



## **The Corporate Estate Bond**

Many Canadian corporations are investing their surplus cash or retained profits in taxable investments. This is often the case with business owners who do not need the extra income. The results of these corporate investments is more than just growth ... it's taxation! In fact the government will take approximately 48%\* of the investment income in tax.

As your assets accumulate and grow so can the tax you will ultimately pay. In fact, the greater the rate of return in your investment portfolio the greater your tax liability will be. The end result could be that your hard work and corporate savings will be much less than you, and they, had anticipated once transferred from the corporation to your heirs.

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 know as the Corporate Estate Bond.

If you have corporate investments, or retained earnings available for investment, and wish to benefit from a tax-deferred investment this strategy may be appropriate for you.

The Corporate Estate Bond repositions your surplus profits or investments from tax-exposed to an exempt life insurance policy. This policy provides 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 – under current tax laws. Capital dividends can then be paid out to your estate tax-free. This strategy maximizes the transfer of the assets you've built up in your corporation.

If you have surplus cash or retained earning 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 Estate Bond solution with your Investment Advisor and Estate Planning Specialist.

\* combined federal and provincial tax rates for corporations, median for 2008 is 47.92%



## Illustration of the Corporate Estate Bond:

- In this example, the clients are a 60-year old male and a 60-year old female, both are non-smokers and their personal tax rate is 46%. They want to leave a legacy for their children from their business assets after they have both died.
- Their current corporate investment portfolio earns 6.25%, in an investment portfolio made up of 60% interest, 10% dividends, 15% realized capital gains and 15% deferred capital gains.
- They plan on investing a portion of their surplus corporate investment capital (\$300,000). For each of the next five years the corporation will transfer \$60,000 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 a 5% rate of return, here's how the Corporate Estate Bond strategy can increase the size of the gift they'll leave their children:

Year	Age	Non-Registered Corporate Investment		Universal Life (Corporate Estate Bond)			
		Account	Estate Value	Deposit	Estate Value	CDA Credit	Net Estate Value
1	61	\$300,000	\$ 206,039	\$60,000	\$ 1,051,876	\$ 995,520	\$1,032,152
2	62		217,535	60,000	1,106,346	994,681	1,067,263
3	63		229,508	60,000	1,163,540	997,818	1,105,537
4	64		241,979	60,000	1,223,593	1,005,368	1,147,214
5	65		254,971	60,000	1,286,649	1,017,535	1,192,459
10	70		328,610		1,311,342	1,114,146	1,242,323
15	75		419,345		1,342,856	1,287,921	1,323,629
20	80		531,546		1,383,078	1,383,078	1,383,078
25	85		670,803		1,434,412	1,434,412	1,434,412
30	90		844,291		1,499,929	1,499,929	1,499,929

Using Manulife Financial software effective April 1, 2008

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