



# Corporate preferred retirement solution

It's the kind of preferential treatment you want. Life insurance that benefits both you and your business.



You already know that life insurance can help protect your business by making funds available to pay off debts, fund buy sell agreements and keep the business running. But did you know that it can also benefit you and your business during your lifetime?

**advanced insurance planning**

The *Corporate preferred retirement solution*<sup>®</sup> can help decrease your corporate taxes and increase your cash flow in retirement. Simply redirect some of the surplus from business income into a permanent life insurance policy rather than taxable investments.



## Put the *Corporate preferred retirement solution* to work for you

### Protect your business

- Determine the amount of insurance your corporation needs based on its objectives.
- The corporation purchases a permanent life insurance policy on your life. The corporation is the beneficiary.

### Grow your assets

- By redirecting a portion of surplus from business income into a life insurance policy rather than taxable investments your corporation may pay less tax over your lifetime.<sup>2</sup>
- The funds within the insurance policy grow on a tax-advantaged basis.
- Payments above the required premium can accelerate the growth of the value within the policy.<sup>3</sup>

## Supplement shareholders' retirement cash flow

- The company may be able to access<sup>4</sup> the cash surrender value of the corporately-owned life insurance policy to supplement the retirement cash flow of its shareholders.
- One option is for the corporation to apply for a bank loan using the policy as collateral. The cash surrender value of the policy must be large enough to meet the bank's loan qualification requirements.<sup>5</sup>
- The corporation can use the loan proceeds to pay a taxable dividend to the shareholders.<sup>1</sup>
- At death, the proceeds of the life insurance policy are paid tax free to the corporation. The corporation repays the loan. Amounts of the life insurance proceeds in excess of the policy's adjusted cost basis (ACB)<sup>6</sup> are credited to the company's capital dividend account. Any funds in the capital dividend account may be paid as a tax-free capital dividend to the shareholders, including the deceased shareholder's estate.<sup>7</sup>

It could be the right solution for you if...			
<input checked="" type="checkbox"/>	You are the owner or majority shareholder of a Canadian corporation.	<input checked="" type="checkbox"/>	You are looking for ways to reduce corporate taxes or taxes on death. <sup>8</sup>
<input checked="" type="checkbox"/>	The corporation has taxable investments.	<input checked="" type="checkbox"/>	You want to supplement the retirement cash flow of your shareholders without the risk of a shareholder benefit assessment.
<input checked="" type="checkbox"/>	You need life insurance to protect your business.	<input checked="" type="checkbox"/>	You want the ease of repaying the loan using the life insurance proceeds directly without requiring the deceased shareholder's estate to provide additional collateral.

## Your advisor can show you how the *Corporate* preferred retirement solution can work for you.

You should review the *Corporate* preferred retirement solution checklist – Corporate borrowing for details and consult with your financial, legal and tax advisors about the risks and benefits of this concept.

<sup>1</sup> Although the dividend payment is taxable to the shareholder (unless there is a balance in the corporation's capital dividend account and the dividend is paid as a capital dividend), there should be no shareholder benefit to consider and no additional fees payable by the shareholder when the dividends are received. The corporation should obtain professional tax advice when implementing and carrying-out the *Corporate* preferred retirement solution concept to ensure compliance with the tax legislation at that time to avoid adverse tax consequences. <sup>2</sup> The amount of any tax savings will depend on the nature of your taxable investments and assumes no taxes are triggered if investments are sold to fund premiums. <sup>3</sup> The extra payment is limited to the amount required to maintain the tax-exempt status of the policy. For universal life, the policy may be credited positive or negative returns depending on the investment accounts selected. Review the product illustration for full details. <sup>4</sup> Options include but may not be limited to partial surrenders of the policy, policy loans, collateral bank loans using shareholder or corporate borrowing. The tax implications of each option vary and need to be considered before selecting an option. <sup>5</sup> With a collateral bank loan, the lender will be a third-party lending institution. Availability of a loan from the third-party lending institution is not guaranteed by Equitable<sup>TM</sup> and is not part of the life insurance contract. The borrower must apply for and meet the third-party lending institution's loan qualification requirements. The borrower may be able to borrow up to 100% of the policy's cash value. Loan minimums vary by financial institution. Some financial institutions require a minimum collateral loan of \$250,000. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third-party lending institution at the time of loan and are subject to change at any time. There may be conditions, fees and costs associated with arranging the collateral bank loan. Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments. <sup>6</sup> ACB is the premiums paid less the net cost of pure insurance calculated in accordance with the Regulations under the Income Tax Act, subject to certain adjustments. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments. <sup>7</sup> If shareholders who receive capital dividends are non-residents, there will be Canadian withholding tax, and possible tax in the country of residence. <sup>8</sup> In some circumstances, the interest on the loan, as shown in the illustration and a portion of the insurance premiums paid or payable may be deductible against corporate income. In addition, the corporate loan may decrease the fair market value of the shares owned by the deceased shareholder for purposes of calculating the capital gain realized at death.

The *Corporate* preferred retirement solution is a concept. It is not a product or contract. It is based on current tax legislation which may change. This information does not constitute legal, tax, investment, or other professional advice.

® and <sup>TM</sup> denotes a trademark of The Equitable Life Insurance Company of Canada .