





Dealing with retained earnings 

Typical Scenario


- Shareholders elect to retain earnings within corporation
- Surplus retained earnings = passive assets, moved to holding companies (Holco) to:
 - preserve Qualified Eligible Small Business (QESB) status of Opco
 - protect retained earnings of operating company (Opco) from potential liabilities
 - have monies variously invested

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The Opportunity 

- Large amounts of investable assets within corporations
- Life insurance provides viable opportunity to:
 - convert assets to tax-free corporate estate benefits
 - Provide tax-sheltering on surplus retained earnings
- Strategy provides advisor with opportunity to:
 - Build on framework / familiarity with individual legacy builder strategies
 - enter / better penetrate business market
 - develop relationships with client's other professional advisors (comptrollers, accountants and lawyers)

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Corporately-Owned Cash-Value Life Insurance 

- Provides an immediate and higher estate value than other investments
- Shelters growth from taxation on the funds invested
- Tax-free payout on death to the corporate owner
- Takes advantage of Capital Dividend Account for reduced taxation to the estate
- Enables access to cash for emergencies, business needs
- Helps alleviate increased active business taxation from small business limit clawback resulting from the new passive income tax rules

Corporate Legacy Builder 

The Strategy

- Enable business owners to grow passive assets from corporate surplus on a tax-deferred basis
- Create a higher after-tax value of business for the estate or surviving shareholders
- Provide access to cash during lifetime for business needs

How It Works 


- Re-allocate or invest portion of retained earnings from passive assets into life insurance contract
- Take advantage of tax-sheltered growth inside specially designed life insurance policy
- Tax-free payout on death to corporation
- Take advantage of Capital Dividend Account
- Enhance value to heirs or favourite cause

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Target Market 



- Client ages 50+
- Corporations with large retained earnings
- Holding companies
- Investment or Management companies


Dammed Up Corporate Surplus 

Corporation
\$500,000 "Trapped" Surplus


Dividend \$ 500,000
Tax @ 43% 215,000
Net 285,000

↓ Taxable Dividends

Shareholder

Case Study: Brad & Janet 


- Brad and Janet, a healthy couple aged 60, non-smokers
- Have \$500,000 in their holding company in a fixed income portfolio with a forecast return of 3%
- Want capital preservation for Next Generation
- Have various retirement income sources
- Therefore, **do not need the income** and wish to leave this investment to heirs of estate

Recommendation 

Set up a JLTD Estatemax policy on shareholders

- \$1,000,000 initial face amount needed for estate liquidity, legacy and optimizing tax sheltering
- Look at two deposit streams for insurance premiums:
 - 20-pay (\$500,000/20 = \$25,000 per year)
 - 8-pay (\$500,000/8 = \$62,500 per year)
- Rate of return in illustration = current dividend scale of 6.25%*

* As of July 1, 2018

Prepared for Brad and Janet 


CONCEPT ASSUMPTIONS

Insureds
 Joint Insured #1: **Brad**, Male, Age 60, Non-Smoker
 Joint Insured #2: **Janet**, Female, Age 60, Non-Smoker

Product
 Name: **\$1,098,378 EstateMax, Joint Last-To-Die Planned Deposits (20 years)**

Alternative Investment
 Growth Breakdown: 100 % Interest
 Effective Tax Rate On Interest: 50.50 %
 Projected Annual Growth Rate: 3.000 %

CORPORATE LEGACY BUILDER

Presentation for Brad and Janet 


EXECUTIVE SUMMARY (1)

Policy year	After-Tax Benefit		Comparison		Equivalent Pre-Tax Return (%)
	Insurance After-Tax Legacy Benefit	Investment After-Tax Legacy Benefit	After-Tax Benefit Insurance vs. Investment	Insurance % Increase over Investment	
10	\$1,001,945	\$162,213	\$839,732	83.8%	35.00 %
20	\$728,147	\$364,308	\$563,939	77.3%	18.42 %
30	\$1,288,805	\$450,091	\$838,715	64.7%	11.21 %
40	\$2,004,050	\$549,615	\$1,454,435	72.6%	10.27 %
50	\$2,816,383	\$666,945	\$2,149,438	76.3%	9.37 %

Values shown are at end of policy year and are for illustrative purposes only. Any non-guaranteed portion of the Total Cash Surrender Value and Total Coverage Amount depends on the annual dividends that are declared on the policy, which are not guaranteed, and values shown assume dividends are declared each year using Empire Life's current dividend scale.

CORPORATE LEGACY BUILDER

Prepared for Brad and Janet



CONCEPT ASSUMPTIONS


Insureds
 Joint Insured #1: **Brad**, Male, Age 60, Non-Smoker
 Joint Insured #2: **Janet**, Female, Age 60, Non-Smoker

Product
 Name: \$1,239,815 EstateMax, Joint Last-To-Die Planned Deposits (8 years)

Alternative Investment
 Growth Breakdown: 100 % Interest
 Effective Tax Rate On Interest: 50.50 %
 Projected Annual Growth Rate: 3.000 %

CORPORATE LEGACY BUILDER

Presentation for Brad and Janet




EXECUTIVE SUMMARY (I)

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10	\$1,035,351	\$331,699	\$703,652	212%	30.50%
20	\$1,164,110	\$412,415	\$751,695	182%	13.35%
30	\$1,707,516	\$505,959	\$1,201,556	253%	11.29%
40	\$2,675,914	\$614,357	\$2,061,557	336%	10.30%
50	\$3,740,744	\$739,970	\$3,000,774	406%	9.48%

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CORPORATE LEGACY BUILDER


Corporate Legacy Builder Results



Client Ages/ Life Expectancy	Payment Period	Initial Insurance	CLB Benefit \$ Amount	%	Equivalent Pre-tax ROR
M&F 60 JLTD	20-pay	1,098,378	838,700	186%	11.21%
In: 30 Yrs	8-pay	1,239,815	1,281,537	253%	11.29%


- Results for \$500,000 deposits into a Corporate Legacy Builder vs. 3% interest
- Assumes healthy non-smokers using EstateMax with enhanced dividend option
- Average top marginal tax rates across Canada

CORPORATE LEGACY BUILDER

Corporate Legacy Builder Results 


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M&F 70 JLTD	20-pay	744,224	247,531	68%	9.82%
In: 20 Yrs	8-pay	835,309	511,787	124%	10.84%

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In: 20 Yrs	8-pay	835,309	511,787	124%	10.84%
M65 single	20-pay	626,526	191,121	52%	8.50%
In: 20 Yrs	8-pay	742,134	454,303	110%	10.15%

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In: 20 Yrs	8-pay	742,134	454,303	110%	10.15%
F71 single	20-pay	536,898	156,825	56%	10.22%
In: 16 Yrs	8-pay	781,295	255,233	67%	9.22%

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