

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: 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 81

Fixed income portfolio
 Life insurance cash surrender value
 NERDTH refund*

Total Investco Assets

No Life Insurance	Term-to-100 Life Insurance	Universal Life - Level Cost	Participating Whole Life
\$ 2,081,653	\$ 1,484,737	\$ 1,042,984	\$ 1,042,985
-	-	1,260,159	1,797,635
31,903	22,763	15,985	15,985
\$ 2,113,556	\$ 1,507,500	\$ 2,319,127	\$ 2,856,604

Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*

Total Assets Prior to Death

\$ 1,468,520	\$ 1,276,310	\$ 862,513	\$ 862,513
\$ 3,582,076	\$ 2,783,810	\$ 3,181,640	\$ 3,719,117

Total Assets Relative to No Life Insurance	100%	77.7%	88.8%	103.8%
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*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

Fixed income portfolio
 Life insurance death benefit
 NERDTH refund
Total Investco Assets

No Life Insurance	Term-to-100 Life Insurance	Universal Life - Level Cost	Participating Whole Life
\$ 2,081,653	\$ 1,484,737	\$ 1,042,984	\$ 1,042,985
-	1,278,414	3,260,159	2,253,678
31,903	22,763	15,985	15,985
\$ 2,113,556	\$ 2,785,914	\$ 4,319,128	\$ 3,312,647

Less Taxes Paid

Corporate non-refundable tax
 Taxes on Terminal return
 Taxes in Estate on wind-up

\$ -	\$ -	\$ -	\$ -
-	-	-	-
1,001,567	805,609	690,100	830,811

Net Investco Assets Received by Estate

\$ 1,111,989	\$ 1,980,305	\$ 3,629,028	\$ 2,481,836
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Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends

\$ 1,468,520	\$ 1,276,310	\$ 862,513	\$ 862,513
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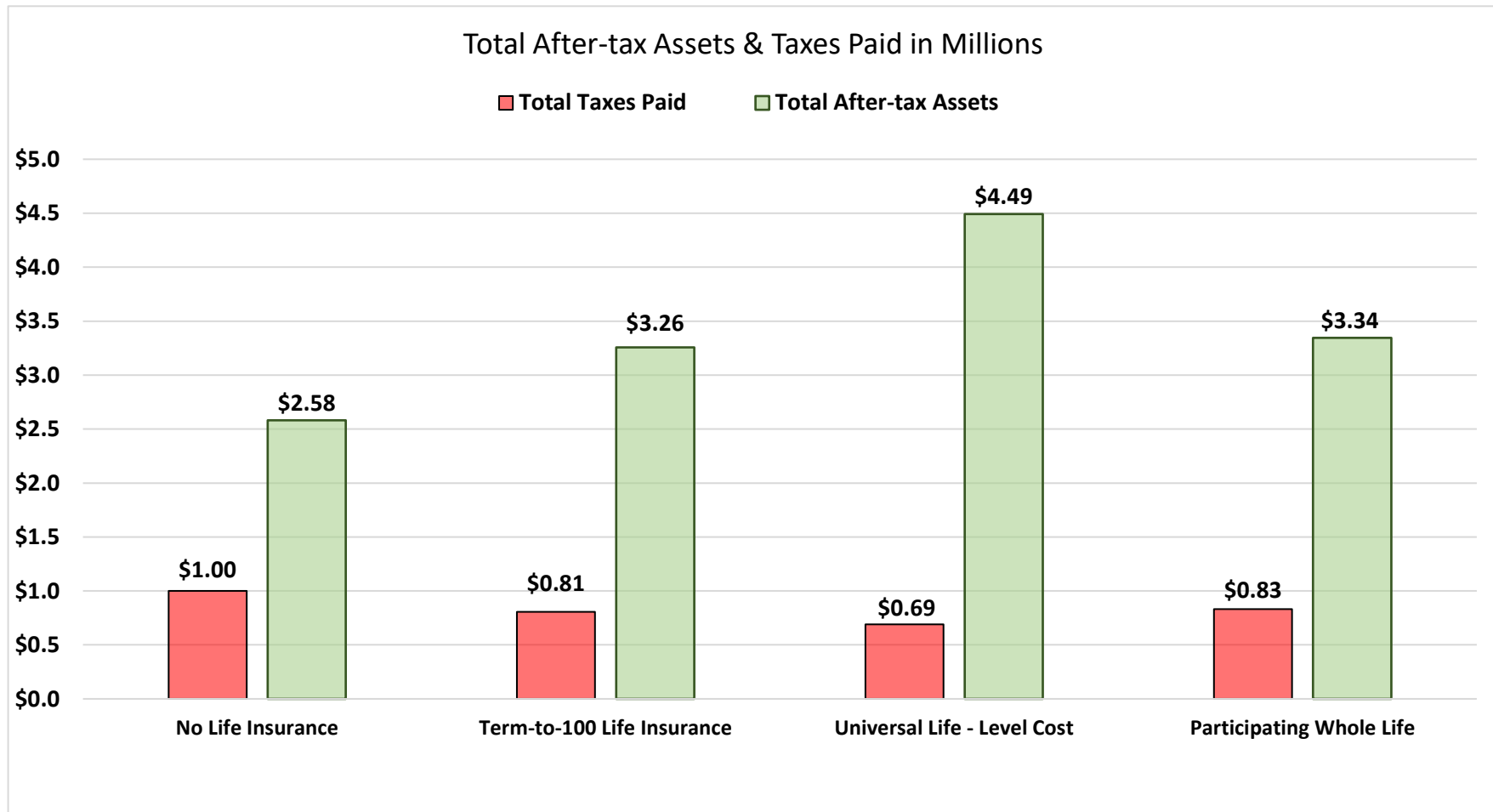
Total Assets & Reinvested Shareholder Dividends

\$ 2,580,509	\$ 3,256,615	\$ 4,491,541	\$ 3,344,349
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Taxes as a % of corporate assets	47.39%	28.92%	15.98%	25.08%
Total Assets Relative to No Life Insurance	100%	126.2%	174.1%	129.6%

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

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Corporate Owned Universal Life - Diagram

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