

The Exempt Transfer



Helping You Make An Informed Decision Tax Savings For Corporate Owners

Prepared for:

Male age 50, non-smoker

Date February 18, 2021

Presented by:

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Objectives & Comparisons

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The objectives are:

- o Preserve capital assets by providing liquidity for capital gains tax & recapture.
- o Provide a platform for tax-exempt growth & reduce taxable income.
- o Reduce the impact on the small business deduction on passive income in excess of \$50,000.
- o Convert retained earnings into capital dividends at life expectancy.
- o Bolster Investco's balance sheet.
- o Provide unencumbered tax-free liquidity for business continuity planning.

We will analyze & compare:

- o No life insurance vs. three different life insurance plans.
- o Isolate \$1.0 million of the fixed income portfolio for comparative.
- o Assets a moment prior to death.
- o Assets at death - life expectancy.
- o Post-mortem planning implications.

Assumed Fact Pattern and Assumptions

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The assumed fact pattern:

- o Mr A. is 50, non-smoker; married; Canadian resident and taxpayer.
- o Mr A. owns 100% of the common shares of Investco.
- o Shares of Investco have nominal PUC and ACB.
- o Isolate a portion of Investco's fixed income portfolio
 - Fixed income: \$2,000,000
- o Annual dividends are paid to recoup Non-Eligible Dividend Tax on Hand (NERDTH).*
- o Non-eligible dividends are reinvested by the shareholders.
- o Mr A.'s spouse dies first and all assets are transferred per ss 70(6).
- o Death of the last life insured occurs at age 80.
- o No Freeze was previously undertaken.

The assumptions applied are:

- o Three different insurance plans:
 - Term-to-100.
 - Universal Life Face plus Fund with level cost of insurance.
 - Participating Whole Life (Par).
- o Returns:
 - Fixed income: 3.50%
 - Universal Life plan: 3.50%
 - Reinvested dividends: 3.50%
 - Current Par dividend interest rate: 6.15%
 - Illustrated Par dividend interest rate: 4.15%
- o Tax paid annually on reinvested Shareholder dividends.*
- o Top marginal tax rates are applied.

Investco Assets & Reinvested Shareholder Dividends Prior To Death

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Investco Assets Prior to Death - Age 80

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,059,926	\$ 1,445,632	\$ 1,031,447	\$ 1,031,448
Life insurance cash surrender value	-	-	1,151,304	1,697,744
NERDTOH refund*	22,103	15,515	11,068	11,068
Total Investco Assets	\$ 2,082,029	\$ 1,461,148	\$ 2,193,819	\$ 2,740,259

Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 1,112,738	\$ 958,677	\$ 637,466	\$ 637,466
Total Assets Prior to Death	\$ 3,194,767	\$ 2,419,825	\$ 2,831,284	\$ 3,377,725
Total Assets Relative to No Life Insurance	100%	75.7%	88.6%	105.7%

*Annual dividends were paid to the shareholder to recoup Non-Eligible Dividend Tax on Hand (NERDTOH) and reinvested.

Investco Assets & Reinvested Shareholder Dividends at Death

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Investco Assets at Death - Age 80

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,059,926	\$ 1,445,632	\$ 1,031,447	\$ 1,031,448
Life insurance death benefit	-	1,485,116	3,151,304	2,157,343
NERDTOH refund	22,103	15,515	11,068	11,068
Total Investco Assets	\$ 2,082,029	\$ 2,946,264	\$ 4,193,819	\$ 3,199,858

Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	-	-
Taxes in Estate on wind-up	986,626	781,596	704,875	820,805

Net Investco Assets Received by Estate

\$ 1,095,403	\$ 2,164,668	\$ 3,488,944	\$ 2,379,053
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Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 1,112,738	\$ 958,677	\$ 637,466	\$ 637,466
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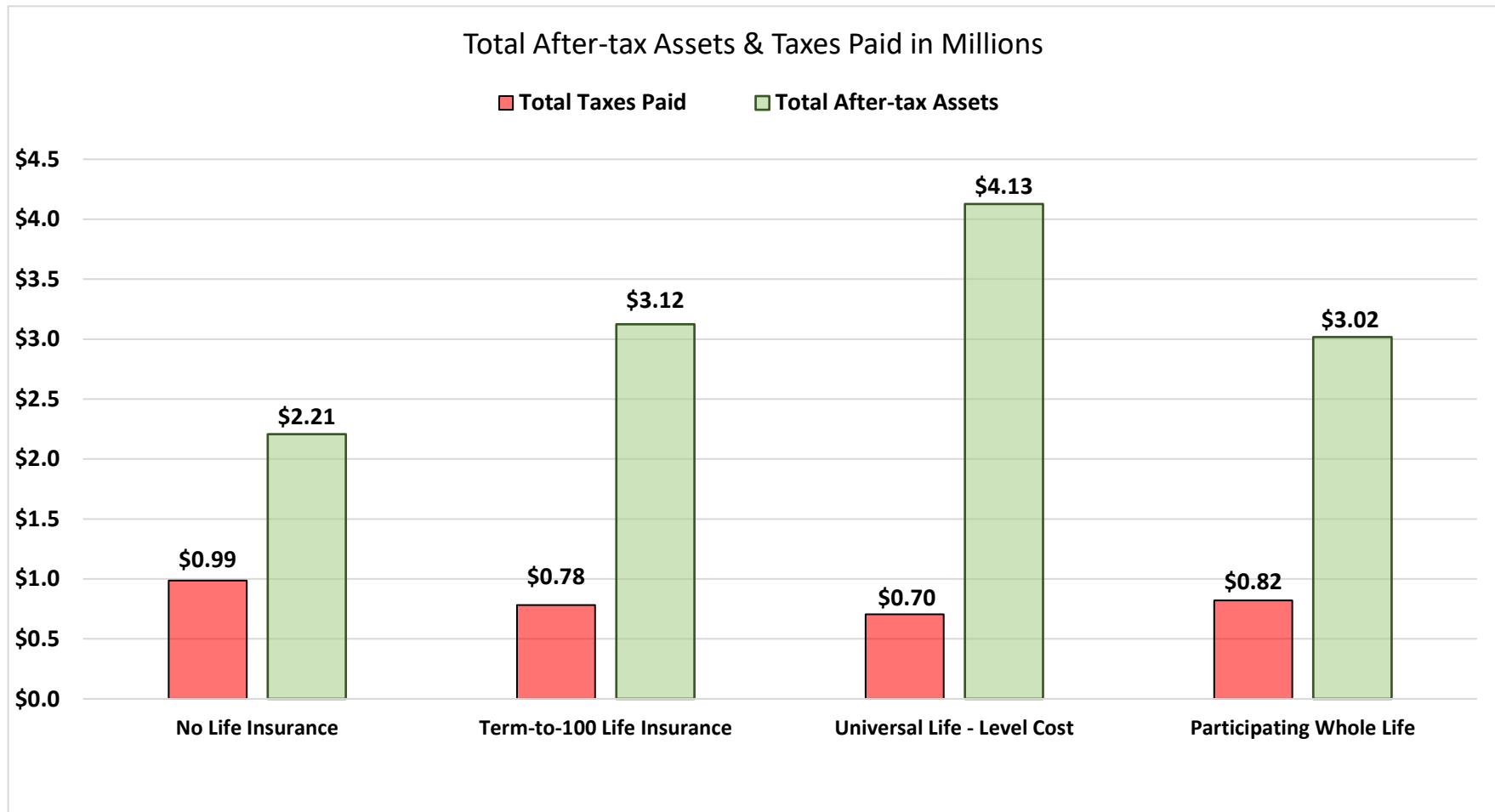
Total Assets & Reinvested Shareholder Dividends

\$ 2,208,141	\$ 3,123,345	\$ 4,126,410	\$ 3,016,519
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Taxes as a % of corporate assets	47.39%	26.53%	16.81%	25.65%
Total Assets Relative to No Life Insurance	100%	141.4%	186.9%	136.6%

Total After-tax Assets & Taxes Paid in Millions - Graph

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Corporate Owned Universal Life - Diagram

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