Corporate retirement strategy

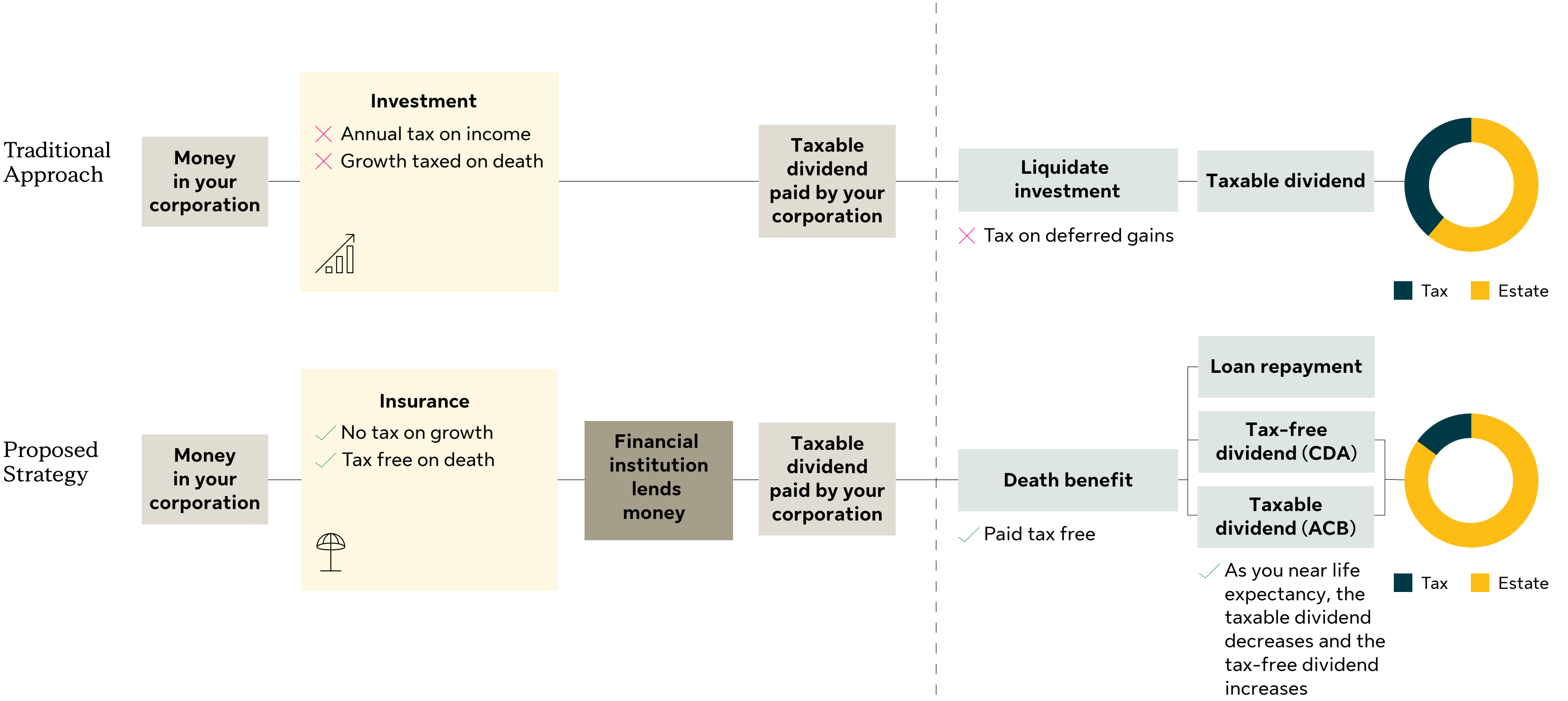
A tax-exempt life insurance strategy

You own a private corporation that has a significant amount of its wealth in taxable investments. You want to grow and protect the value of your corporation to maximize what can be left to beneficiaries. You're also looking for the flexibility to access some of the money in the future in case you need to supplement your income.

The Corporate Retirement Strategy provides tax-efficient growth and access to the cash values if needed, while offering you the protection you were looking for. By using life insurance, the estate value available for future generations can be significantly increased by the tax-free death benefit and resulting credit to the corporation's capital dividend account (CDA).

During your lifetime

On death



How it works

Your corporation buys a permanent life insurance policy on your life to protect the value of the corporation for future generations. Your corporation owns the policy, pays the premiums and is also the beneficiary. In addition to protection, the policy also offers a number of benefits.

- Tax-preferred cash value accumulation. Transferring corporate surplus to the policy helps reduce taxes the corporation pays on investment income.
- If you or the corporation wants access to this value, the corporation may be able to pledge the policy as collateral in exchange for a series of tax-free loans from a lending institution. If the loan proceeds are used to earn income, there may be tax deductions available. Your corporation then pays you a taxable dividend, which you can use to supplement your income. In some situations, and with the proper tax advice and structuring, it may also be possible for the shareholder to borrow the funds directly from the lender.
- On your death, a portion of the tax-free death benefit pays off the outstanding loan, plus any accumulated interest. Even though some or all of the death benefit may have been used to repay the loan, the corporation may post the entire death benefit to its capital dividend account (CDA), minus an amount equal to the policy's adjusted cost basis (ACB). An amount equal to the CDA can be paid out of the corporation as a tax-free capital dividend. Any amount remaining can be paid as a taxable dividend.

When to use it

Consider this strategy if you:

- Are the shareholder and key-person of a Canadian controlled private corporation (CCPC).
- Have a successful business with either excess income or a large corporate surplus, and a sound future outlook.
- Have maximized your individual RRSP and TFSA contributions.
- Are interested in reducing tax on corporate investment income.
- Want access to cash for business opportunities in the future, if needed.

Notes

There are additional considerations and risks associated with the Corporate Retirement Strategy beyond those discussed here. Policy loans and withdrawals may have tax implications. Before implementing any strategy, consult with your tax and legal advisors.

We help. You grow.

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