Corporate Investment Shelter

This strategy is ideal for individuals who own a holding company and:

- Don't require the income from the holding company
- Have excess income distributed from their operating company to their holding company
- Wish to pass proceeds to any remaining shareholders or to the estate

PROCESS

1. The corporation can use excess earnings, which would otherwise be invested in taxable vehicles, to fund a tax-exempt life insurance policy. The corporation must be the owner and beneficiary* of the policy, and the shareholder must be the insured.
2. Once the insurance costs are subtracted, the remaining deposits are invested and grow on a tax-sheltered basis in the policy. Those assets can be accessed for future use through a strategy that incorporates tax-free loans from a financial institution.
3. Upon death of the shareholder, the proceeds are payable to the corporation, tax-free.
4. The insurance proceeds create a credit in the corporation's Capital Dividend Account (CDA), which can then be used to pay a tax-free, capital dividend to the shareholder's estate†. The amount of the credit in the CDA is equal to the entire death benefit proceeds minus the Adjusted Cost Basis of the policy. Any proceeds in excess of the CDA credit can be paid to the estate as a taxable dividend.
5. The estate can use the net proceeds in a number of ways, based on the shareholder's needs and wishes.

BENEFITS

Corporate Investment Shelter offers several benefits. This strategy can:

- Maximize the size of the estate to be passed on
- Create additional funds to make charitable donations, which in turn create even greater tax advantages
- Equalize the estate if the company is being passed on in its entirety to only one child
- Increase the rate of return on corporate assets by sheltering them from annual corporate taxes
- Protect your company from liquidation by using the insurance proceeds to fund capital gains taxes that are incurred upon death

* Further advantages may be obtained by naming OpCo as the beneficiary of a policy owned by HoldCo, if possible.

† Proceeds can be paid through the CDA to any shareholder.

CORPORATE INVESTMENT SHELTER

1 The company is the owner and beneficiary of the policy and pays premiums from excess earnings.

Death benefit
+
tax-deferred accumulation

2 Deposits are invested in a diversified manner and grow in a tax-sheltered environment. This adds a layer of diversification to the shareholder's investment portfolio.

3 The death benefit is paid to the company tax-free when the shareholder dies.

Corporation*

4 The corporation pays the proceeds of the death benefit to the shareholder's estate via the Capital Dividend Account (CDA). The credit is equal to the insurance benefit received by the corporation minus the Adjusted Cost Basis (ACB) of the policy. It allows a tax-free capital dividend to be paid to the shareholder.

Shareholder

5 The estate can use the proceeds for various objectives, for instance, to fund tax liabilities, equalize shares of inheritance or distribute social capital to charities and foundations.

Estate

* Must be a Canadian controlled private corporation

RBC Dominion Securities

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