



**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)

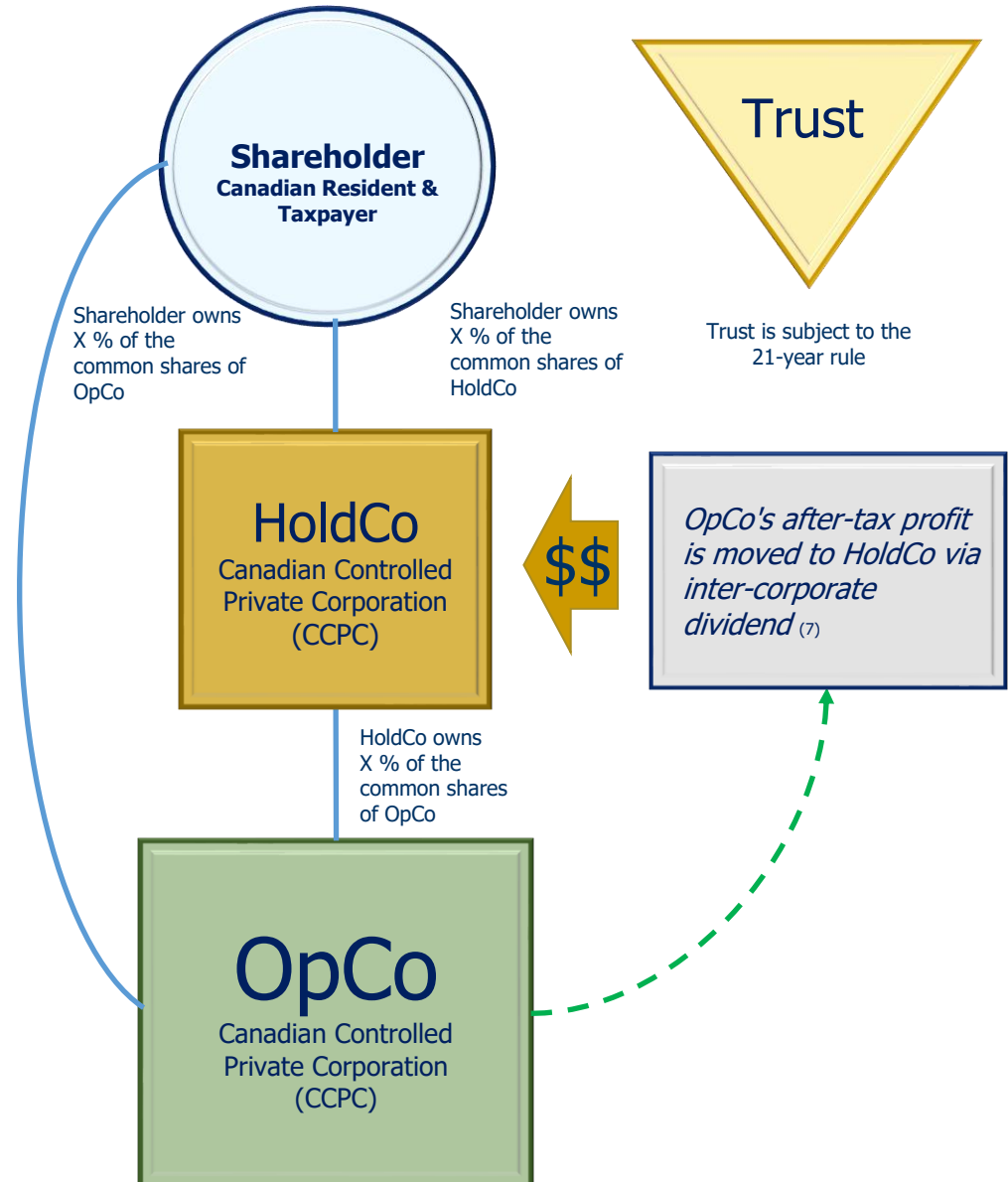
An owner generally establishes a HoldCo to:

- 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

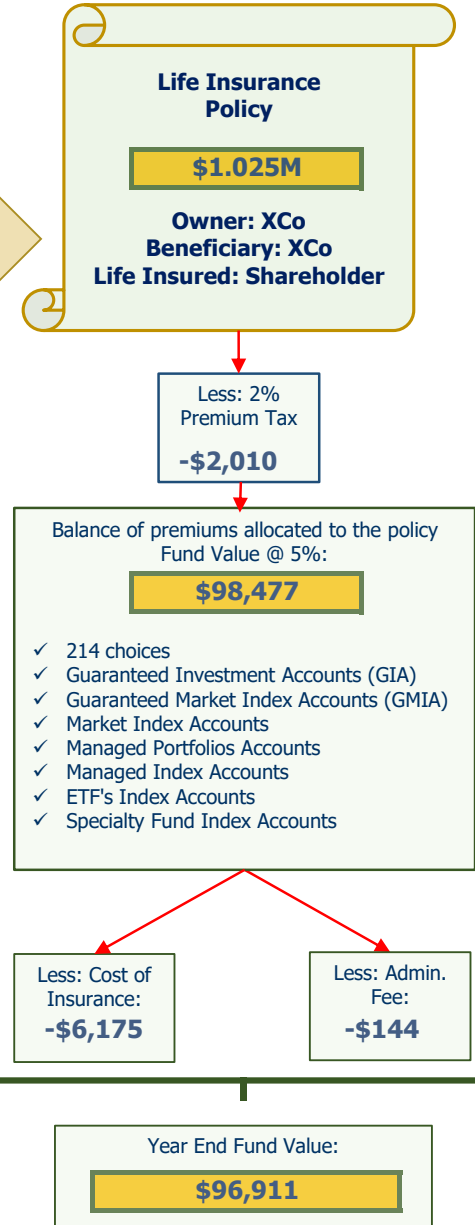
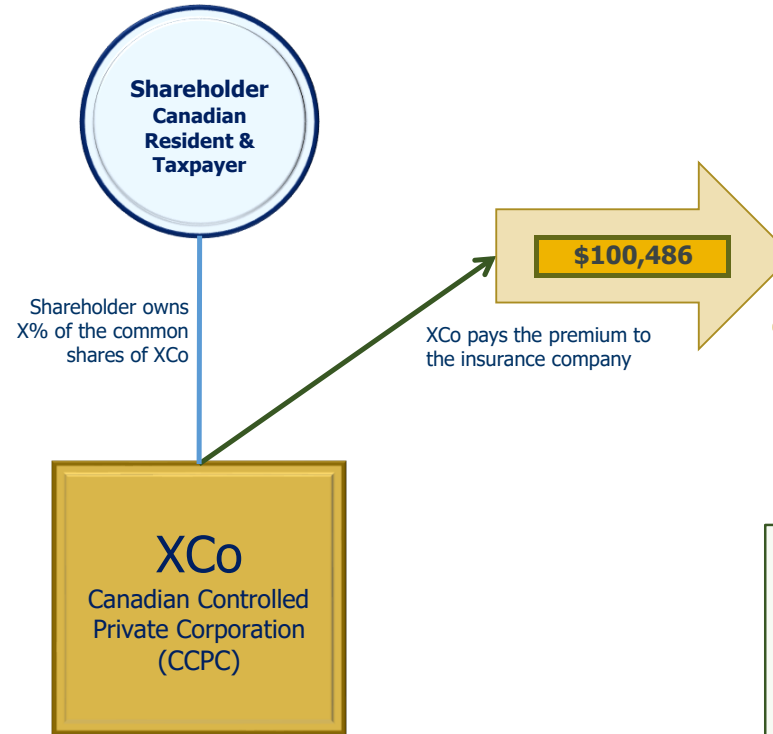


# Corporate Life Insurance Plan

## 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 <sup>(5)</sup>

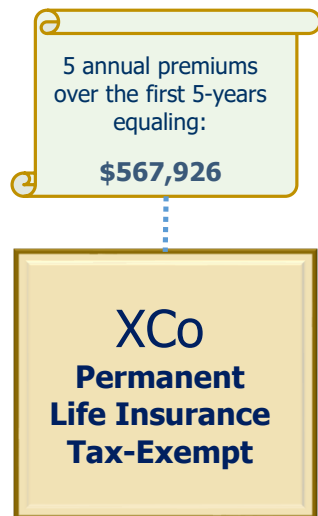


### Alternative Investment @ Age 84

Total investment:	\$	567,926
Total Income @ 5%:	\$	505,668
Tax paid @ 50%:	\$	(252,834)
<b>Net @ age 84:</b>	<b>\$</b>	<b>820,760</b>
NERDTH:	\$	155,072

### 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 <sup>(1)</sup>
- ✓ Reduces the impact of the SBD grind <sup>(6)</sup>
- ✓ 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 84

Total investment:	\$	567,926
Policy fund @ 5%:	\$	525,455
Total costs:	\$	(195,359)
<b>Net @ age 84:</b>	<b>\$</b>	<b>898,022</b>
NERDTH:		N/A

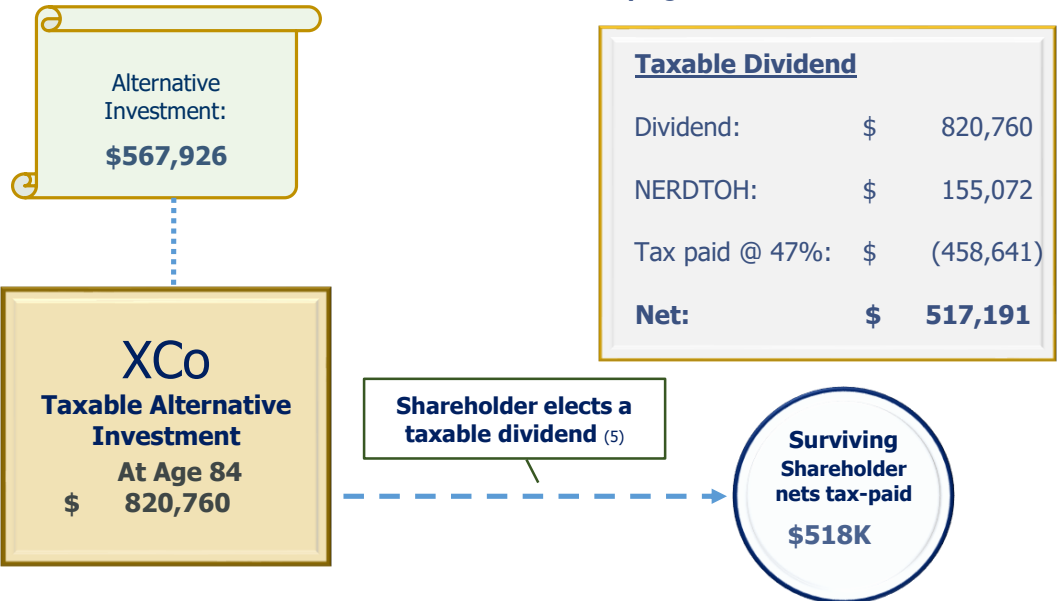
# Corporate Life Insurance Plan

## Problem & Solution - Dividend Tax

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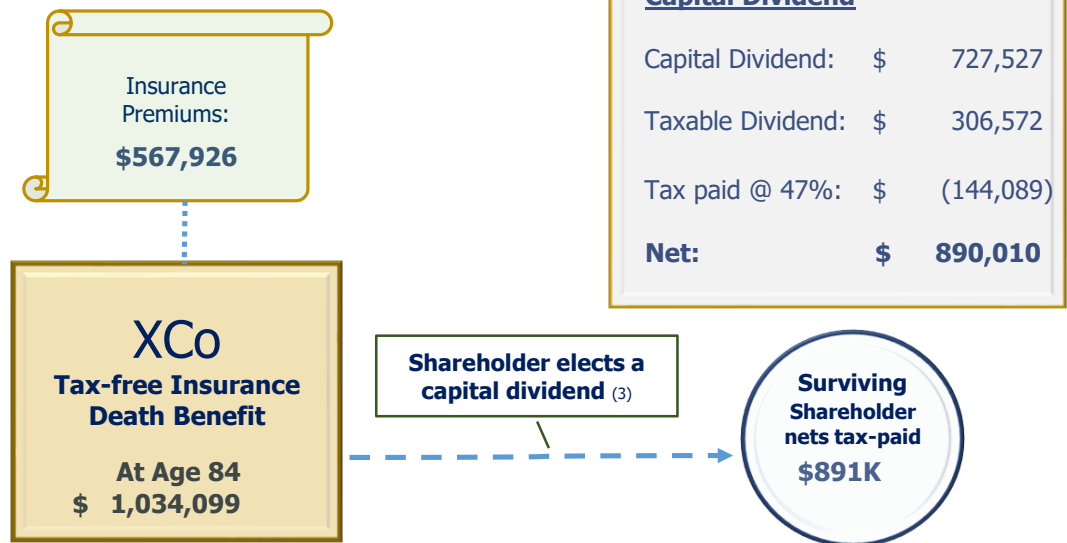
### Problem - Dividend Tax

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

Permanent Life Insurance: \$ 567,926  
 Alternative Investment: \$ 567,926

Death benefit: \$1.025M  
 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	68	1,029,649	55,406	1758.4%	-	102,999		8,329	2,512	-231.6%
2	69	1,034,745	116,908	785.1%	93,436	215,811	-131.0%	19,296	7,776	-148.2%
3	70	1,040,408	184,342	464.4%	210,186	337,989	-60.8%	31,953	16,019	-99.5%
4	71	1,046,850	257,749	306.2%	356,319	469,471	-31.8%	45,754	27,470	-66.6%
5	72	1,054,318	337,217	212.7%	497,448	610,281	-22.7%	60,238	42,355	-42.2%
6	73	872,836	350,263	149.2%	513,289	625,538	-21.9%	74,940	57,612	-30.1%
7	74	788,164	363,635	116.7%	551,125	641,176	-16.3%	86,880	73,250	-18.6%
8	75	794,310	377,341	110.5%	591,413	657,206	-11.1%	97,430	89,280	-9.1%
9	76	801,224	391,390	104.7%	632,170	673,636	-6.6%	108,648	105,710	-2.8%
10	77	808,906	405,790	99.3%	691,458	690,477	0.1%	120,810	122,551	1.4%
11	78	817,341	420,550	94.4%	714,692	707,739	1.0%	133,552	139,813	4.5%
12	79	826,495	435,679	89.7%	738,644	725,432	1.8%	146,785	157,506	6.8%
13	80	836,340	451,187	85.4%	764,941	743,568	2.8%	158,959	175,642	9.5%
14	81	846,832	467,082	81.3%	793,825	762,157	4.0%	169,962	194,231	12.5%
15	82	857,910	483,374	77.5%	825,558	781,211	5.4%	179,670	213,285	15.8%
16	83	869,479	500,074	73.9%	860,433	800,742	6.9%	187,944	232,815	19.3%
17	84	890,010	517,191	72.1%	898,022	820,760	8.6%	195,359	252,834	22.7%
18	85	927,453	534,736	73.4%	938,414	841,279	10.4%	201,969	273,353	26.1%
19	86	965,475	552,720	74.7%	981,148	862,311	12.1%	208,364	294,385	29.2%
20	87	1,003,822	571,153	75.8%	1,026,777	883,869	13.9%	214,125	315,943	32.2%
21	88	1,041,636	590,047	76.5%	1,075,842	905,966	15.8%	218,876	338,040	35.3%
22	89	1,077,853	609,414	76.9%	1,129,077	928,615	17.8%	222,076	360,689	38.4%
23	90	1,114,542	629,264	77.1%	1,187,231	951,830	19.8%	223,217	383,904	41.9%
24	91	1,189,114	649,611	83.1%	1,249,480	975,626	21.9%	223,361	407,700	45.2%
25	92	1,267,303	670,467	89.0%	1,315,000	1,000,017	24.0%	223,505	432,090	48.3%
26	93	1,349,264	691,844	95.0%	1,383,965	1,025,017	25.9%	223,649	457,091	51.1%
27	94	1,435,161	713,755	101.1%	1,456,553	1,050,642	27.9%	223,793	482,716	53.6%
28	95	1,525,163	736,215	107.2%	1,532,957	1,076,908	29.7%	223,937	508,982	56.0%
29	96	1,613,376	759,235	112.5%	1,613,376	1,103,831	31.6%	224,081	535,905	58.2%
30	97	1,698,022	782,832	116.9%	1,698,022	1,131,427	33.4%	224,225	563,501	60.2%
31	98	1,787,116	807,018	121.4%	1,787,116	1,159,713	35.1%	224,369	591,786	62.1%
32	99	1,880,893	831,808	126.1%	1,880,893	1,188,705	36.8%	224,513	620,779	63.8%
33	100	1,979,599	857,219	130.9%	1,979,599	1,218,423	38.5%	224,657	650,497	65.5%

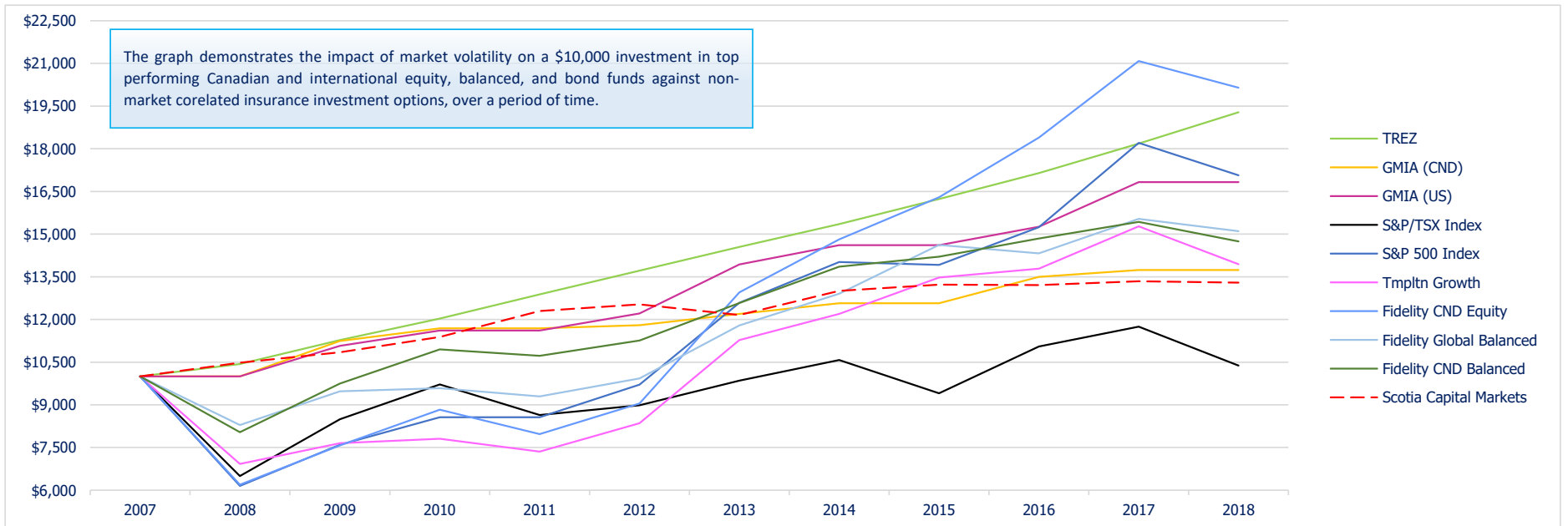


# Investment Options

## 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: 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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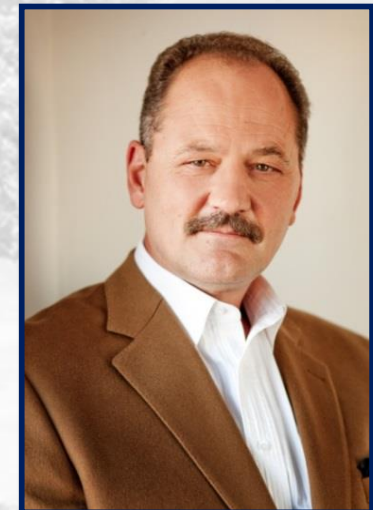
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