

The Exempt Transfer



Helping You Make An Informed Decision Tax Savings For Corporate Owners

Prepared for:

Male age 55, 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 55, 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 81.
- 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 81

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,056,532	\$ 1,465,480	\$ 1,029,748	\$ 1,029,749
Life insurance cash surrender value	-	-	761,929	1,475,556
NERDTH refund*	22,067	15,729	11,049	11,049
Total Investco Assets	\$ 2,078,599	\$ 1,481,209	\$ 1,802,726	\$ 2,516,354

Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 925,891	\$ 801,010	\$ 538,889	\$ 538,889
Total Assets Prior to Death	\$ 3,004,489	\$ 2,282,219	\$ 2,341,616	\$ 3,055,243
Total Assets Relative to No Life Insurance	100%	76.0%	77.9%	101.7%

*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 81

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,056,532	\$ 1,465,480	\$ 1,029,748	\$ 1,029,749
Life insurance death benefit	-	1,278,414	2,761,929	1,839,210
NERDTOH refund	22,067	15,729	11,049	11,049
Total Investco Assets	\$ 2,078,599	\$ 2,759,623	\$ 3,802,726	\$ 2,880,008

Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	-	-
Taxes in Estate on wind-up	985,001	793,150	681,488	840,637

Net Investco Assets Received by Estate

\$ 1,093,598	\$ 1,966,473	\$ 3,121,238	\$ 2,039,370
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Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 925,891	\$ 801,010	\$ 538,889	\$ 538,889
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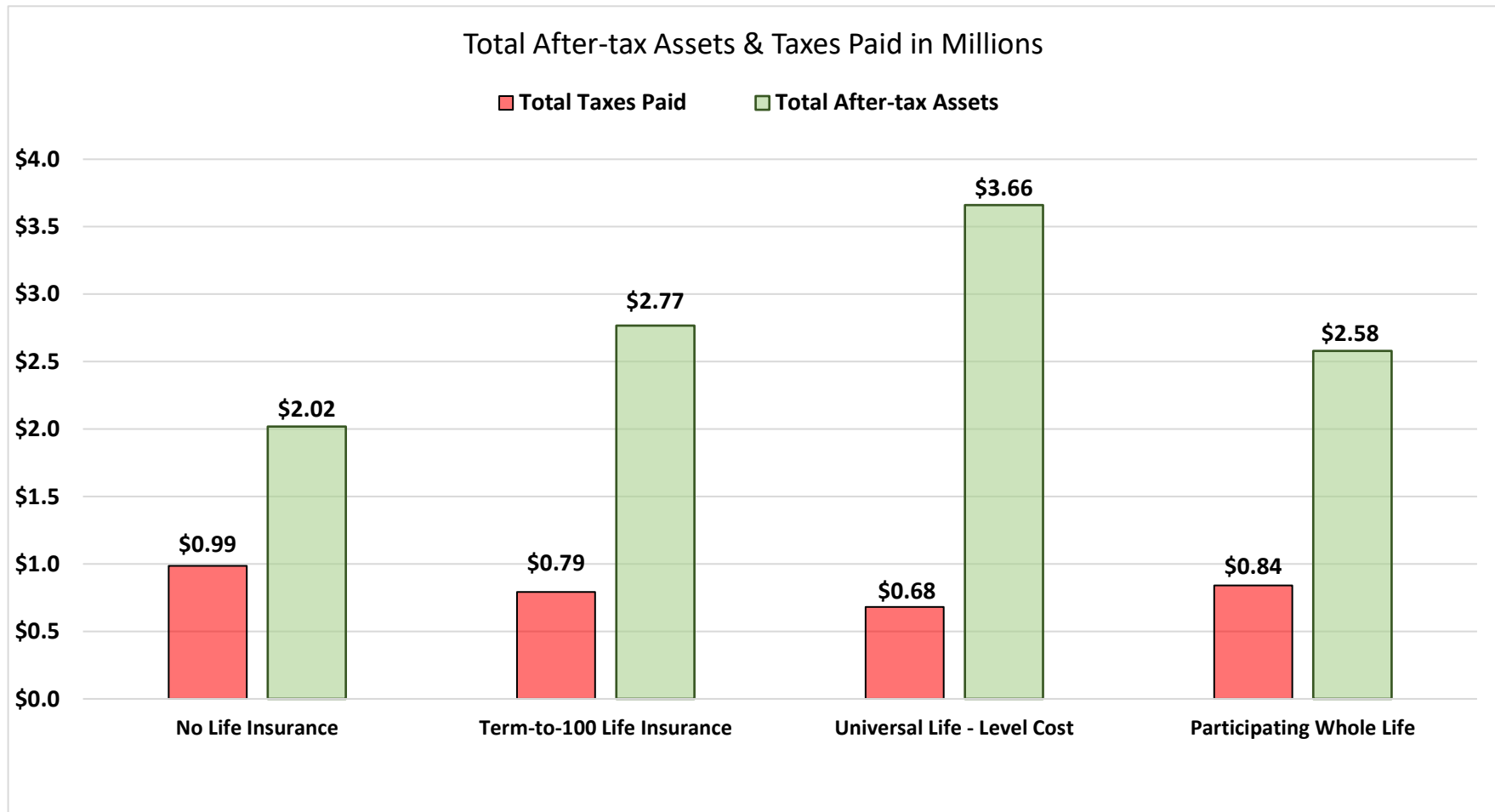
Total Assets & Reinvested Shareholder Dividends

\$ 2,019,489	\$ 2,767,483	\$ 3,660,127	\$ 2,578,260
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Taxes as a % of corporate assets	47.39%	28.74%	17.92%	29.19%
Total Assets Relative to No Life Insurance	100%	137.0%	181.2%	127.7%

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

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Corporate Owned Universal Life - Diagram

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