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CORPORATE WEALTH TRANSFER STRATEGY

There are options with respect to your corporate investments. You can continue to pay tax on the income earned on your company's invested profits (both annually and at death) or you can take advantage of a planning strategy known as the Corporate Wealth Transfer. This strategy may be appropriate for you if you have corporate investments or retained earnings available for investment and wish to benefit from a tax-deferred investment.

HERE IS THE PROBLEM

Retained profits or surplus cash in many businesses are invested in taxable investments by business owners who do not require the additional income. Growth of these invested retained earnings may create passive business income which is usually taxed at higher rates than active business. It often makes sense, therefore, to evaluate and diversify business savings and investment accounts within the corporate structure to ensure both tax-efficiency and to maximize future estate value.

As business assets accumulate and grow, so may the tax burden. In fact, the greater the rate of return in your business' investment portfolio, the

greater the tax liability will be. The end result may be that your hard work and corporate savings will be much less than anticipated once transferred from the corporation to your heirs.

PROBLEMS WITH INVESTING ASSETS IN THE CORPORATE STRUCTURE

INVESTING RETAINED PROFITS

Retained profits are typically invested in GICs or other taxable investments within the business structure.

However, the investment income in a corporation may be taxed at a slightly higher tax rate than the top personal income tax rate. This may not be the most effective way to invest all the profits of the company.



RBC Wealth Management

With a tax-exempt life insurance policy, owners may make additional contributions to the policy above and beyond the annual policy premiums.



ESTATE PLANNING INEFFICIENCY

Typically, upon the death of the sole remaining shareholder of a corporation (including partnership arrangements), the corporation's shares are deemed disposed. The result may require tax to be paid on the share value personally and still leave the liquid investments trapped within the corporate structure. Where no post mortem tax planning has been implemented, redemption of the corporate investments for any personal or estate use usually requires either a dividend declaration or some other taxable method of withdrawal.

THIS SOLUTION IS IDEAL FOR A CORPORATION OR OWNER WHO:

- Has surplus cash/investments available to invest
- Can benefit from a higher immediate estate value and ultimately from a higher tax-free death benefit paid to heirs
- Has a strong desire to leave a legacy at death
- Is healthy and may therefore medically qualify for a life insurance policy

HOW IT WORKS

The corporation purchases the tax-exempt life insurance policy on a shareholder's life and would be the

registered owner of the policy and the beneficiary of the policy death benefit. Premium and policy deposits may be made from excess cash flow or from the reallocation of existing liquid investments.

With a tax-exempt life insurance policy, owners may make additional contributions to the policy above and beyond the annual policy premiums. Though policyholders must deposit at least the minimum, they are also allowed to put in as much as the maximum premium. The maximum may be several times more than the minimum premium, and dependent on your age, gender, health, and the face amount of insurance coverage. The difference between the minimum and what you actually deposit is invested in a variety of options, and any growth is tax-deferred.

The Corporate Wealth Transfer repositions your surplus profits or investments from tax-exposed to a tax-exempt life insurance policy. This permanent policy offers life insurance protection and an investment account that allows for tax-exempt growth. When you die, the corporation receives the benefit from the life insurance policy tax-free, plus a credit to its Capital Dividend Account (CDA). Tax-free capital dividends can

then be paid out by the corporation. This strategy maximizes the transfer of business assets that have built up within the corporation.

ACCESSING CAPITAL WHILE ALIVE

It is possible to access the values within the policy in several ways. The policy's cash surrender value may be withdrawn (in whole or in part) or borrowed against. While withdrawing funds may have tax consequences, borrowing may allow the corporation to access the investments without tax.

ACCESSING THE CAPITAL UPON DEATH

The corporate wealth transfer strategy can be an efficient way to pass corporate assets to your loved ones. When the owner passes away, the corporation receives the policy death benefit and typically the accumulated investment growth, free of tax. Death benefit proceeds create a credit to the corporation's 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 by the corporation tax-free.

ILLUSTRATION OF THE CORPORATE WEALTH TRANSFER:

- In this example, the clients are a 60-year old male and a 60-year old female; both are shareholders in their business and are non-smokers. Their personal tax rate is 45% and their ineligible dividend tax rate is 35%. They want to leave a legacy for their children from their business assets after they have both died.
- Current corporate fixed income portfolio earning 4%. The average corporate tax on investment growth is 46%.
- They plan on investing a portion of their surplus corporate investment capital (\$500,000). For each of the next ten years the corporation will transfer \$50,000 to an exempt life insurance policy.
- By starting with a \$1,000,000 initial death benefit which would be paid after the last death of the clients and assuming the 2014 participating dividend scale rate of return; here is how the Corporate Wealth Transfer strategy can increase the size of the gift they'll leave their children:

The corporate wealth transfer strategy can be an efficient way to pass corporate assets to your loved ones.

Non-Registered Corporate Investment				Whole Life, Participating (Corporate Wealth Transfer)			
Year	Age	Account	Net Estate Value	Deposit	Death Benefit	CDA Credit	Net Estate Value
1	56	\$500,000	\$324,592	\$50,000	\$1,059,897	\$1,011,460	\$1,042,242
2	57	-	331,581	50,000	1,118,036	1,021,480	1,082,841
3	58	-	338,721	50,000	1,175,068	1,030,782	1,122,476
4	59	-	346,014	50,000	1,232,795	1,041,268	1,162,983
5	60	-	353,464	50,000	1,291,436	1,053,289	1,204,632
10	65	-	393,193	50,000	1,520,179	1,061,040	1,352,823
15	70	-	437,386	-	1,417,575	1,008,582	1,268,497
20	75	-	486,547	-	1,477,987	1,151,936	1,359,141
25	80	-	541,234	-	1,559,764	1,344,097	1,481,153
30	85	-	602,067	-	1,660,666	1,593,837	1,636,307
35	90	-	669,738	-	1,780,684	1,780,684	1,780,684
40	95	-	745,014	-	1,919,899	1,919,899	1,919,899

* Canada Life, Whole Life, Participating. Assuming current dividend rates less 1%. Illustration date: February 21, 2014.

Hypothetical examples are not contracts and the values shown are not guaranteed. To help you make a more informed decision about purchasing the life insurance policy we have provided the following information:

1. References in this example to tax treatment are based on current Canadian Federal Income Tax laws and regulations. If tax laws change, the amounts shown may change as well, which means they cannot be guaranteed.
2. The amounts shown in this example MAY OR MAY NOT be achieved. This depends on whether the actual experience conforms to the assumptions made in the preparation of the illustration for the life insurance policy including, if applicable, the amount and timing of deposits, interest rates and dividend scales. If actual results are less favourable than illustrated amounts, additional deposits into the life insurance policy may be required to maintain the level of benefits shown. Please refer to the product illustration(s) with respect to limitations on policy values and guarantees.
3. Insurance costs are based on Standard rates which may vary based on medical evidence.

For more information,
please contact us.



RESULT

The corporate wealth transfer strategy allows you to move corporate investment dollars from a tax-exposed environment to a tax-deferred one, maximizing the amount that is available to your estate.

If you have surplus cash or retained earnings invested in your corporation, a desire to leave assets to your heirs and are concerned about the erosion of your corporate assets, you should discuss the Corporate Wealth Transfer solution with us.