RBC Wealth Management Financial Services Inc.

Minimizing Taxes, Maximizing Your Estate With Corporate Insurance

Bois Wealth Management Advisory Group

RBC Wealth Management

TOPICS

1. Retained Earnings and the Taxation of Corporate Investments
2. Repositioning Taxable Assets
3. The Corporate Wealth Transfer Strategy
4. Case Study
5. Considerations

RETAINED EARNINGS

- Retained earnings, or corporate surplus, are earnings left in your corporation after expenses are deducted and shareholder dividends are paid out;

Business owners have options to deal with corporate surplus:

- Pay out dividends and pay dividends tax personally; or

- Invest surplus in your corporation and pay corporate tax on investment growth.

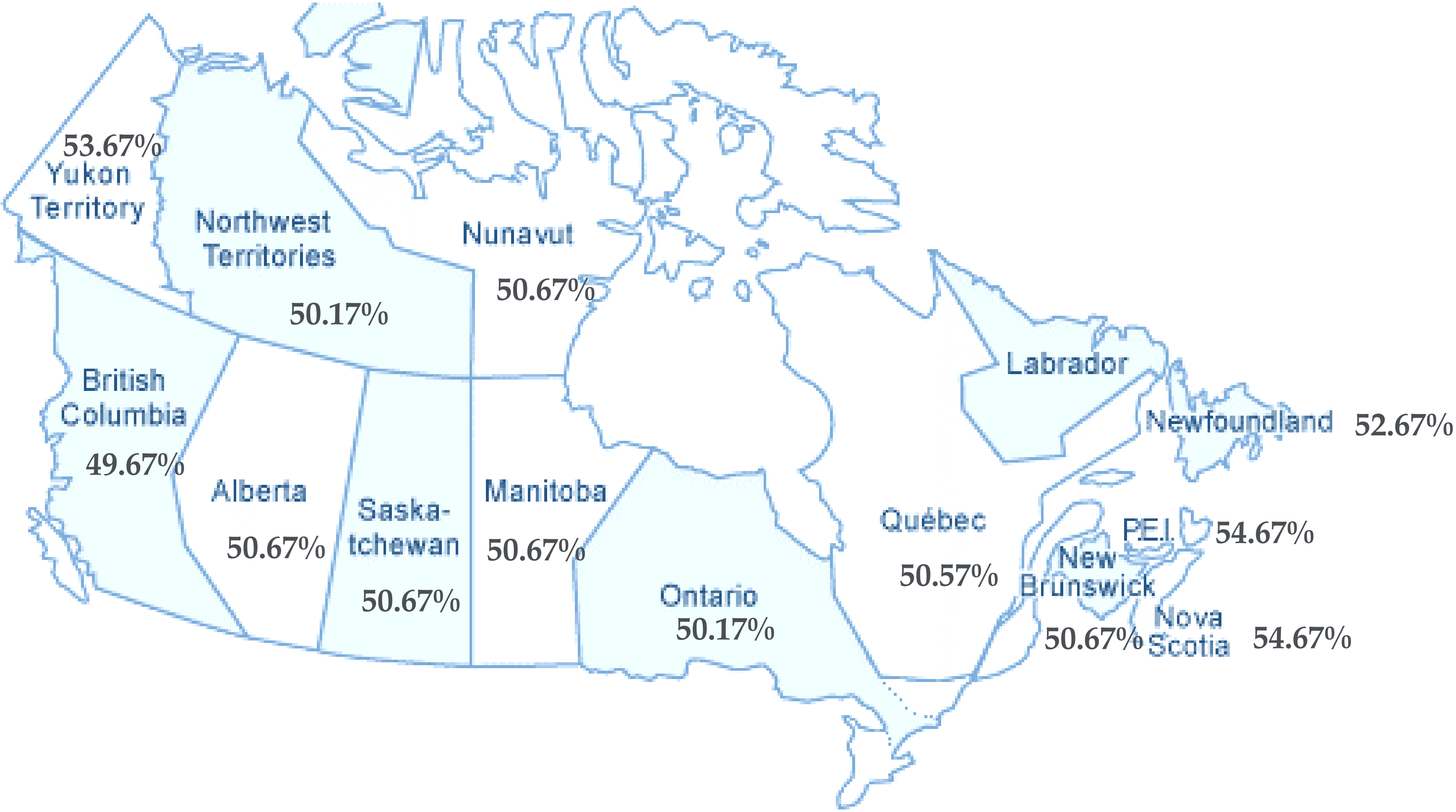
THE CYCLE OF RETAINED EARNINGS TAXATION

- If your corporation's retained earnings are in the form of cash or an investment portfolio, then certain investment income earned on your retained earnings will be taxed annually (i.e. interest & dividend income);

- Passive income (interest) earned on retained earnings is taxed at the highest corporate tax rate;

- Retained earnings may become "trapped" when families / shareholders are faced with paying tax to withdraw these investments from the business.

TAXATION OF BUSINESS INVESTMENT ASSETS
2016 TAX RATES



•Tax rates current as of January 2017.

CORPORATE INVESTMENT TAXATION

Year	Deposit	Tax Payable	Investment Balance
1	$ 50,000	$ 934	$ 52,068
2	50,000	1,898	106,311
3	50,000	2,894	162,843
4	50,000	3,922	221,784
5	50,000	4,984	283,262
6	50,000	6,081	347,411
7	50,000	7,215	414,377
8	50,000	8,387	484,311
9	50,000	9,598	557,376
10	50,000	10,850	633,744
Total		$ 56,763	

Balanced RBC corporate portfolio earning 6.0% (interest (4.78%), corp. dividends (7.5%), realized capital gains (7.5%) deferred capital gains (7.5%).
50.17% corporate tax rate, January 2016. and 45.30% personal dividend tax rates, February 2016.
These values are for illustration purposes only and are not guaranteed.

WHAT IF SHAREHOLDER DIES AND THE SURVIVING FAMILY MEMBERS NEED TO ACCESS CORPORATE CASH?

Year	Age	Deposit	Tax Payable	Investment Balance	Net Estate*
1	51	$ 50,000	$ 934	$ 52,068	$ 29,105
2	52	$ 50,000	1,898	106,311	60,054
3	53	$ 50,000	2,894	162,843	92,939
4	54	$ 50,000	3,922	221,784	127,860
5	55	$ 50,000	4,984	283,262	164,922
10	60	$ 50,000	10,850	633,744	386,476
15	65		12,804	788,691	516,476
20	70		15,182	991,957	685,747
25	75		18,091	1,260,976	908,075
30	80		21,669	1,619,960	1,202,487
35	85		26,091	2,102,629	1,595,329
40	90		31,585	2,756,084	2,123,195

*The Net Estate is the net or after-tax amount received by your heirs if they withdrew the entire investment at death.

Net Estate values assume death has occurred. Analyzing the net estate value of your portfolio, allows you to understand what the net value of your investment will be when it passes to your heirs after your death.

Balanced RBC corporate portfolio earning 6.0% (interest (4.78%), corp. dividends (7.5%), realized capital gains (7.5%) deferred capital gains (7.5%).
50.17% corporate tax rate, and 45.30% personal dividend tax rates, June 2017.
Net estate values do include RDTOH (Refundable Dividend Tax on Hand) which is a mechanism built into the income tax system in order to achieve integration. RDTOH ensures that Tax payable on investment income is the same whether it is being earned inside a corporation and flowed out to its shareholders or earned personally by its shareholder(s).
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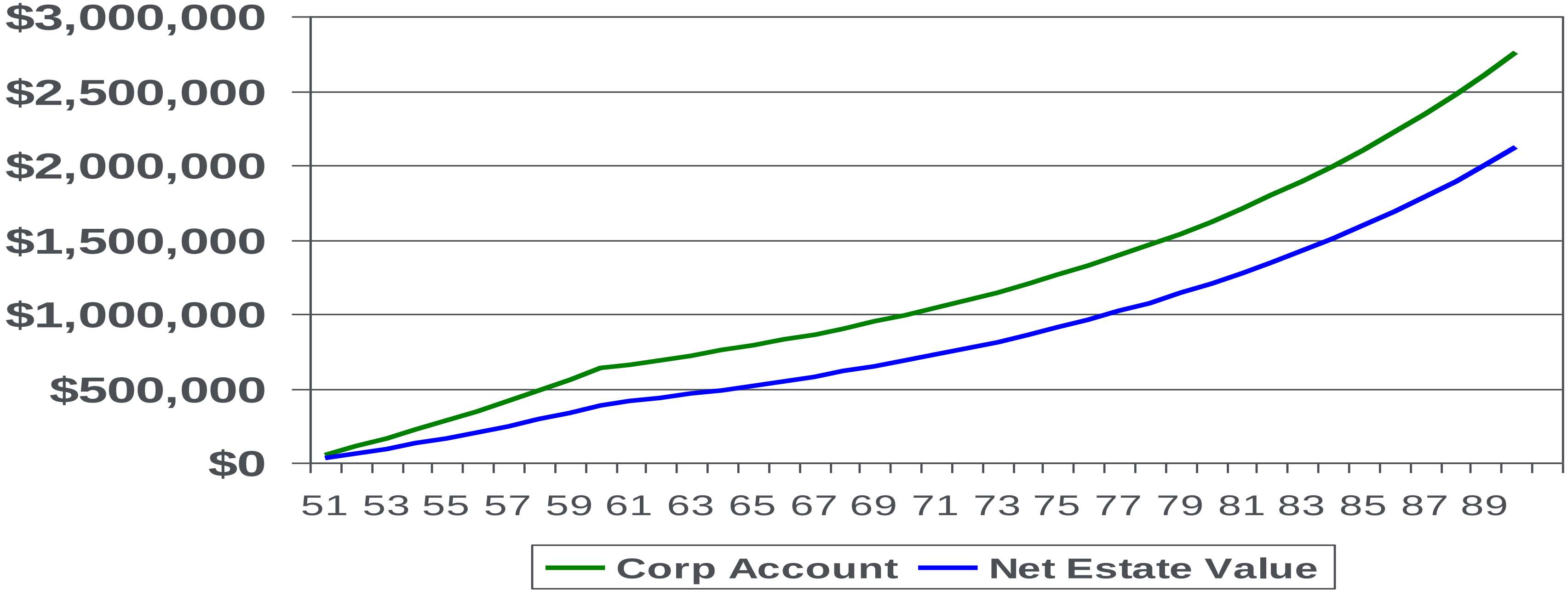
EFFECTS OF DEFERRED TAX AND DIVIDEND INCOME TAX



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ALTERNATIVE CORPORATE TAX SHELTERED INVESTMENT

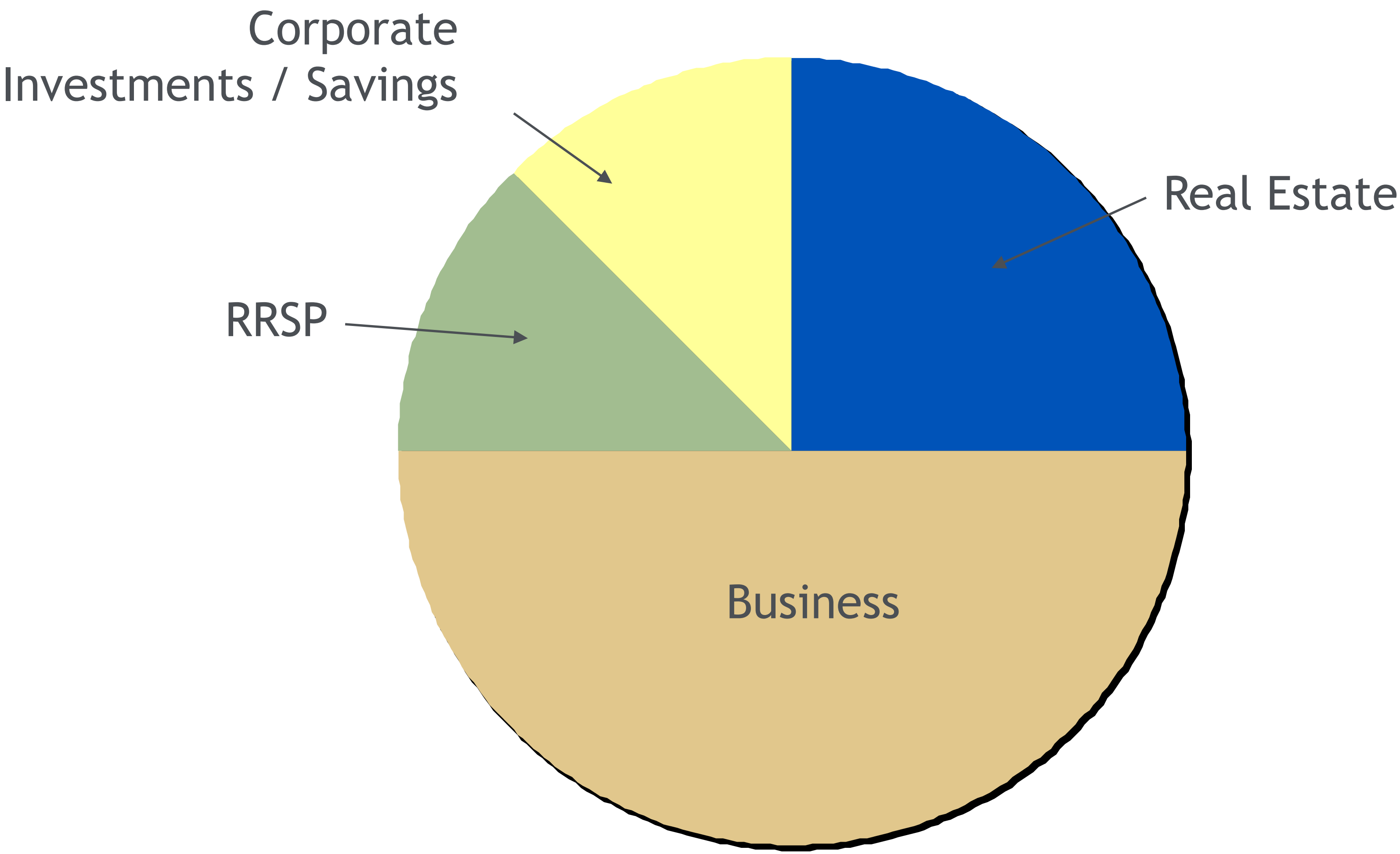
A solution that:

- Grows tax sheltered;
- Has provided consistent growth and stable returns*;
- Investment capital vests annually;
- At death "this alternative investment" is paid to your Corporation and may be extracted virtually tax-free through the Capital Dividend Account.

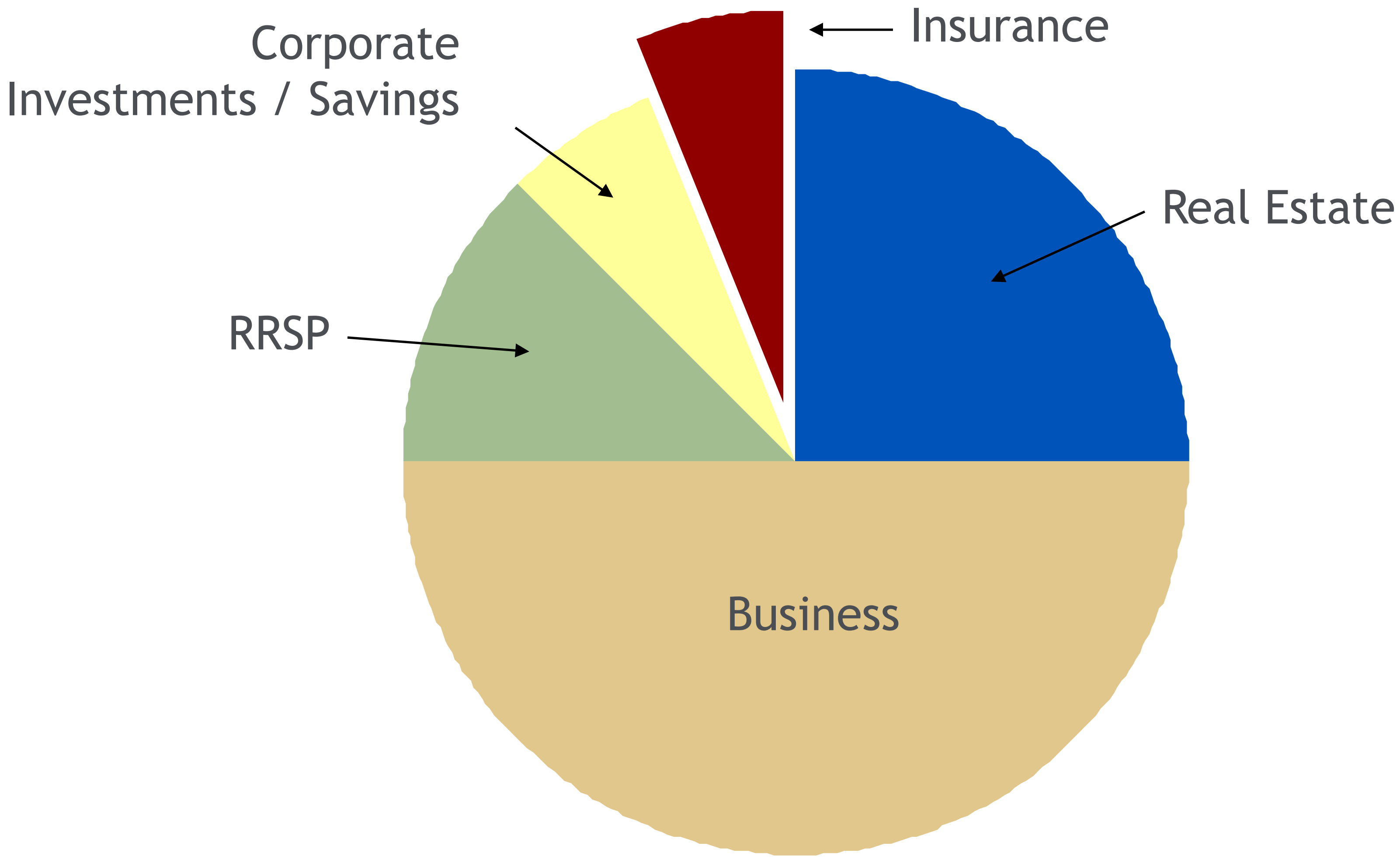
*Past performance is not indicative of future returns.

Note: The Capital Dividend Account (CDA) is a notional tax account created in order to track the tax-free surpluses accumulated inside a corporation including but not limited to life insurance proceeds. All private corporations in Canada, including those that are not Canadian-controlled qualify for a CDA, however public corporations do not.

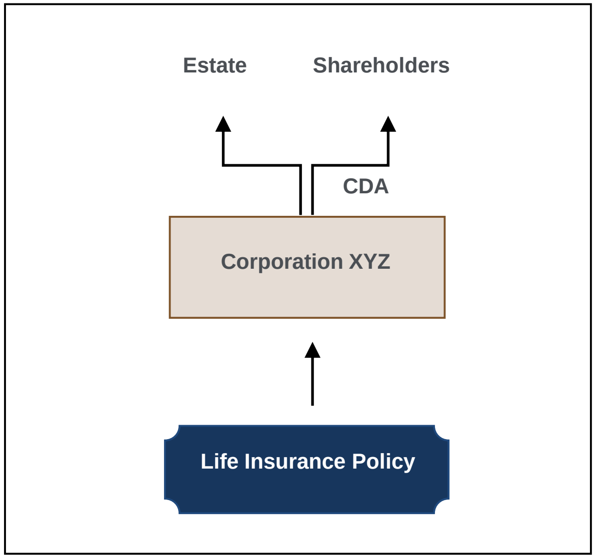
REPOSITIONING TAXABLE ASSETS



INSURANCE AS ANOTHER ASSET POOL



CORPORATELY OWNED LIFE INSURANCE



When a corporation owns a life insurance policy, and is the named beneficiary / recipient of the death benefit, the life insurance proceeds received less the policy adjusted cost basis (ACB) can be credited to the Capital Dividend Account (CDA). The CDA balance may then be distributed to a Canadian resident shareholder in the form of a tax-free capital dividend. CDA is a method by which tax integration is achieved. Thus, by funding the policy through a corporation and maximizing tax-free dividends, the policy owner is able to achieve the same benefit as would be received through a personally owned life insurance policy.

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The Adjusted Cost Basis (ACB) is the out of pocket cost of an insurance policy, often referred to as a policyholder's interest in a life insurance policy. A policy ACB is the base for which policy gains are calculated if the policy were to be disposed of today.

WHY DO BUSINESS OWNERS USE INSURANCE?

- To create or protect an Estate;
- To fund an eventual tax bill (sales of investment property, shares in a corporation, non-registered assets / accounts, etc.);
- To equalize an estate (e.g. Family business);
- For tax-exempt growth to support a retirement or pension goal;
- To support a “Buy-sale agreement”;
- To protect a key employee;
- For asset preservation and wealth transfer.

CORPORATE WEALTH TRANSFER SOLUTION

- Reposition surplus profits/investments from a tax-exposed environment into tax-exempt life insurance.
- Provides life insurance protection and an investment value that grows exempt from tax.
- Current tax laws permit a corporation to receive the policy death benefit tax-free, and pay out a tax-free capital dividend to surviving shareholders / your estate;

Life Insurance

Death

Benefit

Corporation

Dividend

Heirs/Shareholders

Note: The Wealth Transfer Solution can also be implemented on an individual basis and is not just for incorporated businesses / professionals.

APPLYING THE CORPORATE WEALTH TRANSFER STRATEGY

- Tax-free growth on policy cash values and death benefit may be extracted from your corporation tax-free through the capital dividend account;
- Capital Dividend credit will equal policy death benefit less its adjusted cost basis (ACB);
- Funds may be accessed from the policy's cash surrender value or the policy may be used as collateral to receive a bank loan.

TAXATION

Several layers of tax savings will result from this solution:

- Annual taxation of investment growth or deferred growth at death is not applicable to tax-exempt life insurance;
- Life insurance proceeds less any remaining policy Adjusted Cost Basis (ACB) are accredited to the CDA and may be paid out of your corporation as a tax-free capital dividend.

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CASE STUDY

Frank and Linda:

- Small business owners, both aged 50, in good health and have two adult children;
- Frank, Linda and their two children all own shares in the corporation;
- Their financial plan outlines a personal surplus for their retirement years;
- They have no need to use corporate assets, currently $500,000 to supplement their financial goals;
- Would like to transfer some of their wealth to their 2 children overtime.

ENHANCING CORPORATE PROCEEDS AT DEATH

Year	Age	Deposit	Policy Cash Surrender Value	Death Benefit	Capital Dividend Account Credit	Net Estate*
1	**51**	50,000	2,271	855,465	805,858.83	832,993
2	**52**	50,000	5,932	867,909	768,828.47	823,025
3	**53**	50,000	11,097	884,595	736,142.21	817,346
4	**54**	50,000	17,873	905,444	707,724.54	815,877
5	**55**	50,000	35,876	930,440	683,570.73	818,608
10	**60**	50,000	249,113	974,202	533,513.28	774,570
15	**65**	0	507,430	1,183,477	754,228.91	989,028
20	**70**	0	738,848	1,421,032	1,014,040.53	1,236,665
25	**75**	0	994,674	1,696,522	1,328,870.52	1,529,976
30	**80**	0	1,321,933	2,024,260	1,725,491.80	1,888,918
35	**85**	0	1,738,430	2,426,639	2,244,288.80	2,344,034
40	**90**	0	2,156,363	2,940,219	2,940,219.00	2,940,219

*Net Estate is the net or after-tax amount received by your heirs if they withdrew the entire investment at death.
$50,000 per year deposited for 10 years Sun Life, Protector IIr JLTD, pay to age 100 policy, on healthy, non-smoker 50 year old male and female February 2016.
50.17% corporate tax rate, and 45.30% personal dividend tax rates, February 2016.
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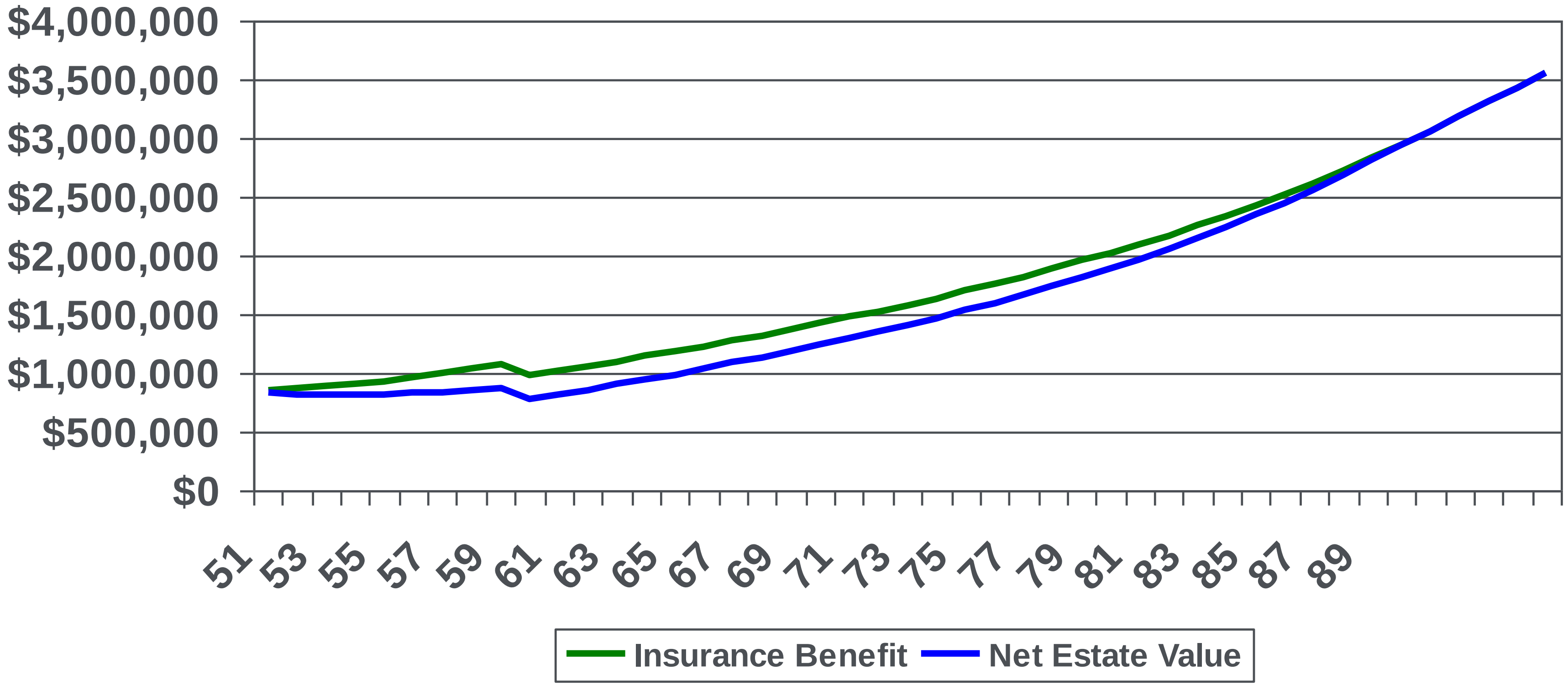
EFFECTS OF CORPORATE WEALTH TRANSFER TO HEIRS



$50,000 per year deposited for 10 years into Canada Life Estate Achiever JLTD, pay to age 100 policy, on healthy, non-smoker 50 year old male and female February 2016.
50.17% corporate tax rate, and 45.30% personal dividend tax rates, February 2016.
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COMPARING ESTATE OPTIONS: TRADITIONAL VS. CORPORATE WEALTH TRANSFER

		Corporate Wealth Transfer Solution			Balanced Corporate Investment	
Year	Age	Deposit	Net Estate	Pre-Tax IRR to Equal Net Estate Value	Deposit	Net Estate
1	51	$ 50,000	832,993	3232.85%	$ 50,000	$ 29,105
2	52	$ 50,000	823,025	541.08%	$ 50,000	60,054
3	53	$ 50,000	817,346	240.86%	$ 50,000	92,939
4	54	$ 50,000	815,877	142.03%	$ 50,000	127,860
5	55	$ 50,000	818,608	95.47%	$ 50,000	164,922
10	60	$ 50,000	774,570	23.78%	$ 50,000	386,476
15	65		989,028	16.62%		516,476
20	70		1,236,665	13.74%		685,747
25	75		1,529,976	12.18%		908,075
30	80		1,888,918	11.21%		1,202,487
35	85		2,344,034	10.59%		1,595,329
40	90		2,940,219	10.21%		2,123,195

$50,000 per year deposited for 10 years into Sun LifeLife Protector II JLTD, pay to age 100 policy, on healthy, non-smoker 50 year old male and female February, 2016.
50.17% corporate tax rate, and 45.30% personal dividend tax rates, February 2016.
Balanced RBC corporate portfolio earning 6.0% (interest (4.78%), corp. dividends (7.5%), realized capital gains (7.5%) deferred capital gains (7.5%).
IRR (Internal Rate of Return): Is the rate of growth an investment is expected to generate at a given period of time. This function is used to compare the profitability between investments, and the higher the IRR the better the potential outcome.
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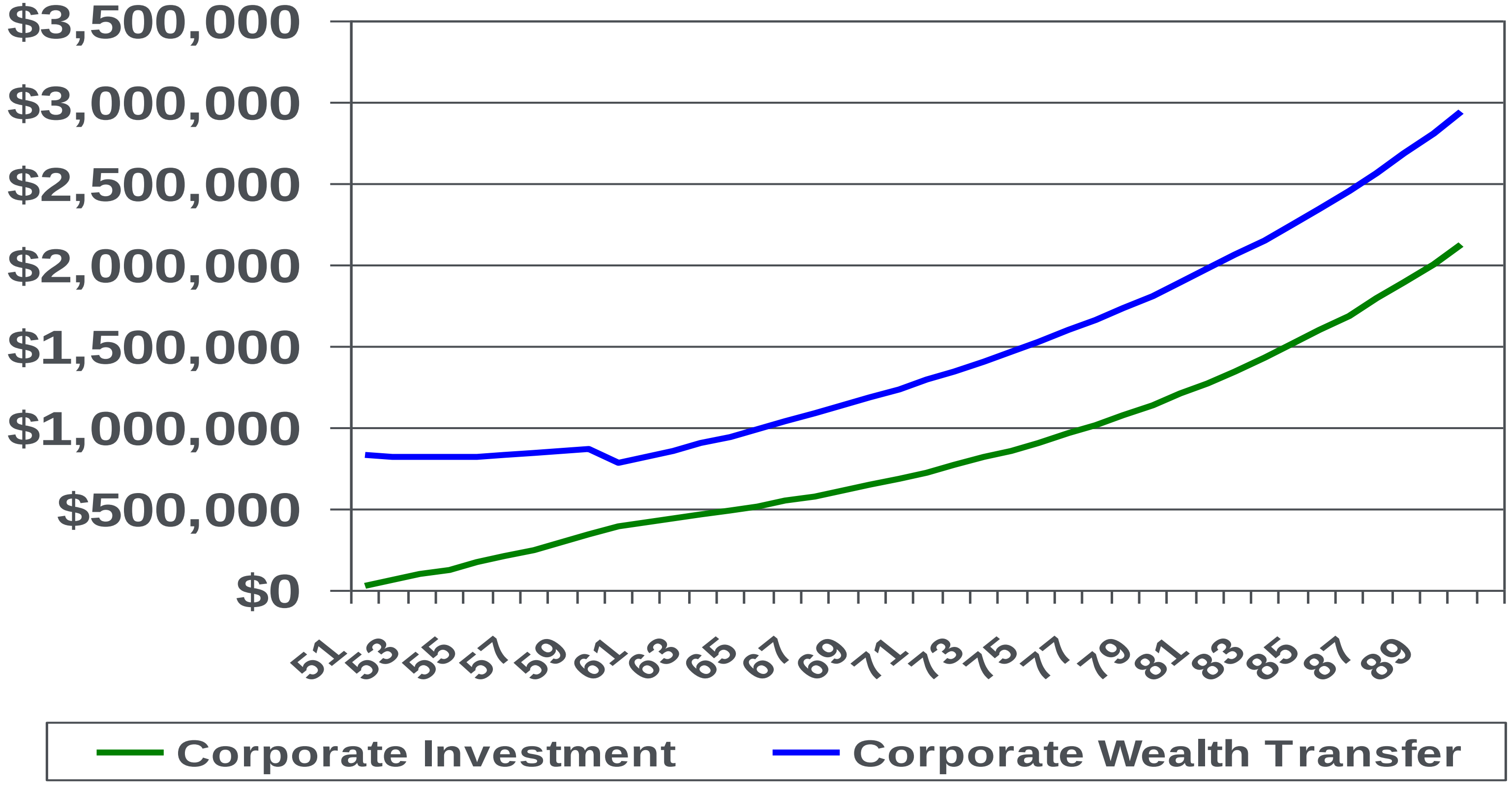
COMPARING ESTATE OPTIONS:
TRADITIONAL VS. CORPORATE WEALTH TRANSFER



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COMPARING OPPORTUNITIES

	Option A Corporate Wealth Transfer	Option B Corporate Taxable Investment
During Lifetime	Transfer to a tax-exempt life insurance policy	Pay corporate tax each year on growth
Wind-up At Death	Tax-free capital dividends from private corporation (life insurance proceeds less policy ACB) And Potential increased estate values	Pay tax to take as dividend income And / Or Pay capital gains tax when shares transferred to heirs

SUMMARY

- Reallocate corporate surplus to a tax-exempt environment;
- Your taxable investments may be repositioned into a life insurance policy which will immediately increase the cash available to your heirs;
- You may reduce your current and future corporate tax;
- Funds may be flowed out of your corporation tax-free when pass away.

Schedule a meeting with us today to see if the wealth transfer solution is appropriate for you!

Thank you

Wealth Management