



**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>
  - **50% 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)

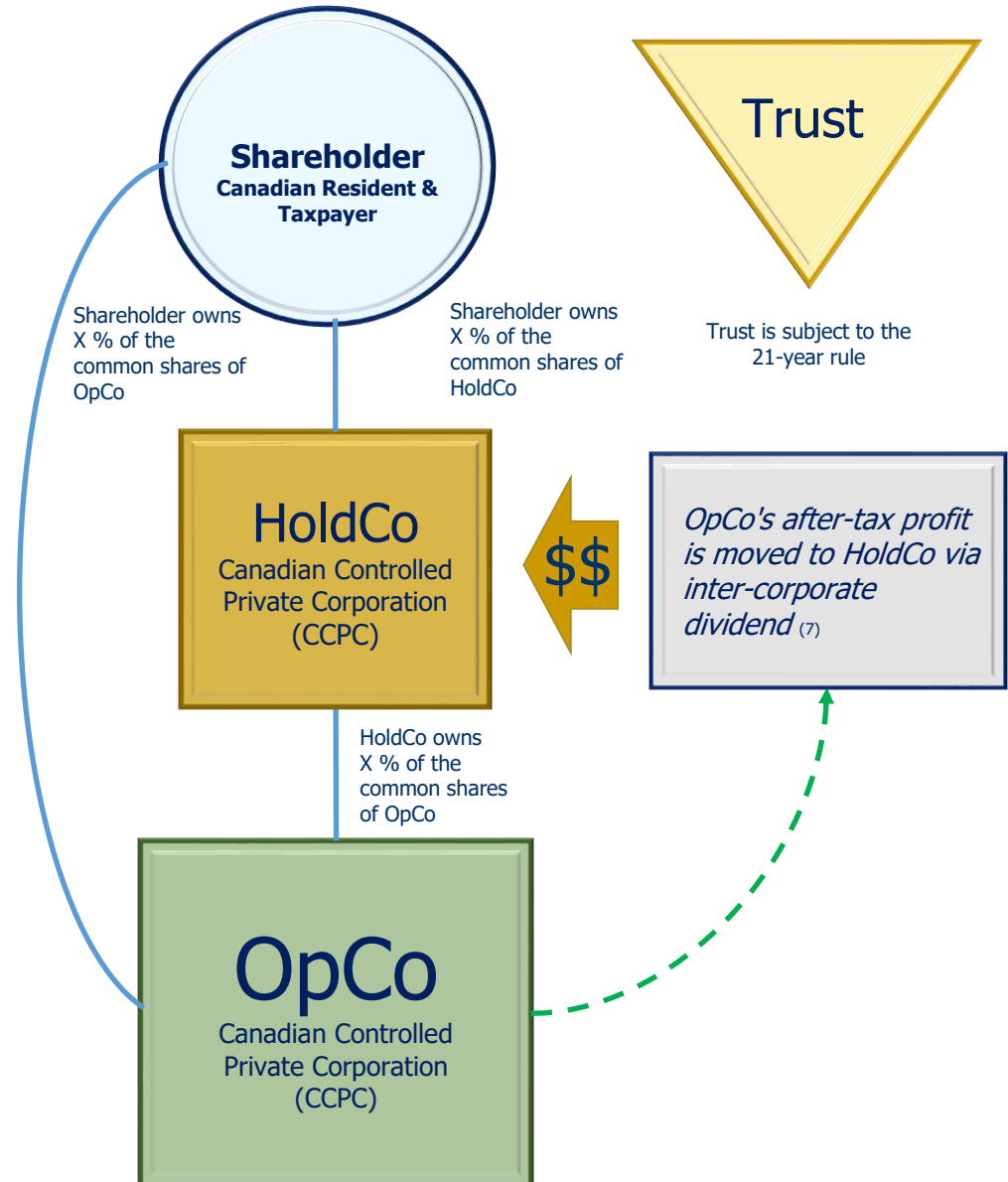
An owner generally establishes a HoldCo to:

- 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

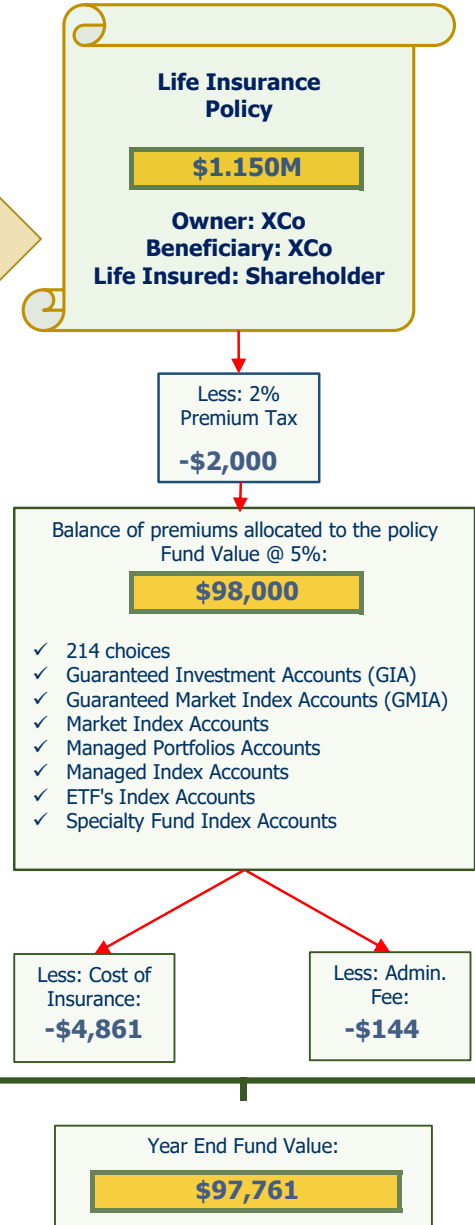
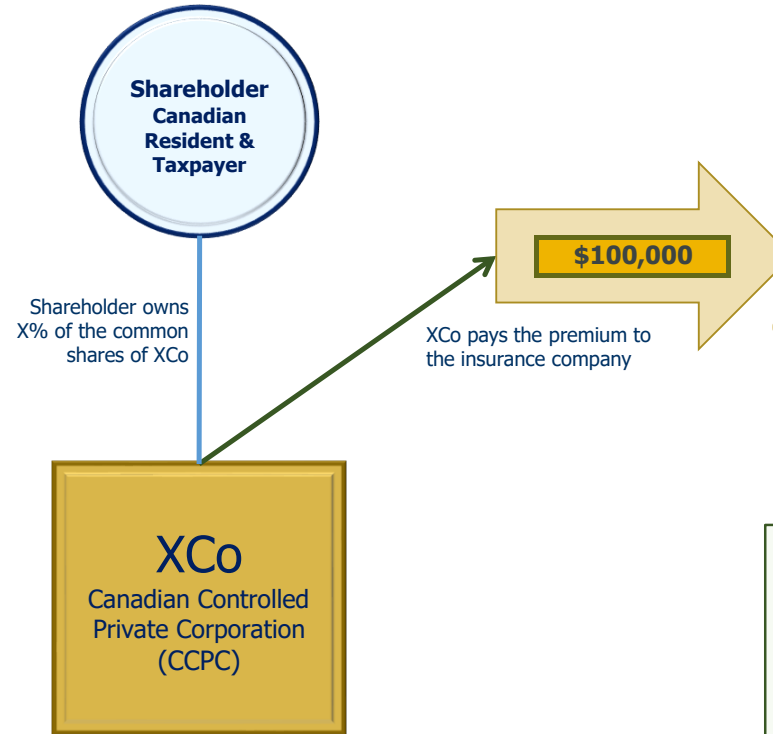


# Corporate Life Insurance Plan

## 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 83

Total investment:	\$	500,000
Total Income @ 5%:	\$	560,610
Tax paid @ 50%:	\$	(280,305)
<b>Net @ age 83:</b>	<b>\$</b>	<b>780,305</b>
NERDTH:	\$	171,920

### 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 83

Total investment:	\$	500,000
Policy fund @ 5%:	\$	597,987
Total costs:	\$	(230,741)
<b>Net @ age 83:</b>	<b>\$</b>	<b>867,247</b>
NERDTH:		N/A

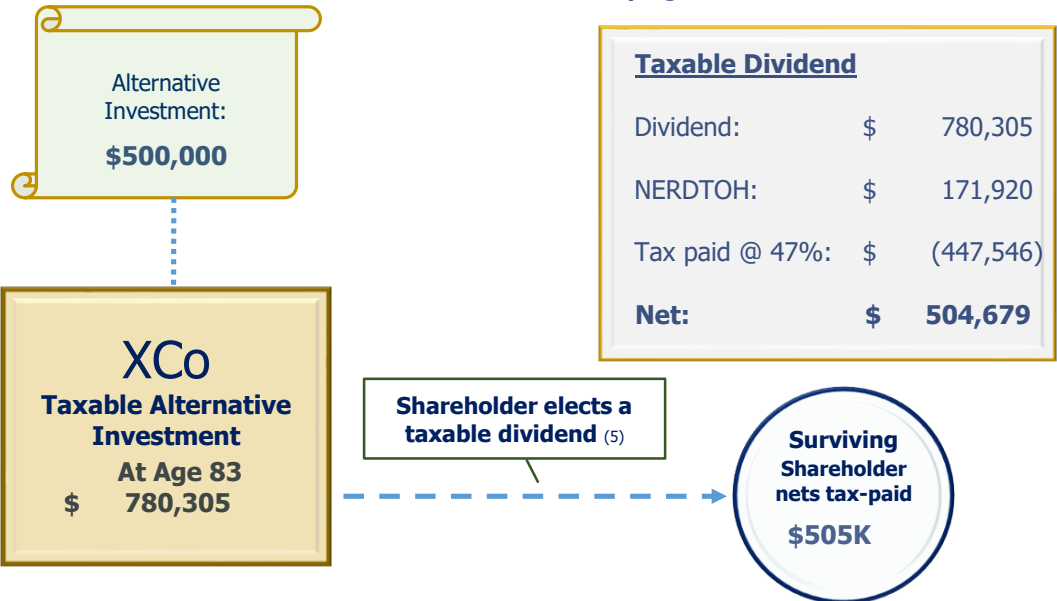
# Corporate Life Insurance Plan

## Problem & Solution - Dividend Tax

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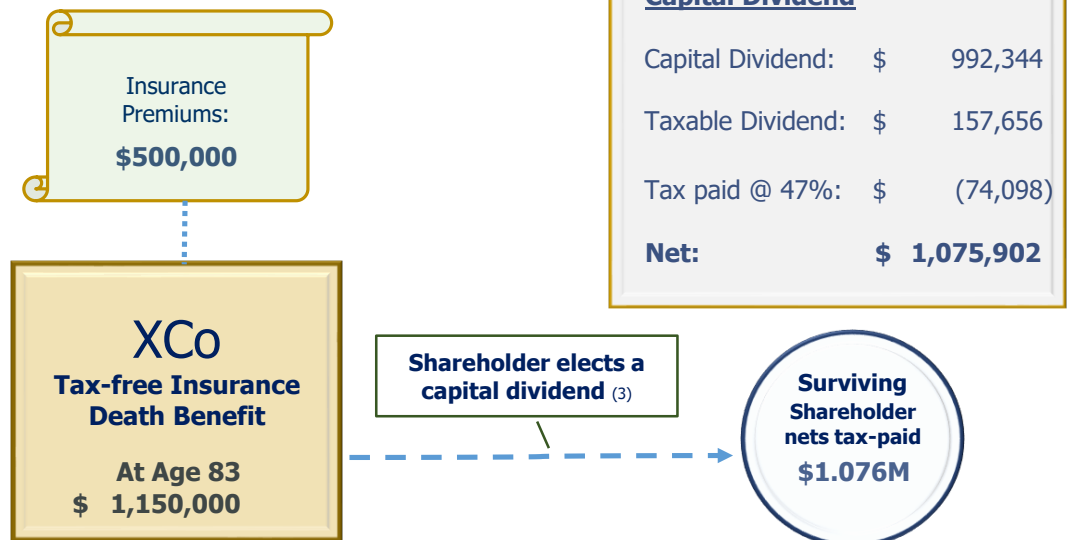
### Problem - Dividend Tax

- 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

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## Summary

Date: September 3, 2019  
 Prepared for: Male, 63, Non-smoker  
 Prepared by: Raymond Matt, CFP, CLU, TEP, CHS

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

Death benefit: \$1.150M  
 Deposit years: 5

### After-tax Estate Benefit

### Cash Value

### Cumulative Costs & Taxes

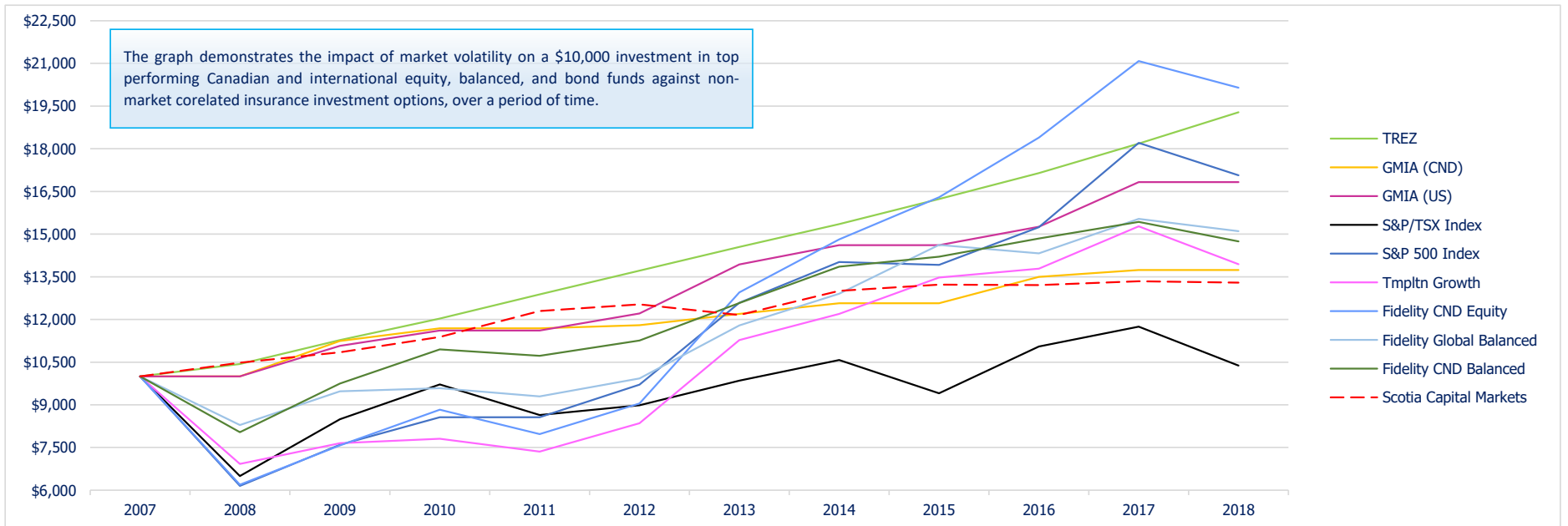
		After-tax Estate Benefit			Cash Value			Cumulative Costs & Taxes		
Year	Age	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Difference %
1	64	1,133,781	55,138	1956.3%	4,715	102,500	-2074.0%	7,005	2,500	-180.2%
2	65	1,106,987	112,466	884.3%	105,494	207,563	-96.8%	15,830	7,563	-109.3%
3	66	1,084,741	172,041	530.5%	210,288	315,252	-49.9%	25,652	15,252	-68.2%
4	67	1,065,759	233,918	355.6%	335,177	425,633	-27.0%	36,110	25,633	-40.9%
5	68	1,049,731	298,154	252.1%	450,986	538,774	-19.5%	46,894	38,774	-20.9%
6	69	931,952	309,671	200.9%	468,300	552,243	-17.9%	57,069	52,243	-9.2%
7	70	936,500	321,476	191.3%	502,875	566,049	-12.6%	66,423	66,049	-0.6%
8	71	941,786	333,577	182.3%	537,586	580,200	-7.9%	76,620	80,200	4.5%
9	72	947,867	345,979	174.0%	572,412	594,705	-3.9%	87,686	94,705	7.4%
10	73	954,794	358,692	166.2%	622,514	609,573	2.1%	99,966	109,573	8.8%
11	74	962,617	371,723	159.0%	641,596	624,812	2.6%	113,224	124,812	9.3%
12	75	971,379	385,079	152.3%	660,626	640,433	3.1%	127,508	140,433	9.2%
13	76	981,144	398,770	146.0%	681,194	656,443	3.6%	141,270	156,443	9.7%
14	77	991,971	412,802	140.3%	703,429	672,854	4.3%	154,460	172,854	10.6%
15	78	1,003,923	427,186	135.0%	727,474	689,676	5.2%	167,028	189,676	11.9%
16	79	1,017,075	441,928	130.1%	753,482	706,918	6.2%	178,915	206,918	13.5%
17	80	1,030,921	457,040	125.6%	780,313	724,591	7.1%	191,330	224,591	14.8%
18	81	1,045,403	472,529	121.2%	808,098	742,705	8.1%	204,188	242,705	15.9%
19	82	1,060,435	488,406	117.1%	837,004	761,273	9.0%	217,376	261,273	16.8%
20	83	1,075,902	504,679	113.2%	867,247	780,305	10.0%	230,741	280,305	17.7%
21	84	1,091,649	521,360	109.4%	899,120	799,813	11.0%	244,064	299,813	18.6%
22	85	1,107,478	538,457	105.7%	932,990	819,808	12.1%	257,074	319,808	19.6%
23	86	1,123,147	555,982	102.0%	969,355	840,303	13.3%	269,387	340,303	20.8%
24	87	1,138,365	573,945	98.3%	1,009,113	861,311	14.6%	280,258	361,311	22.4%
25	88	1,150,000	592,357	94.1%	1,053,058	882,843	16.2%	289,086	382,843	24.5%
26	89	1,150,000	611,229	88.1%	1,102,209	904,914	17.9%	295,096	404,914	27.1%
27	90	1,157,890	630,573	83.6%	1,157,890	927,537	19.9%	297,263	427,537	30.5%
28	91	1,218,597	650,401	87.4%	1,218,597	950,726	22.0%	297,407	450,726	34.0%
29	92	1,282,494	670,724	91.2%	1,282,494	974,494	24.0%	297,551	474,494	37.3%
30	93	1,349,750	691,555	95.2%	1,349,750	998,856	26.0%	297,695	498,856	40.3%
31	94	1,420,540	712,908	99.3%	1,420,540	1,023,828	27.9%	297,839	523,828	43.1%
32	95	1,495,051	734,794	103.5%	1,495,051	1,049,423	29.8%	297,983	549,423	45.8%
33	96	1,573,478	757,227	107.8%	1,573,478	1,075,659	31.6%	298,127	575,659	48.2%
34	97	1,656,027	780,221	112.3%	1,656,027	1,102,550	33.4%	298,271	602,550	50.5%
37	100	1,930,629	852,710	126.4%	1,930,629	1,187,326	38.5%	298,703	687,326	56.5%

# 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: 50.0%
- 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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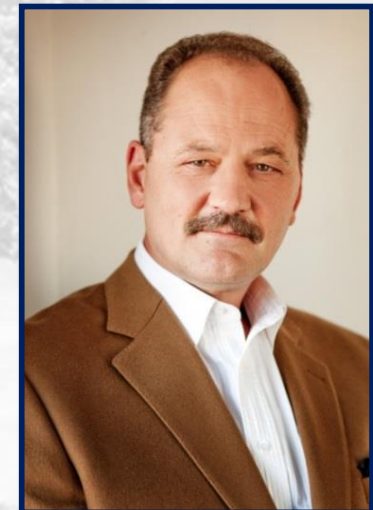
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