Put some life (insurance) into your financial portfolio

How corporate-owned life insurance can work for your business

Success looks good on you. Your business is doing well, and your company has more than enough money to cover daily operations.

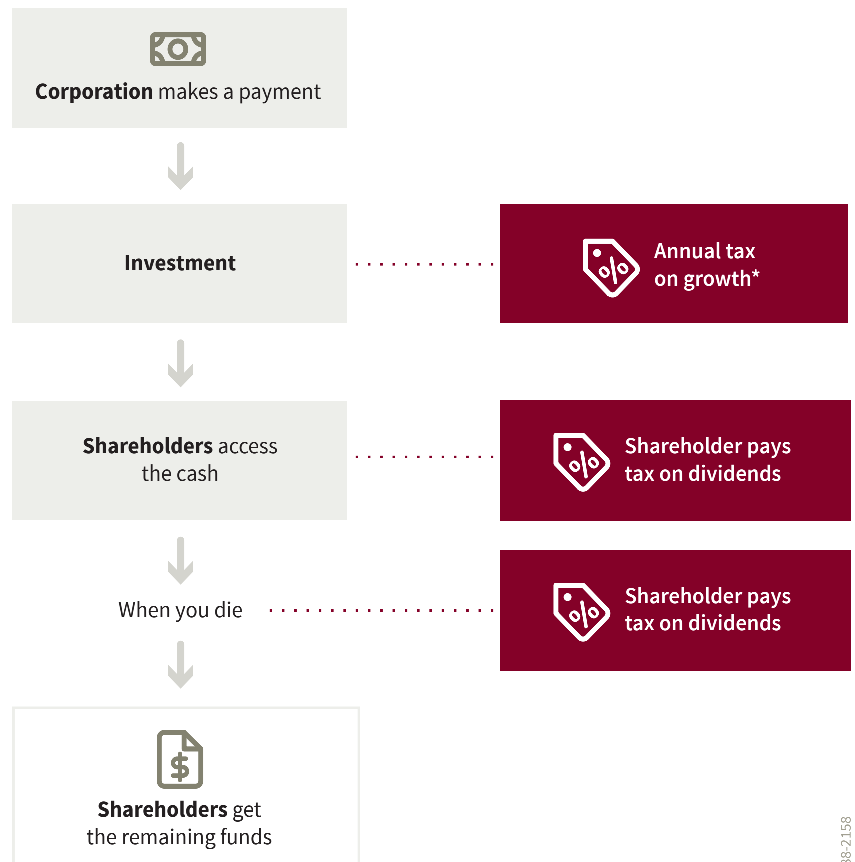
Where do you go from here? Chances are you're investing already, but are you making the most of your company's net worth?

Corporate investments can create a tricky situation for business owners.

Often, business owners like you keep money in your business in case you need funds right away, or in case an investment opportunity comes up.

However, if your corporation's portfolio is heavily invested in taxable investments, you may not be using your funds as efficiently as possible. Passive income is taxed at the highest corporate tax rate. And passive income may also reduce the small business deduction, which may mean higher taxes on the company's business income and less money to pass down to shareholders.

So how can you avoid this "passive income trap"?



*Annual tax on dividend, interest income and capital gains.

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One way is through a corporate-owned permanent life insurance policy.

Corporate-owned permanent life insurance can help grow your corporate assets tax-free while you're alive – as long as the funds remain in the policy, subject to government limits and assuming the policy is tax-exempt.

It can also help:

- Diversify your business holdings
- Lower volatility in your corporate portfolio
- Protect your small business deduction limit[1]
- Access cash for emergencies, opportunities[2]
- Fund a buy/sell agreement

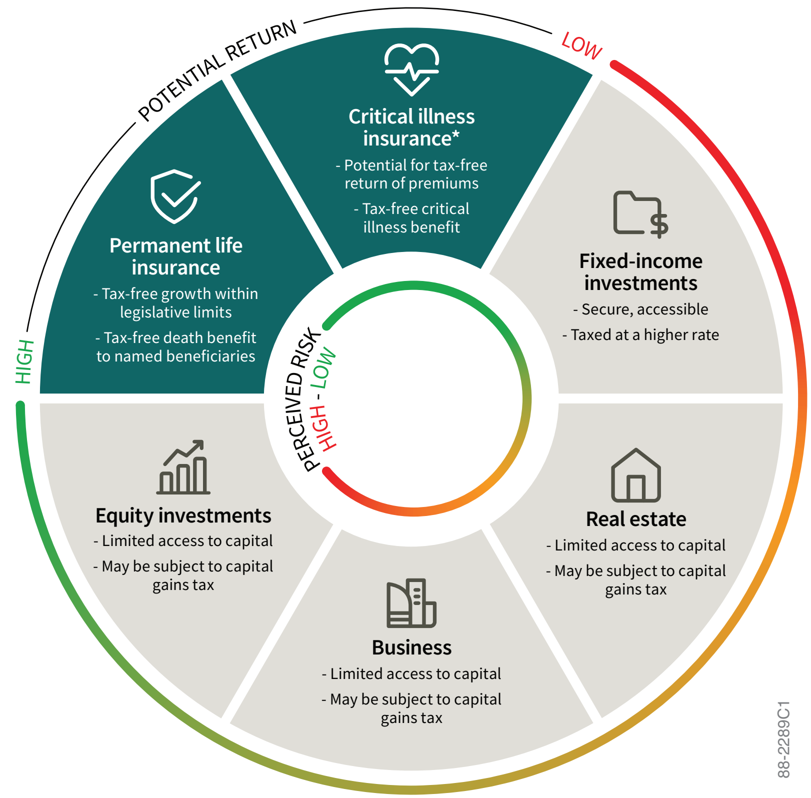
When you die, insurance proceeds (also called a death benefit), when made payable to the company, can help your business transition, move forward and provide dividends to shareholders.

The set up:

- Owner and payor – your corporation
- Person insured – you
- Beneficiary – your corporation

Policy premiums are generally not deductible by the company

Optimizing business owner total net worth and estate values



*With return of premium

The Canada Revenue Agency (CRA) and Revenue Quebec have not provided a formal ruling regarding the tax treatment of return-of-premium benefits that are included in a critical illness policy. The tax treatment of an optional return-of-premium benefit is, therefore, subject to interpretation.

Grow assets while you're alive

Life insurance may provide tax-free growth opportunities (as long as it remains in the policy, subject to government limits). And if the policy has enough cash value, your corporation can use those funds if needed.

When you die

Insurance proceeds go to the corporation tax-free. A private corporation's capital dividend account receives a credit,[3] which allows the corporation to pay a tax-free dividend to shareholders (if the company chooses to do so).[4]

Permanent life insurance is one way to not only diversify your portfolio and reduce tax on passive investments,[1] but it's also a way to help ensure your business operates smoothly, and without added taxes, when you're gone.

Corporation makes a payment

Life insurance policy — No tax on growth[5]

Corporation accesses the cash — Potential corporate tax on withdrawal — Shareholder pays tax on dividends

When you die — Corporation receives death benefit and a credit to the capital dividend account[6]

Shareholders gets the remaining death benefit as dividends — No personal tax on capital dividends

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For more information, talk to your advisor or visit canadalife.com.

[1]Growth isn't considered passive income in the policy. However, if the corporation withdraws cash value and it's taxable, that's passive income and could affect your small business deduction limit.

[2]If you take a policy loan (borrow against) or withdraw cash value from the policy, it will reduce the policy's cash surrender value and may reduce the payout (death benefit). A policy loan or cash withdrawal may also be subject to tax. For additional ways to access cash value from your policy, ask your advisor for a copy of Accessing cash value from your corporation's policy (46-10868)

[3]This credit equals the insurance proceeds paid to the corporation minus the policy's adjusted cost basis. Generally, the adjusted cost basis is your total insurance premiums paid minus the net cost of pure insurance (NCPI).

[4]Shareholders must be Canadian residents.

[5]No tax on growth within legislative limits while it remains in the policy.

[6]At death, the insurance proceeds are paid to the corporation on a tax-free basis. The capital dividend account of the private corporation receives a credit equal to the death benefit less the adjusted cost basis of the policy. The capital dividend account credit allows the corporation to pay a tax-free dividend to the Canadian resident shareholders.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of June 2020. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.