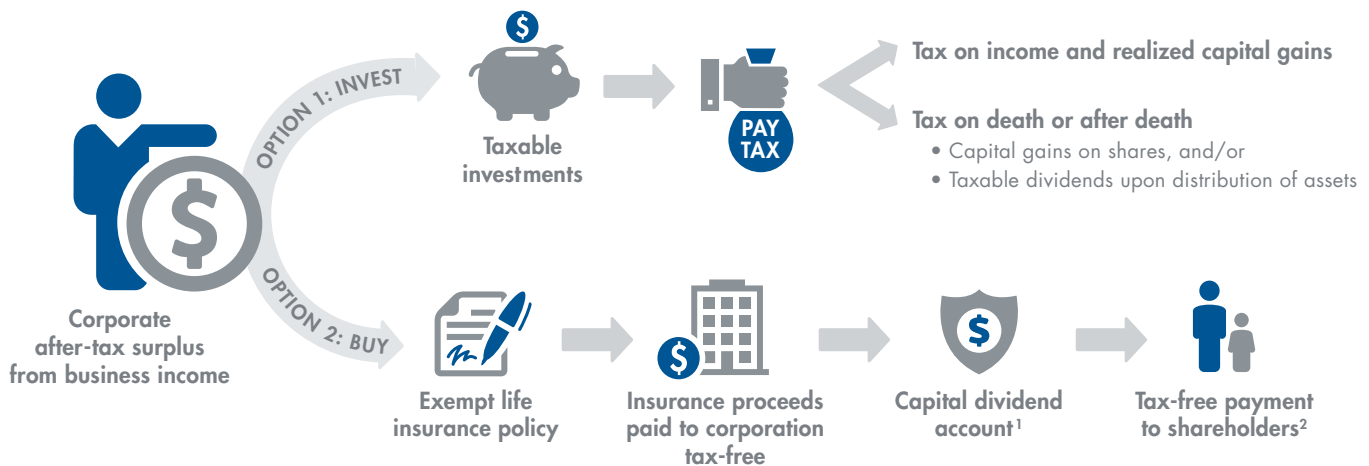


# Corporate Preferred Estate Transfer<sup>®</sup> Using Universal Life

Looking for the most tax-efficient way to get the value of your shares out of your company and into the hands of your estate? The choice is clear.



## THE CORPORATE PREFERRED ESTATE TRANSFER

The *Corporate Preferred Estate Transfer* uses corporately-owned life insurance to create a tax-free inheritance. The corporation simply redirects a portion of its after-tax surplus created from business income into a permanent life insurance policy rather than taxable investments.

## PUT THE CORPORATE PREFERRED ESTATE TRANSFER TO WORK FOR YOU

### Reduces the fair market value (FMV) of the corporation

- The value of the owner's shares is based on the FMV of the corporation's assets.
- Redirecting a portion of surplus from business income into a life insurance policy rather than taxable investments reduces the assets in the corporation.
- This may reduce the capital gains tax payable.

### Increases the value of your estate

- The account value of an exempt universal life insurance policy grows on a tax-advantaged basis. Depending on the plan you choose, the account value can increase the death benefit.
- When the proceeds of the life insurance policy are paid tax-free to the corporation, amounts in excess of the policy's adjusted cost basis (ACB)<sup>3</sup> are credited to the capital dividend account so they can be paid as tax-free capital dividends to the shareholders, including the deceased shareholder's estate.
- Since business income is taxed at a lower rate than personal income, using after-tax corporate dollars from active business income to pay the premiums is the least expensive way to fund the policy.

<sup>1</sup> 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 base of the policy at the time of death is credited to the capital dividend account. <sup>2</sup> Payment made to shareholders, including the deceased shareholder's estate. Tax may be payable on the shares owned at death: if the cash surrender value of the policy is included in the value of common shares; if stop-loss rules apply; or if the policy has an adjusted cost basis and some of the death benefit is distributed as taxable dividends. <sup>3</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.

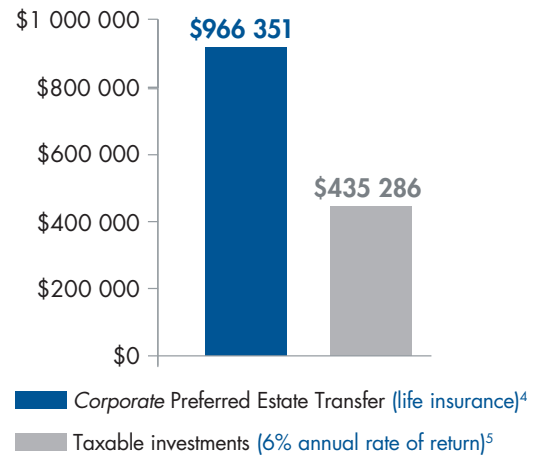
# The Preferred Solution

## AN EXAMPLE: MEET ROBERT

- Robert is 53 years old and owns a profitable business.
- He wants to pay taxes on his shares at death and create an inheritance for his daughter.
- Robert can allocate \$20,000 of surplus from business income each year for the next 12 years.
- He is looking for a tax-efficient way to get the value of his shares out of the company and into the hands of his heirs.
- Robert is considering two options:
  - Invest \$20,000 each year for 12 years, or
  - Transfer \$20,000 each year for 12 years to a corporately-owned permanent life insurance policy (*Corporate Preferred Estate Transfer*).

With the *Corporate Preferred Estate Transfer*, Robert can create an estate 122% greater than with taxable investments.

Net amount to Robert's heirs  
(assumes death at age 85)



Other taxable asset classes may require a higher rate of return to produce the same net estate value at age 85 as a life insurance policy.

Required annual pre-tax rate of return <sup>6</sup>				
Life insurance internal rate of return	Interest	Dividends	Realized capital gains	Deferred capital gains <sup>7</sup>
5.33%	12.22%	9.89%	7.82%	6.77%

## IT COULD BE THE RIGHT SOLUTION FOR YOU IF ...

- You are the owner or majority shareholder of a Canadian corporation.
- You have taken care of your retirement plan.
- The corporation has taxable investments.
- You need life insurance to protect your business.
- You want a tax-efficient way to get the value of your shares out of your company and into the hands of your estate.
- You have an up-to-date Will.

Your advisor can show you how the *Corporate Preferred Estate Transfer* can work for you.

<sup>4</sup> Equitable Generations™ universal life, yearly renewable term (YRT) cost of insurance and level protector death benefit option. Male, age 53, standard non-smoker rates. Premium and cost of insurance rates as of September 2022. Initial death benefit of \$500,000. The sum insured is automatically increased as needed at the policy anniversary, subject to the maximum percentage increase permitted under the tax legislation that applies, to assist in maintaining the exempt status of the policy. Policy illustration interest rate (assumed return on investment) of 5%. Shuttle account interest rate of 0%. After 12 years, no further payments are made. The projected account value and interest earned are not guaranteed. If starting in policy year 13 or at any time after policy year 13 the account value is not sufficient to cover the monthly charges for the universal life coverage, the policy owner will need to continue or resume premium payments in order to keep the coverage in effect. Illustrated values are not guarantees of future performance. Actual results will vary. <sup>5</sup> Taxable investment portfolio (50% interest and 50% dividends). No withdrawals. <sup>6</sup> Corporate tax rate is 50%; shareholder dividend tax rate is 45%. <sup>7</sup> Assumes capital gains are deferred until age 85.

The *Corporate Preferred Estate Transfer* is a concept. It is not a product or contract. It is based on current tax legislation and may change. This information does not constitute legal, tax, investment, or other professional advice. ® and TM denote trademarks of The Equitable Life Insurance Company of Canada.