

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: 5.00%
 - Universal Life plan: 5.00%
 - Reinvested dividends: 5.00%
 - Current Par dividend interest rate: 6.15%
 - Illustrated Par dividend interest rate: 5.15%
- 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	\$ 2,086,598	\$ 1,465,984	\$ 1,045,462	\$ 1,045,462
Life insurance cash surrender value	-	-	1,919,026	2,146,625
NERDTH refund*	31,979	22,475	16,023	16,023
Total Investco Assets	\$ 2,118,577	\$ 1,488,459	\$ 2,980,510	\$ 3,208,110

Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 1,793,934	\$ 1,554,163	\$ 1,037,752	\$ 1,037,752
Total Assets Prior to Death	\$ 3,912,510	\$ 3,042,622	\$ 4,018,262	\$ 4,245,862
Total Assets Relative to No Life Insurance	100%	77.8%	102.7%	108.5%

*Annual dividends were paid to the shareholder to recoup Non-Eligible Dividend Tax on Hand (NERDTH) 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	\$ 2,086,598	\$ 1,465,984	\$ 1,045,462	\$ 1,045,462
Life insurance death benefit	-	1,485,116	3,958,246	2,743,739
NERDTH refund	31,979	22,475	16,023	16,023
Total Investco Assets	\$ 2,118,577	\$ 2,973,575	\$ 5,019,730	\$ 3,805,224

Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	323	-
Taxes in Estate on wind-up	1,003,946	794,538	705,636	802,028

Net Investco Assets Received by Estate

\$ 1,114,631	\$ 2,179,037	\$ 4,313,771	\$ 3,003,196
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Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 1,793,934	\$ 1,554,163	\$ 1,037,752	\$ 1,037,752
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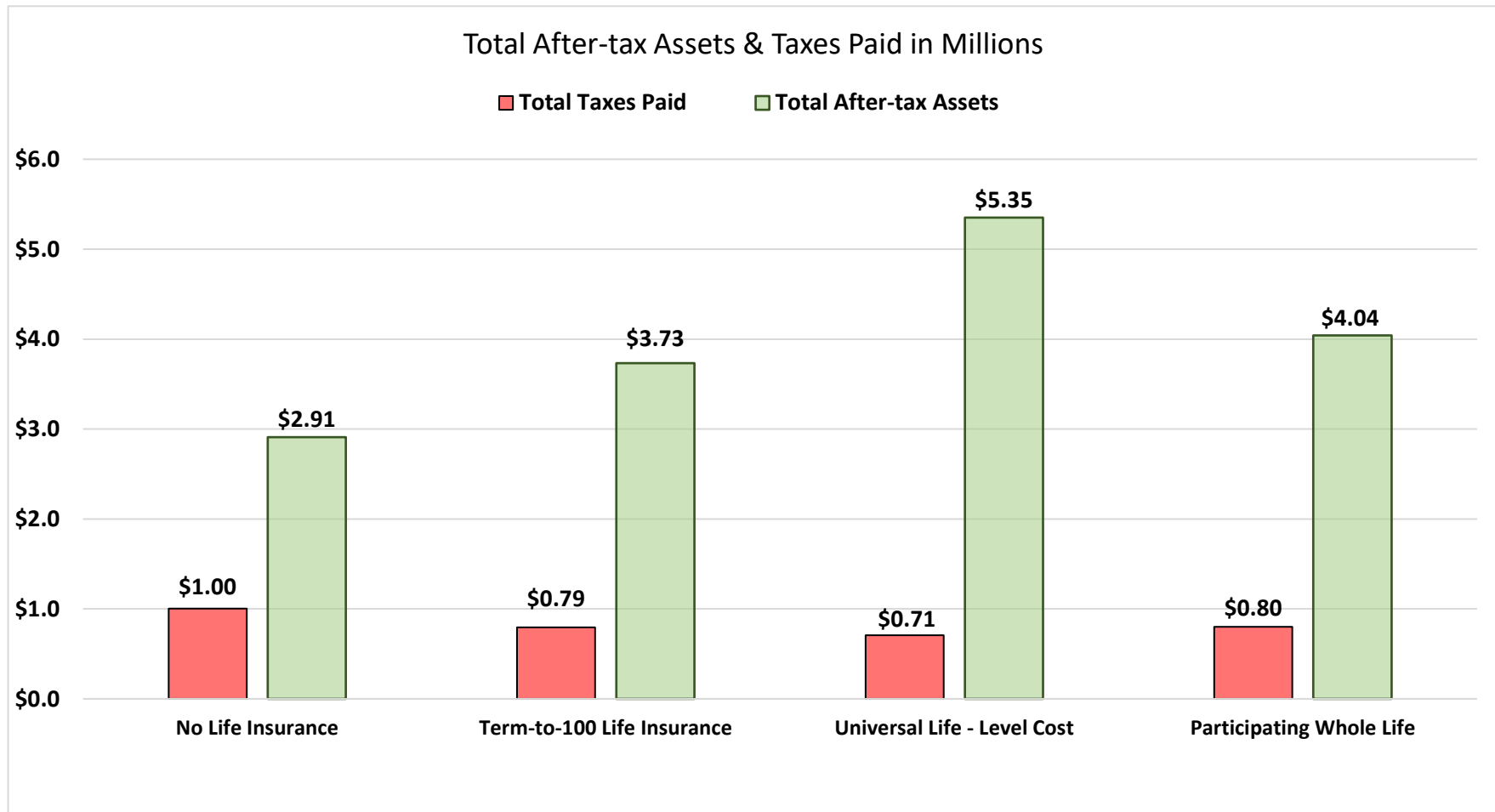
Total Assets & Reinvested Shareholder Dividends

\$ 2,908,564	\$ 3,733,199	\$ 5,351,523	\$ 4,040,948
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Taxes as a % of corporate assets	47.39%	26.72%	14.06%	21.08%
Total Assets Relative to No Life Insurance	100%	128.4%	184.0%	138.9%

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

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Corporate Owned Universal Life - Diagram

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