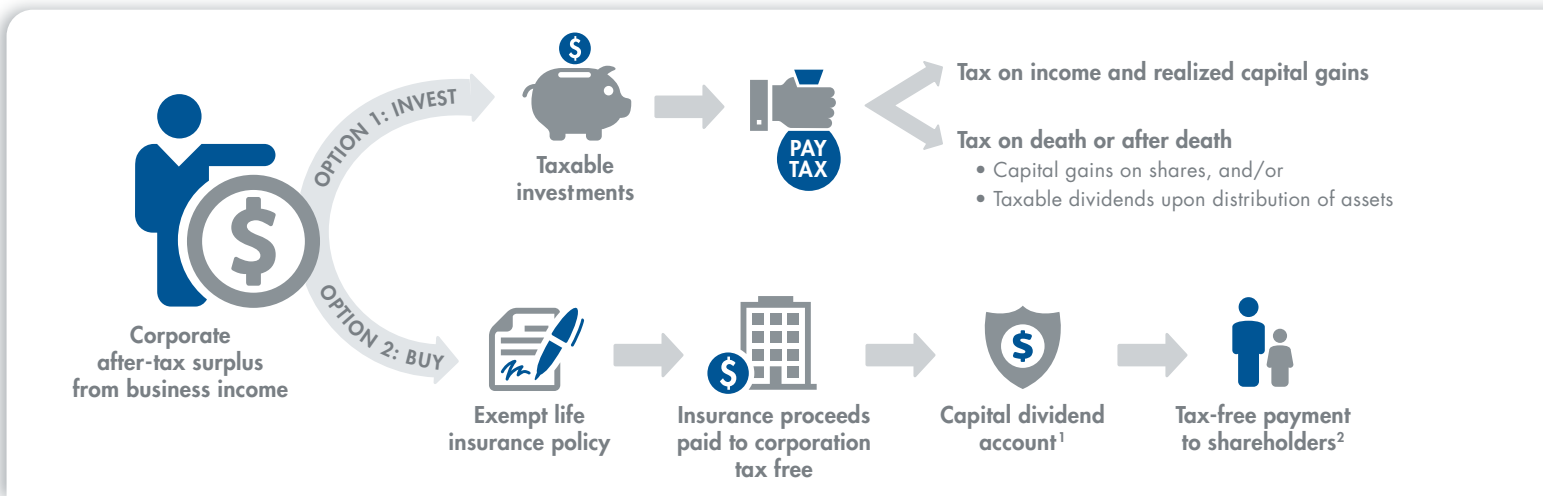


# Corporate Preferred Estate Transfer® Using Whole Life

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 cash value of an exempt life insurance policy grows on a tax-advantaged basis. Depending on the plan you choose, the cash 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.

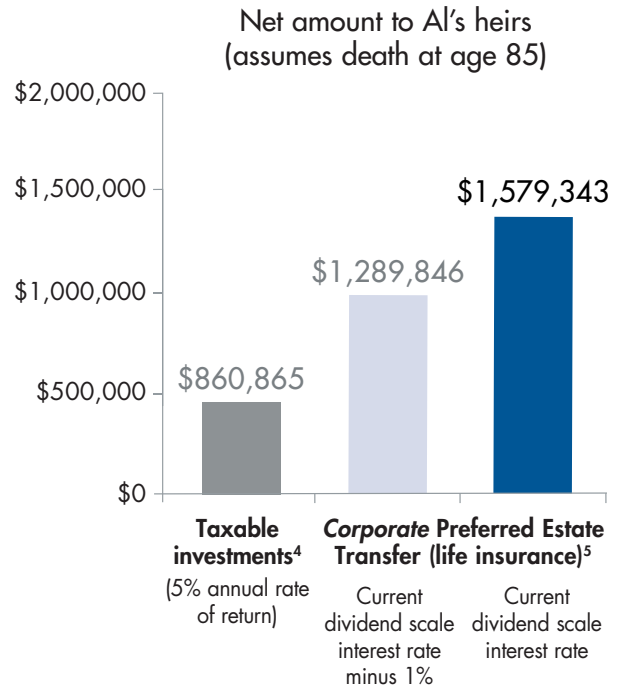
<sup>1</sup>An amount calculated as the insurance proceeds less the adjusted cost base of the policy at the time of death is credited to the capital dividend account. <sup>2</sup>Dividend paid to shareholders, including the estate of the deceased. Tax may be payable (a) on the shares owned at death: if the cash surrender value of the policy is included in the value of 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. <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. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments.

# THE PREFERRED SOLUTION®

## AN EXAMPLE: MEET AL

- Al is 62 and the owner of a successful architecture firm.
- Al is looking for a tax-efficient way to pay the taxes he will owe on his shares at death and create an estate for his heirs.
- He can allocate \$75,000 of surplus from the business income each year for the next 10 years.
- Al wants something that offers some guarantees and will be paid for after 10 years.
- Al is considering two options:
  - Invest \$75,000 each year for 10 years, or
  - Transfer \$75,000 each year for 10 years to a corporately-owned permanent life insurance policy to pay the premium (*Corporate Preferred Estate Transfer*).

With the *Corporate Preferred Estate Transfer*, Al can create a larger estate than with taxable investments.



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 (Annual after-tax internal rate of return (IRR)) | Interest | Dividends | Realized capital gains | Deferred capital gains <sup>7</sup> |
| Current dividend scale                      | 4.07%   | 11.12%   | 8.98%     | 7.03%                  | 6.32%                               |
| Alternate dividend scale (current minus 1%) | 2.96%   | 9.21%    | 7.44%     | 5.80%                  | 5.28%                               |

## 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>Average annual rate of return of 5%. Taxable investment portfolio (50% interest and 50% dividends). <sup>5</sup>Equimax Estate Builder® participating whole life insurance, 10 pay. Paid-up additions dividend option. Initial death benefit \$846,023 with an annual premium of \$75,000. Illustrated values are for a male, age 62, standard non-smoker rates in effect as of February 11, 2023 and the dividend scale at that time remaining unchanged for the life of the policy. A decrease in the life insurance dividend scale will affect the illustrated values. 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, lapses, claims experience, taxes, and other experience of the participating block of policies. <sup>6</sup>Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 45%; corporate tax rate on investment income is 50%. <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. ® denotes a trademark of The Equitable Life Insurance Company of Canada.