The Stan Clark Financial Team's

PERSPECTIVES

*An excerpt from "Perspectives" - Volume 3 - Issue 7*

## Financial and estate planning

# Life insurance can be a valuable corporate investment both for you – and your estate

*By Sylvia Ellis - Senior Estate Planning Advisor*

**If you have a successful company, you probably have corporate investments. You may be planning to use these as retirement income, and then leave as much as possible to your children, a charity or other beneficiary. The problem is the amount your heirs receive after corporate and personal taxes may not add up to as much as you had planned.**

Let me explain. Any capital retained in the company is usually invested in GICs and other taxable investments, instead of being paid out to the shareholder. This may be because the shareholder does not need the income, and/or because any distribution triggers dividend tax. So, these taxable investments may not be the most advantageous way for the corporation to invest its profits.

Is there a way to maximize the after-tax value of your corporate investments? Fortunately, yes. Here's a tax-efficient alternative: Reposition retained earnings into an *exempt life insurance* policy. Here's how it works:

- The corporation purchases a life insurance policy with the shareholder as the insured.
- The corporation is the owner and beneficiary.
- Generally, the corporation will invest more into the policy than what is needed to cover just the cost of insurance, thereby creating a cash value.
- The cash value accumulates on a tax-deferred basis, which may increase the death benefit.
- At death, the corporation receives the life insurance proceeds tax-free.
- The corporation receives a credit to its capital dividend account for the amount of the life insurance proceeds, less the insurance policy's adjusted cost basis.
- Capital dividends may then be paid tax-free to your estate.

What does this achieve? It creates cash value that grows on a tax-deferred basis, and can be accessed while you're alive, or paid to your estate on your death. Remember: While funds remain in the company, exposure to tax reduces investment returns and ultimately what is left to the estate. But, by moving the funds into a life insurance policy, the amount of tax payable by the corporation is reduced – and most of the proceeds flow into and out of the corporation tax-free.

In simple terms, let's compare the estate value arising from corporate-owned insurance to the estate value from an alternative investment. Assume that, at death, the corporation will pay the death benefit from the life insurance, or the proceeds from the sale of the alternative investment, as a dividend to the estate. Since the life insurance typically generates a large capital dividend account credit to the corporation, most of the proceeds are received by the estate tax-free. In contrast, most other investments don't have that tax advantage. As a result, the tax arising on the distribution of the proceeds from the taxable investment will be considerably higher. Therefore, the estate will be much lower, even if the value of the investment is comparable to the life insurance death benefit.

In the right circumstances, an exempt life insurance policy is an effective wealth management and transfer tool. The Stan Clark Financial Team has designed a spreadsheet that shows exactly what this strategy can mean to you and your estate. If you would like to talk to us about it, please don't hesitate to get in touch.

Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

*To learn more about CIBC Wood Gundy, The Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.*

CIBC Wood Gundy | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca