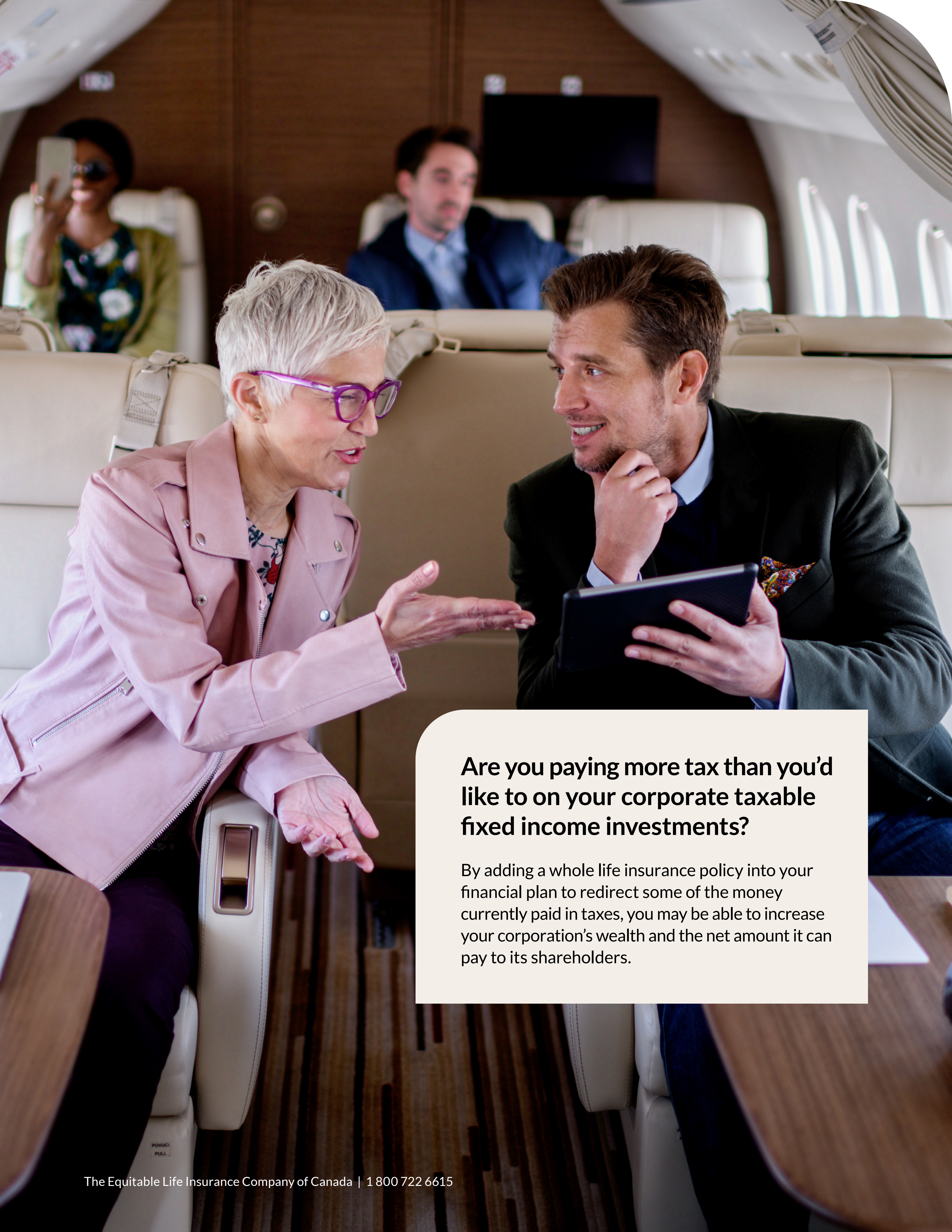
# Levelize the tax on fixed income investments with corporately-owned participating whole life

Corporate clients

Equitable™



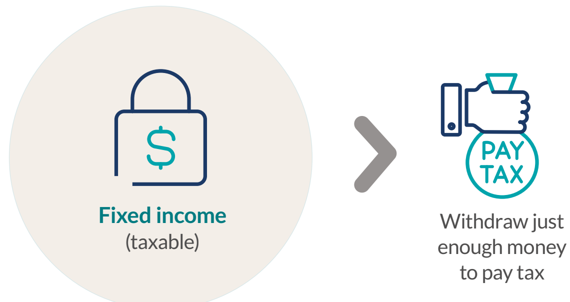
## Are you paying more tax than you'd like to on your corporate taxable fixed income investments?

By adding a whole life insurance policy into your financial plan to redirect some of the money currently paid in taxes, you may be able to increase your corporation's wealth and the net amount it can pay to its shareholders.

# Participating whole life

## What do a lot of corporations do with their taxable fixed income investments?

- Each year they withdraw only the amount of interest income earned that is required to pay the tax for that year.
- They reinvest the remainder of the interest income earned back into the fixed income portfolio.




**Growing investment balance = more tax payable.**

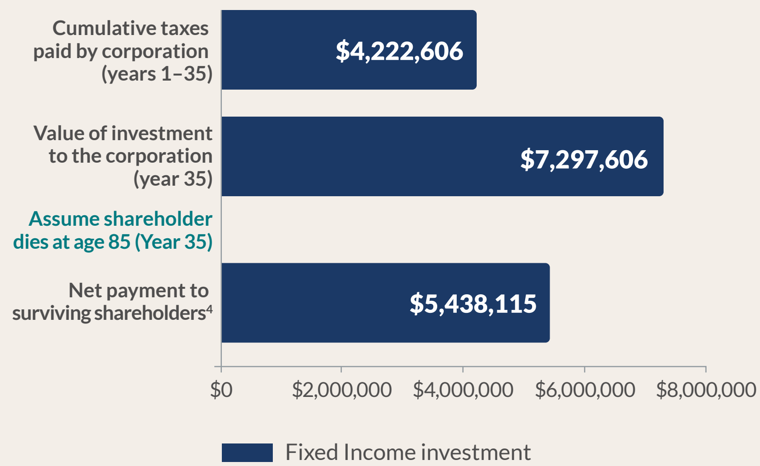
### Example #1: Fixed income investment

Client has $3,075,000 of after-tax surplus from business income. The full amount is invested in a taxable fixed income investment.

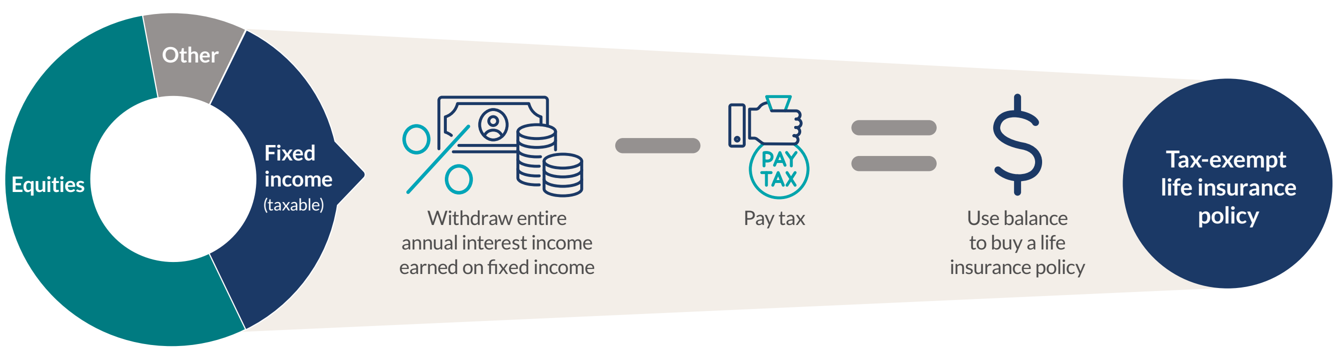
| Fixed income investment | | | | |
|---|---|---|---|---|
| **Year** | **Opening balance** | **Interest income earned[1]** | **Amount of interest income withdrawn to pay tax[1]** | **Closing balance[2]** |
| 1 | $3,075,000 | $153,750 | $ 76,875 | $3,151,875 |
| 10 | $3,840,254 | $192,013 | $ 96,006 | $3,936,260 |
| 20 | $4,915,849 | $245,792 | $122,896 | $5,038,746 |
| 35 | $7,119,616 | $355,981 | $177,990 | $7,297,606 |
| Cumulative tax paid by year 35 | | | **$4,222,606** | |

## The results

- **By year 35**, reinvesting the interest income remaining after taxes are paid results in a cumulative tax bill of $4,222,606.
- **At death**[3], the investment value is $7,297,606. It is paid as a taxable dividend to the corporation's shareholders. With the distribution of the investment value and corporation's Refundable Dividend Tax on Hand (RDTOH) as a taxable dividend, the net amount to the shareholders, including the deceased shareholder's estate is $5,438,115[4].




## How can a corporation levelize and pay less tax on their fixed income investments using participating whole life insurance?




- Each year, the corporation withdraws the full amount of interest income earned, leaving only the principal.

**Level investment balance = level tax payable.**

- The corporation uses part of the interest income earned to pay the tax for that year. The remainder is used to pay the annual premium on a corporately-owned tax-exempt whole life insurance policy for the next year.

[1] Assumes an average annual rate of return of 5% and a marginal tax rate of 50%. The example is for illustration purposes only. Actual results may vary. [2] Assumes no withdrawals from principal. [3] Assumes death at age 85. [4] Investment value is paid as a taxable dividend. The net amount includes the fixed income investments after 45% dividend tax rate and cumulative addition of 30.67% of investment income into the corporation's RDTOH account. The value of any other investments and any balance in the corporation's RDTOH account and capital dividend account are excluded from this example.

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## Tax-effective solution

### Example #2: Fixed income investment + life insurance

Client has $3,075,000 of after-tax surplus from business income. $75,000 is used to pay the initial annual premium of a life insurance policy and the remaining $3,000,000 is invested in a taxable fixed income investment. Each year, the interest income earned ($150,000[1]) on the fixed income investment is used to pay the taxes on the investment ($75,000[1]) and the next annual premium for the life insurance policy.

### Cumulative tax paid by year 35 is $2,625,000 ($75,000 x 35 years)

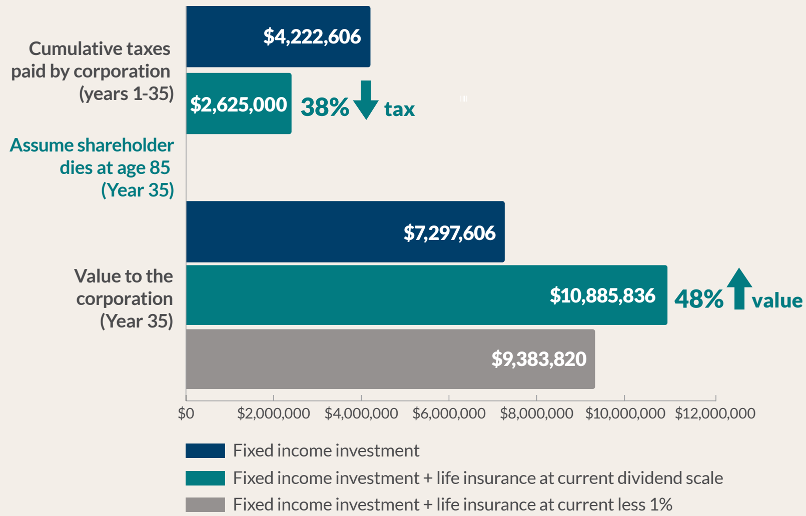
| Life insurance policy[5] | | | | |
|---|---|---|---|---|
| Years | Total cash value (current dividend scale)[6] | Total death benefit (current dividend scale)[6] | Total cash value (current less 1%)[6] | Total death benefit (current less 1%)[6] |
| 1 | $64,643 | $1,193,292 | $64,130 | $1,191,912 |
| 10 | $915,880 | $2,409,940 | $869,927 | $2,316,349 |
| 20 | $2,420,802 | $4,065,001 | $2,169,788 | $3,668,454 |
| 35 | $6,392,877 | $7,885,836 | $5,161,224 | $6,383,820 |

All illustrated values are as of year end. Life insurance policy values are based on the dividend scale in effect when the illustration was run remaining unchanged for the life of the policy. Not a prediction of future performance.

## The results

### Lower taxes and higher value for corporation

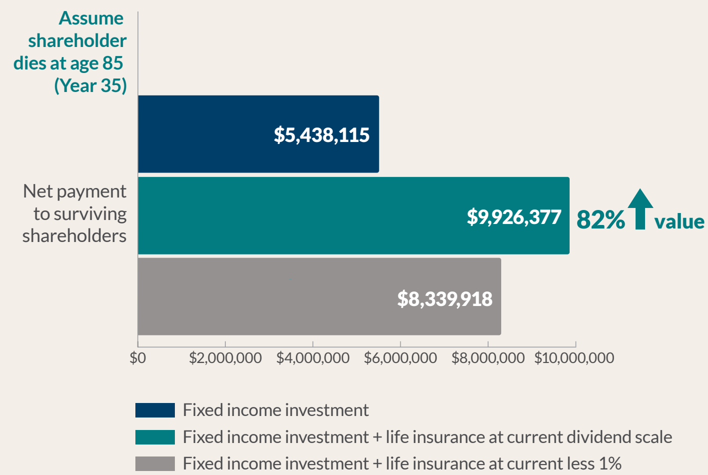
- **By year 35**, using a life insurance policy to levelize the tax on a fixed income investment reduces the cumulative tax bill by 38%.
- **At death**[3], the combined value of the fixed income investment and the life insurance proceeds is 48% higher (based on the current dividend scale) than with the investment alone.




Under current less 1% the fixed income investment + life insurance value is $9,383,820. This is a 28% increase in value over the fixed income investment.

### Higher net payment to shareholders

- **At death**[3], the net payment to the surviving shareholders, including the deceased shareholder's estate, is 82% higher than with the investment alone.
  - The investment (including the balance in the corporation's RDTOH account) is paid to the surviving shareholders as a taxable dividend and taxed at 45%[4].
  - The life insurance proceeds are paid tax free to the corporation. The addition to the capital dividend account (CDA) is distributed as a tax-free capital dividend to the surviving shareholders.[7]




Under current less 1% the fixed income investment + life insurance value is $8,339,918. This is a 53% increase in value over the fixed income investment.

## Contact your financial advisor to find out how this concept can work for you.

[5] All calculations are based on an Equimax Wealth Accumulator®, male, age 50, standard non-smoker rates as of October 5, 2024. Paid-up additions dividend option. Maximum EDO. Initial death benefit of $1,065,341. Life pay premium option. [6] Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies.
[7] Always consult your accountant or tax professional when dealing with capital dividend account calculations and payments. An amount calculated as the insurance proceeds less the adjusted cost basis of the policy at the time of death is credited to the capital dividend account. Tax may be payable (a) on the shares owned at death: if the cash surrender value of the policy is included in the value of the common shares; or if stop-loss rules apply; or (b) if the policy has an adjusted cost basis and some of the death benefit is distributed as taxable dividends.
**The example is for illustration purposes only. Actual results will vary. Based on current tax legislation and may change. This information does not constitute legal, tax, investment or other professional advice. Please consult your tax, legal or financial planning professional for advice with respect to your personal circumstances.**

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