

# The Exempt Transfer



## Helping You Make An Informed Decision Tax Savings For Corporate Owners

Prepared for:

**Male age 70, 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 70, 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 85.
- 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 85

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,047,229	\$ 1,536,906	\$ 1,025,511	\$ 1,025,512
Life insurance cash surrender value	-	-	829,168	976,682
NERDTOH refund*	21,967	16,497	11,004	11,004
<b>Total Investco Assets</b>	<b>\$ 2,069,196</b>	<b>\$ 1,553,403</b>	<b>\$ 1,865,682</b>	<b>\$ 2,013,197</b>

## Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 471,061	\$ 414,340	\$ 316,143	\$ 316,143
<b>Total Assets Prior to Death</b>	<b>\$ 2,540,257</b>	<b>\$ 1,967,743</b>	<b>\$ 2,181,825</b>	<b>\$ 2,329,341</b>
Total Assets Relative to No Life Insurance	100%	77.5%	85.9%	91.7%

\*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 85

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,047,229	\$ 1,536,906	\$ 1,025,511	\$ 1,025,512
Life insurance death benefit	-	772,923	1,539,168	1,127,674
NERDTOH refund	21,967	16,497	11,004	11,004
<b>Total Investco Assets</b>	<b>\$ 2,069,196</b>	<b>\$ 2,326,326</b>	<b>\$ 2,575,682</b>	<b>\$ 2,164,189</b>

## Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	-	-
Taxes in Estate on wind-up	980,544	847,071	848,480	884,845

## **Net Investco Assets Received by Estate**

<b>\$ 1,088,651</b>	<b>\$ 1,479,255</b>	<b>\$ 1,727,202</b>	<b>\$ 1,279,344</b>
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## Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 471,061	\$ 414,340	\$ 316,143	\$ 316,143
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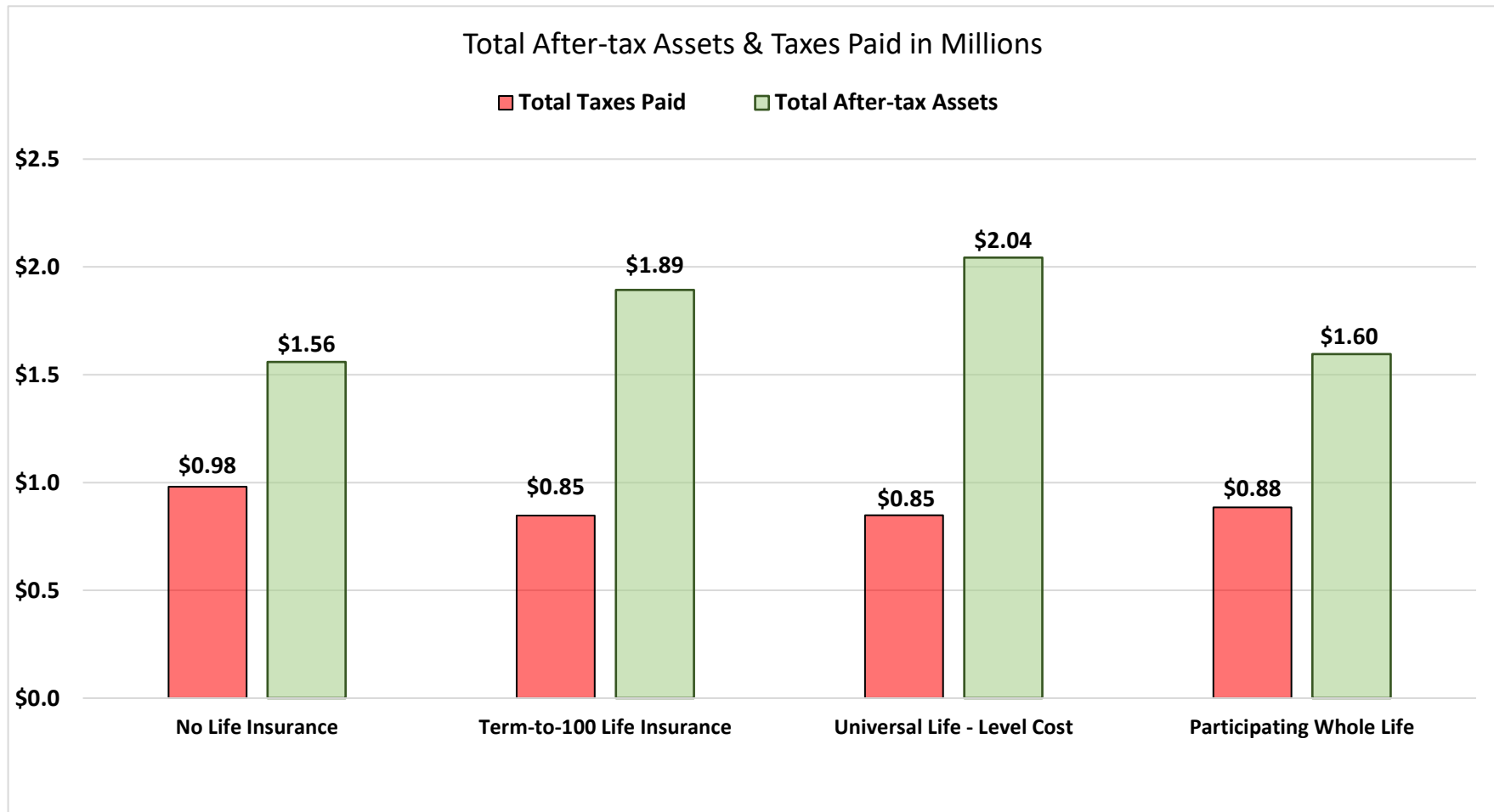
## **Total Assets & Reinvested Shareholder Dividends**

<b>\$ 1,559,713</b>	<b>\$ 1,893,595</b>	<b>\$ 2,043,345</b>	<b>\$ 1,595,488</b>
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Taxes as a % of corporate assets	47.39%	36.41%	32.94%	40.89%
Total Assets Relative to No Life Insurance	100%	121.4%	131.0%	102.3%

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

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# Corporate Owned Universal Life - Diagram

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