

The Exempt Transfer



Helping You Make An Informed Decision Tax Savings For Corporate Owners

Prepared for:

Male age 60, 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 60, 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 82.
- 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: 4.00%
 - Universal Life plan: 4.00%
 - Reinvested dividends: 4.00%
 - 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 82

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,060,948	\$ 1,496,997	\$ 1,032,175	\$ 1,032,175
Life insurance cash surrender value	-	-	885,367	1,486,024
NERDTH refund*	25,272	18,363	12,657	12,657
Total Investco Assets	\$ 2,086,220	\$ 1,515,360	\$ 1,930,199	\$ 2,530,856

Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 883,793	\$ 769,959	\$ 527,053	\$ 527,053
Total Assets Prior to Death	\$ 2,970,012	\$ 2,285,319	\$ 2,457,251	\$ 3,057,909
Total Assets Relative to No Life Insurance	100%	76.9%	82.7%	103.0%

*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 82

	No Life Insurance	Term-to-100 Life Insurance	Universal Life - Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,060,948	\$ 1,496,997	\$ 1,032,175	\$ 1,032,175
Life insurance death benefit	-	1,075,552	2,385,367	1,826,453
NERDTOH refund	25,272	18,363	12,657	12,657
Total Investco Assets	\$ 2,086,220	\$ 2,590,912	\$ 3,430,199	\$ 2,871,285

Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	-	-
Taxes in Estate on wind-up	988,612	815,748	741,436	853,621

Net Investco Assets Received by Estate

\$ 1,097,608	\$ 1,775,164	\$ 2,688,763	\$ 2,017,664
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Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 883,793	\$ 769,959	\$ 527,053	\$ 527,053
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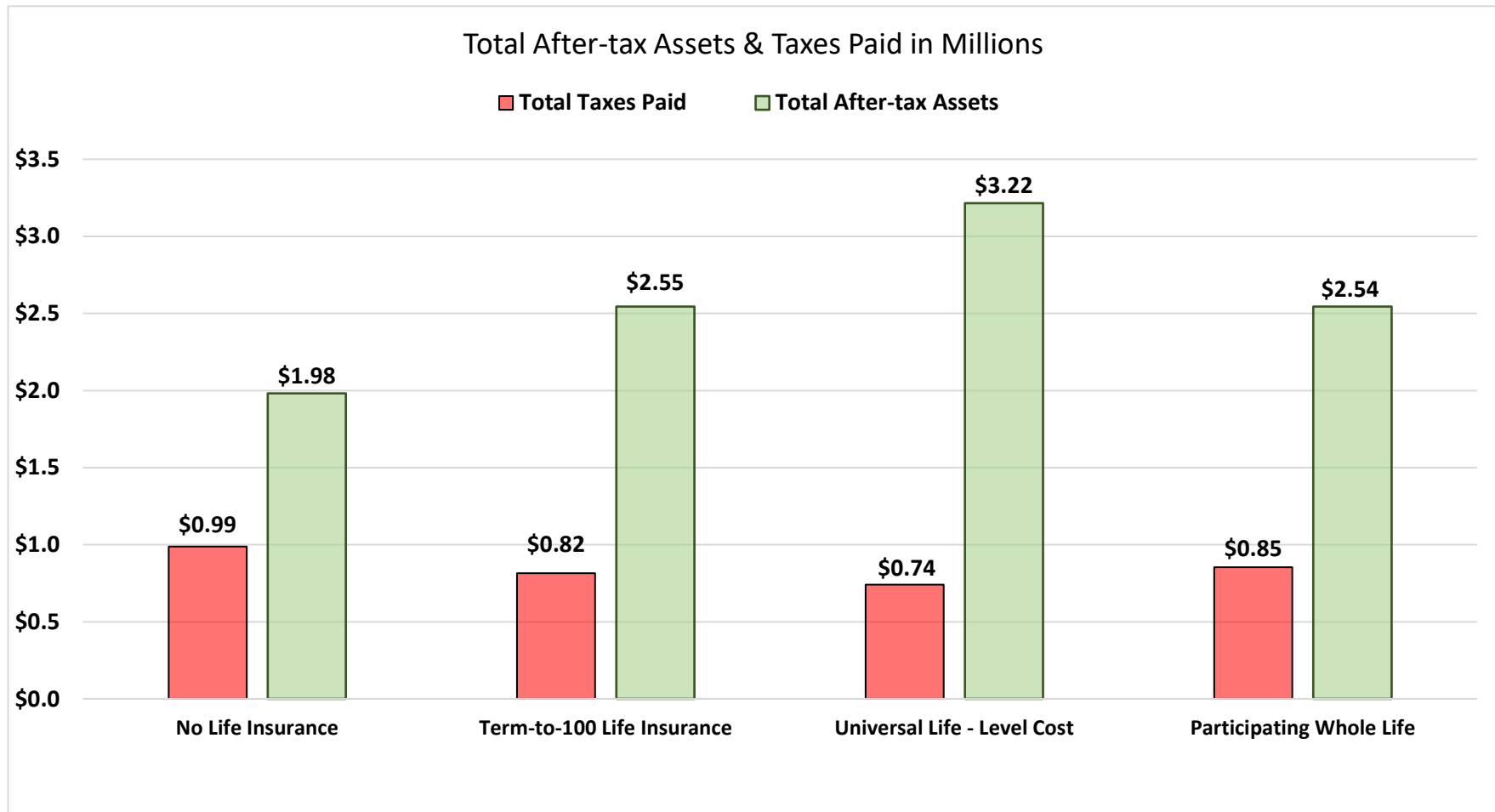
Total Assets & Reinvested Shareholder Dividends

\$ 1,981,400	\$ 2,545,123	\$ 3,215,816	\$ 2,544,717
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Taxes as a % of corporate assets	47.39%	31.48%	21.61%	29.73%
Total Assets Relative to No Life Insurance	100%	128.5%	162.3%	128.4%

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

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Corporate Owned Universal Life - Diagram

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