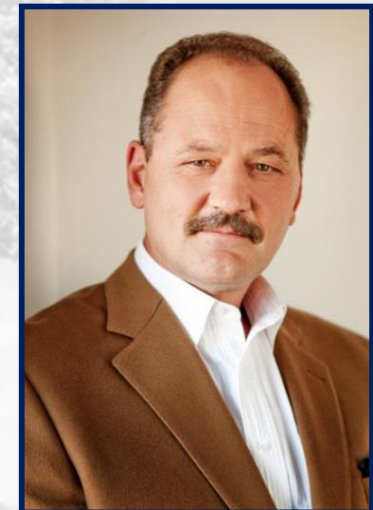
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