Corporately Owned Segregated Funds

Who's involved with a corporately owned segregated fund?

Ownership

The owner of the contract is the corporation. All corporate contracts are non-registered from a taxation perspective, and the owner is responsible for taxation over the life of the policy.

Annuitant considerations

The annuitant represents the life, or lives, that are insured on the contract. For corporate accounts, the annuitant is often the main shareholder or key person who has signing authority for the company. In situations where the owner is older, another senior level employee at the company can be used as the annuitant. This is also known as borrowing the annuitant.

Successor annuitants can also be used to extend the contract after the death of the primary annuitant. This works well in joint ownership situations or with buy/sell agreements and can be added to the contract prior to the death of the primary annuitant.

Beneficiary considerations

The beneficiaries are the ones who directly receive the death benefit. Different strategies will require different beneficiaries, so it's best to talk to your tax professionals. A policy can have more than one beneficiary, and beneficiaries can be either revocable or irrevocable. Contingent beneficiaries can also be assigned, which can be used to protect against situations where the primary beneficiary predeceases the annuitant.

Revocable Beneficiary

Beneficiary can be changed without their approval. The owner doesn't lose control of the contract, and the beneficiary has no control over any changes made to the contract.

Irrevocable Beneficiary

Beneficiary cannot be changed without their approval. The owner loses some control over the contract, as the beneficiary will be required to sign off on some contract changes, such as a withdrawals.

A who's who in a corporate account

What are some possible ways to set up a corporately owned segregated fund?

Scenarios	Policy Owner	Annuitant	Beneficiary
Scenario 1	Corporation	John (Owner)	Corporation
Scenario 2	Corporation	Primary - John (owner) Successor - Mary (wife)	Children
Scenario 3	Corporation	Mary (owner)	John (spouse)
Scenario 4	Corporation	Sarah (wife)	John (owner)

Strategies for each scenario:

1. Money is retained within the corporation.
2. Eventually money will go to children, but currently needed for business operations.
3. Funds will flow to John.
4. The owner of the corporation could be too old to be an annuitant on a contract. John will be the beneficiary as an exit strategy for the business.

Strategies 2-4 may have unexpected tax consequences. Always consult a tax professional to make sure corporate contracts are set up properly.

Insights into taxation

Corporate tax deadlines are different than personal tax deadlines. Corporations can have a year-end that is not December 31. Corporations are required to submit taxes within 6 months of the corporate year-end. For example, if a corporation's tax year end is September 15, the tax returns is due the following March 15.

Segregated funds distribute different types of income to unit holders on an annual basis. The types of income include dividends, interest, and capital gains and losses. When invested in segregated funds, clients and corporations are likely to receive tax slips every year even if a withdrawal or switch isn't made.

Corporate Class Mutual Funds vs Segregated Funds

Corporate Class funds are being removed from most companies. These funds help you defer taxes, not to avoid them. They are useful in certain situations, but clients need to be prepared for distributions. Corporate class funds can and do pay distributions to unit holders.

How do segregated funds distribute income for non-registered accounts?

Eleanor makes a $1,500 deposit in a segregated fund, which holds the following investments:

Stock	Purchased (January)	Market Value (before investment income is declared)	Investment Income (allocated to Eleanor)	Market Value (December 31)	Distributed Taxable Income
Company A	$400	$275	$20 Dividends	$275	$20 Dividends
Company B	$400	$380	$10 Interest	$380	$10 Interest
Company C	$400	$450	$50 Gain on sale	$0	$50 Realized gain
Company D	$400	$340	$0	$340	$0
Cash	$0	$0	Deposits: $20 Dividend $10 Interest $450 Stock Sale	$480	$0
Total Value	**$1,500**			**$1,475**	

Even though Eleanor doesn't sell any units of the segregated fund, she will still have taxable income in a non-registered account.

Where do segregated funds fit?

Segregated fund contracts are for:

Investors:

- Who want market growth but want to limit potential losses with guarantees
- Who want to help protect the value of their legacy by avoiding delays and expenses related to the estate and probate process
- Who want to keep details of their estate/corporation discrete by passing assets privately to named beneficiaries

Sole proprietors, partners or professionals:

- Who are looking to protect their investments from creditors and create an exit strategy

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