



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

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) ⁽⁸⁾
- Limit legal liability in certain circumstances
- Create an entity with an unlimited life span

Reorganization - Establishing a Holding Company (HoldCo)

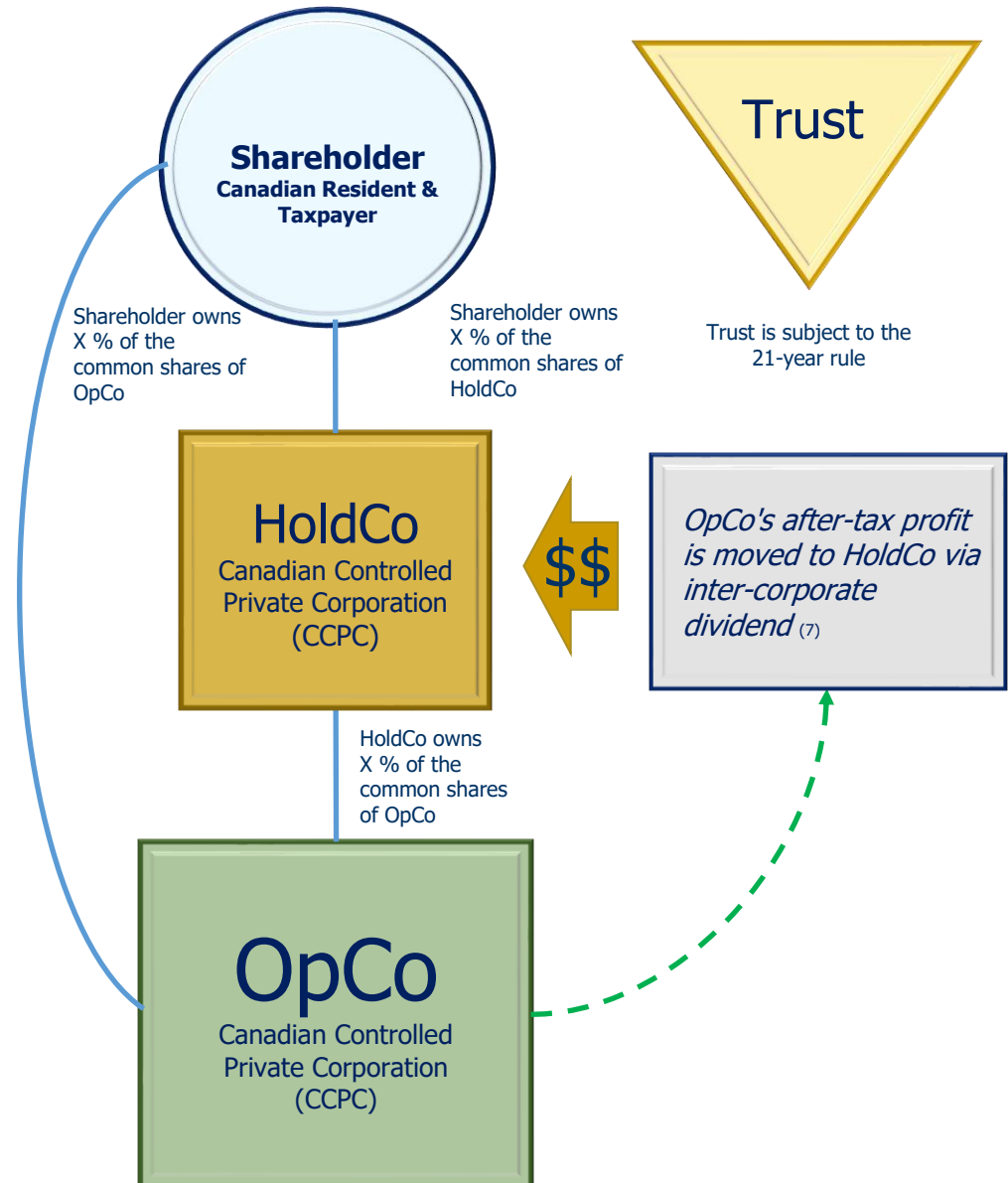
An owner generally establishes a HoldCo to:

- 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) ⁽⁸⁾
- 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

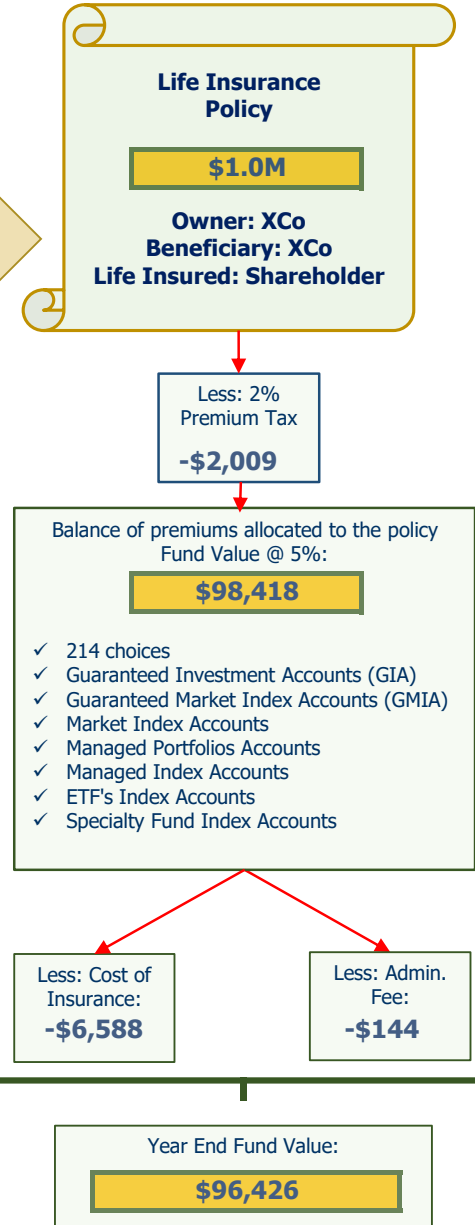
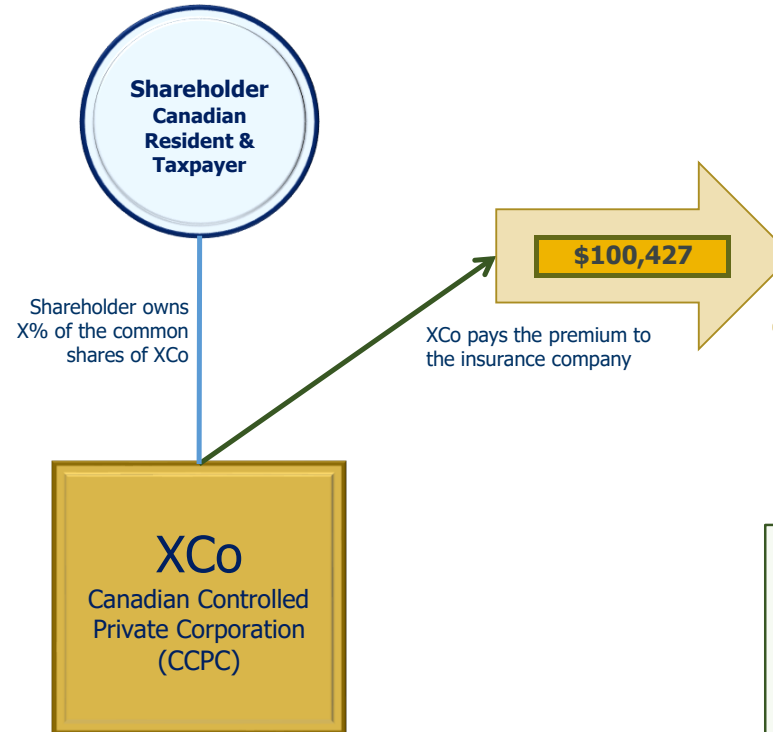


Corporate Life Insurance Plan

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

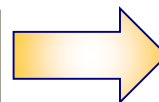
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Problem - Corporate Passive Income

- 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)

5 annual deposits over the first 5-years equaling:
\$568,354

XCo
Alternative Investment
50.0%



Alternative Investment @ Age 85

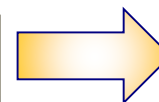
Total investment:	\$	568,354
Total Income @ 5%:	\$	506,023
Tax paid @ 50%:	\$	(253,011)
Net @ age 85:	\$	821,366
NERDTH:	\$	155,180

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

5 annual premiums over the first 5-years equaling:
\$568,354

XCo
Permanent Life Insurance Tax-Exempt



Insurance Investment @ Age 85

Total investment:	\$	568,354
Policy fund @ 5%:	\$	519,397
Total costs:	\$	(205,688)
Net @ age 85:	\$	882,063
NERDTH:		N/A

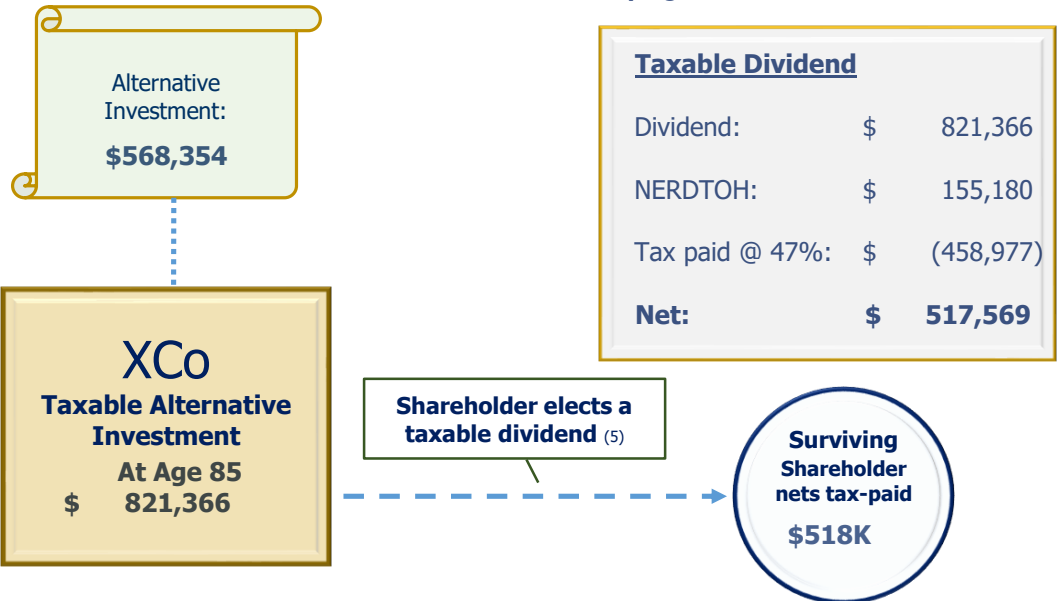
Corporate Life Insurance Plan

Problem & Solution - Dividend Tax

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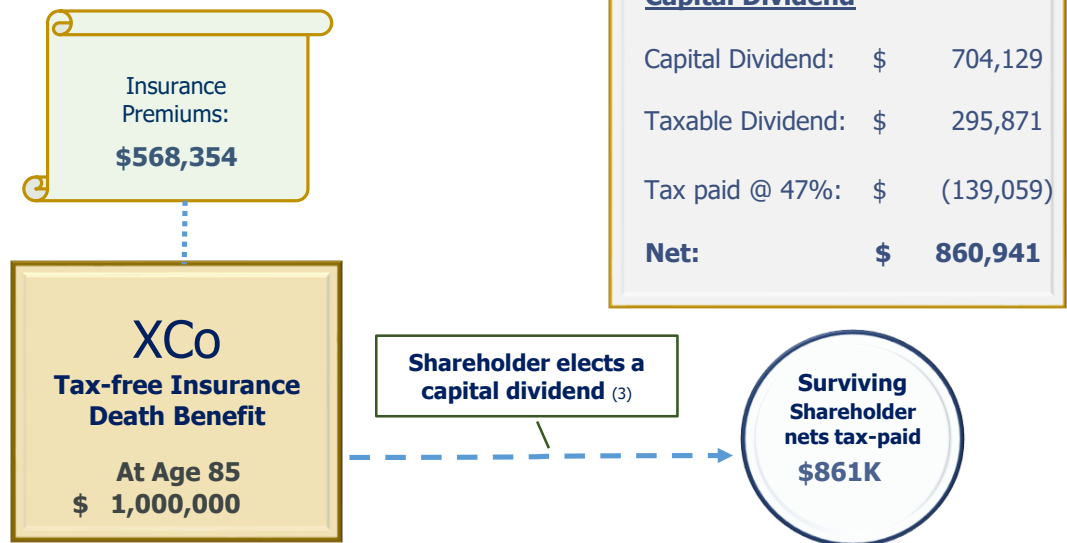
Problem - Dividend Tax

- 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 ⁽⁴⁾
- NERDTH subject to ordering rule ⁽⁵⁾



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

Permanent Life Insurance: \$ 568,354
 Alternative Investment: \$ 568,354

Death benefit: \$1.0M
 Deposit years: 5

After-tax Estate Benefit

Cash Value

Cumulative Costs & Taxes

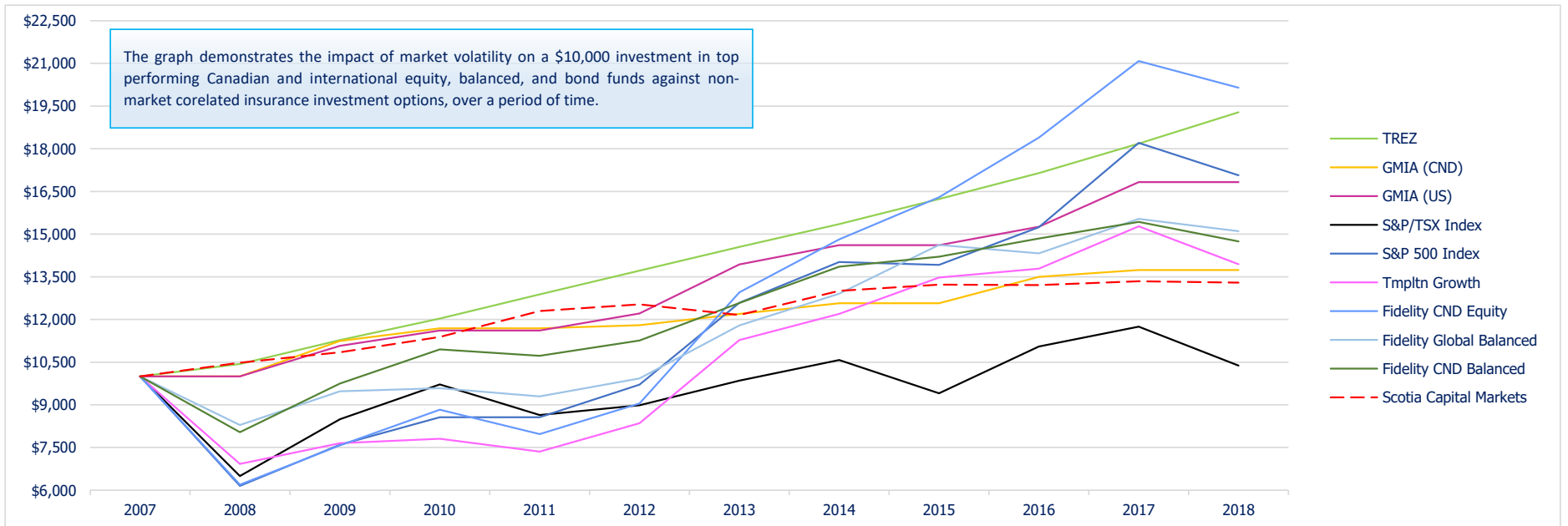
Year	Age	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Diff. %	Permanent Life Insurance	Alternative Investment	Difference %
1	69	1,003,492	55,373	1712.2%	-	102,937		8,741	2,511	-248.1%
2	70	1,007,390	116,921	761.6%	87,393	215,837	-147.0%	20,302	7,775	-161.1%
3	71	1,011,828	184,427	448.6%	203,537	338,149	-66.1%	33,631	16,023	-109.9%
4	72	1,017,037	257,931	294.3%	349,833	469,807	-34.3%	48,181	27,481	-75.3%
5	73	1,023,254	337,463	203.2%	490,211	610,731	-24.6%	63,383	42,377	-49.6%
6	74	845,008	350,518	141.1%	504,936	626,000	-24.0%	79,013	57,645	-37.1%
7	75	765,074	363,900	110.2%	542,723	641,650	-18.2%	91,600	73,295	-25.0%
8	76	771,572	377,616	104.3%	582,995	657,691	-12.8%	102,720	89,337	-15.0%
9	77	778,857	391,676	98.9%	623,656	674,133	-8.1%	114,541	105,779	-8.3%
10	78	786,917	406,086	93.8%	683,576	690,986	-1.1%	127,364	122,632	-3.9%
11	79	795,728	420,857	89.1%	705,686	708,261	-0.4%	140,796	139,907	-0.6%
12	80	805,245	435,998	84.7%	728,432	725,968	0.3%	154,740	157,613	1.8%
13	81	815,431	451,516	80.6%	753,526	744,117	1.2%	167,563	175,763	4.7%
14	82	826,233	467,423	76.8%	781,218	762,720	2.4%	179,141	194,365	7.8%
15	83	837,578	483,728	73.2%	811,790	781,788	3.7%	189,334	213,433	11.3%
16	84	849,365	500,440	69.7%	845,550	801,332	5.2%	197,988	232,978	15.0%
17	85	860,941	517,569	66.3%	882,063	821,366	6.9%	205,688	253,011	18.7%
18	86	892,898	535,127	66.9%	921,998	841,900	8.7%	211,925	273,546	22.5%
19	87	928,734	553,124	67.9%	964,868	862,947	10.6%	217,349	294,593	26.2%
20	88	964,231	571,571	68.7%	1,010,965	884,521	12.5%	221,822	316,167	29.8%
21	89	998,248	590,480	69.1%	1,060,980	906,634	14.5%	224,838	338,280	33.5%
22	90	1,032,713	609,860	69.3%	1,115,617	929,300	16.7%	225,919	360,946	37.4%
23	91	1,102,780	629,726	75.1%	1,174,103	952,532	18.9%	226,063	384,178	41.2%
24	92	1,176,243	650,088	80.9%	1,235,662	976,346	21.0%	226,207	407,991	44.6%
25	93	1,253,249	670,959	86.8%	1,300,456	1,000,754	23.0%	226,351	432,400	47.7%
26	94	1,333,955	692,351	92.7%	1,368,656	1,025,773	25.1%	226,495	457,419	50.5%
27	95	1,418,518	714,279	98.6%	1,440,440	1,051,418	27.0%	226,639	483,063	53.1%
28	96	1,507,100	736,755	104.6%	1,515,996	1,077,703	28.9%	226,783	509,349	55.5%
29	97	1,595,524	759,793	110.0%	1,595,524	1,104,646	30.8%	226,927	536,291	57.7%
30	98	1,679,232	783,406	114.4%	1,679,232	1,132,262	32.6%	227,071	563,907	59.7%
31	99	1,767,339	807,610	118.8%	1,767,339	1,160,568	34.3%	227,215	592,214	61.6%
32	100	1,860,076	832,419	123.5%	1,860,076	1,189,582	36.0%	227,359	621,228	63.4%

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



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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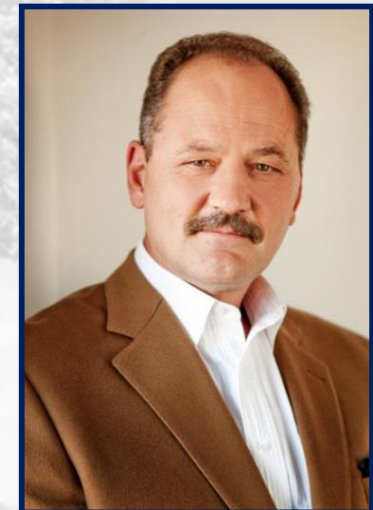
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