

# 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: 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 85

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,068,114	\$ 1,553,247	\$ 1,036,812	\$ 1,036,813
Life insurance cash surrender value	-	-	760,906	1,075,795
NERDTH refund*	31,696	23,818	15,890	15,890
<b>Total Investco Assets</b>	<b>\$ 2,099,810</b>	<b>\$ 1,577,065</b>	<b>\$ 1,813,608</b>	<b>\$ 2,128,498</b>

## Reinvested Shareholder Dividends Prior to Death

After-tax reinvested shareholder dividends*	\$ 715,453	\$ 630,684	\$ 483,327	\$ 483,327
<b>Total Assets Prior to Death</b>	<b>\$ 2,815,263</b>	<b>\$ 2,207,749</b>	<b>\$ 2,296,935</b>	<b>\$ 2,611,825</b>
Total Assets Relative to No Life Insurance	100%	78.4%	81.6%	92.8%

\*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 85

	No Life Insurance	Term-to-100 Life Insurance	Universal Life Level Cost	Participating Whole Life
Fixed income portfolio	\$ 2,068,114	\$ 1,553,247	\$ 1,036,812	\$ 1,036,813
Life insurance death benefit	-	772,923	1,710,906	1,248,578
NERDTH refund	31,696	23,818	15,890	15,890
<b>Total Investco Assets</b>	<b>\$ 2,099,810</b>	<b>\$ 2,349,988</b>	<b>\$ 2,763,608</b>	<b>\$ 2,301,281</b>

## Less Taxes Paid

Corporate non-refundable tax	\$ -	\$ -	\$ -	\$ -
Taxes on Terminal return	-	-	-	-
Taxes in Estate on wind-up	995,052	858,284	817,791	888,442

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

<b>\$ 1,104,757</b>	<b>\$ 1,491,704</b>	<b>\$ 1,945,817</b>	<b>\$ 1,412,839</b>
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## Reinvested Shareholder Dividends at Death

After-tax reinvested shareholder dividends	\$ 715,453	\$ 630,684	\$ 483,327	\$ 483,327
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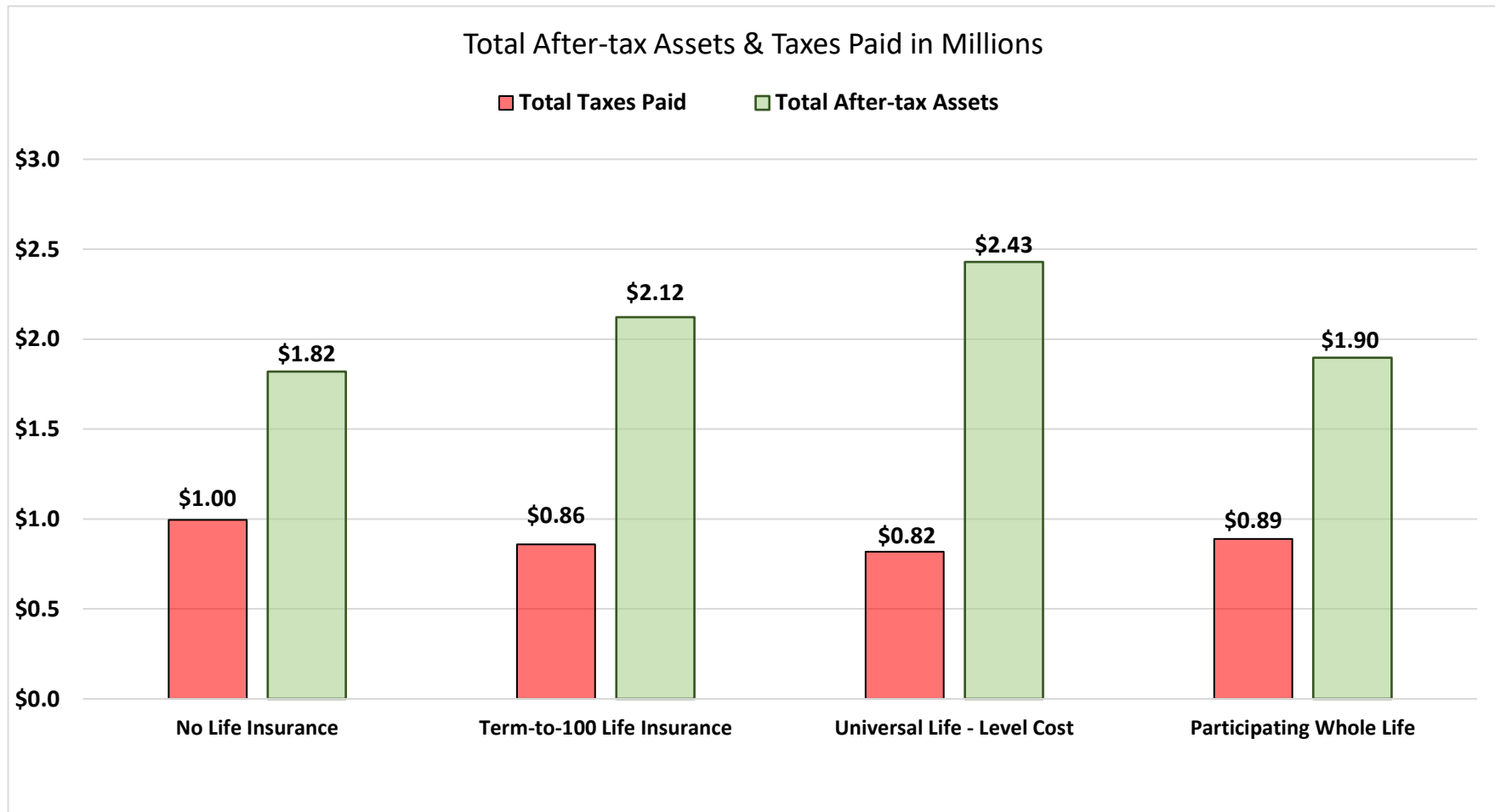
## **Total Assets & Reinvested Shareholder Dividends**

<b>\$ 1,820,211</b>	<b>\$ 2,122,387</b>	<b>\$ 2,429,144</b>	<b>\$ 1,896,166</b>
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Taxes as a % of corporate assets	47.39%	36.52%	29.59%	38.61%
Total Assets Relative to No Life Insurance	100%	116.6%	133.5%	104.2%

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

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# Corporate Owned Universal Life - Diagram

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