Wealth Management

Corporate Wealth Transfer

There are options when you have surplus investment assets in your corporation and you want your beneficiaries to receive them. You can continue to pay tax on the income earned (both annually and at death) or you can reallocate some of those assets into a planning strategy known as the Corporate Wealth Transfer.

Maximize the value of the corporation by minimizing taxes.

Minimize to maximize

Retained profits or surplus cash in many businesses are invested in taxable investments by business owners who do not require the additional income or have other purposes for capital. Investment growth creates passive business income which is taxed at higher rates than active business income. It often makes sense, therefore, to evaluate and diversify corporate assets to ensure both tax-efficiency and to maximize future estate value. As investment assets accumulate and grow, so may the tax burden. The end result may be that your hard work and corporate savings could be reduced to paying tax rather than becoming an asset to your beneficiaries.

The Corporate Wealth Transfer is best suited for individuals who:

- Have surplus cash/investments inside a Canadian Controlled Private Corporation
- Have a strong desire to leave a legacy
- Would like to find ways to reduce the tax on passive investment income in their company
- Would like to enhance a higher estate value
- Want to invest retained earnings in a tax-efficient way

How it works

The corporation purchases a tax-exempt life insurance policy on a shareholder's life or shareholders' lives. The company is the owner and the beneficiary of the policy. Premium deposits may be made for a period of time, such as 10 or 20 years or for life, from excess cash flow or from the reallocation of existing investments. Modern insurance policies also allow for deposits in excess of the minimum required premium, subject to certain limits. The difference between the minimum and what you actually deposit may be invested in a variety of options, and any growth is tax-deferred.

The Corporate Wealth Transfer repositions your surplus profits or investments from being 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.

Upon death

The Corporate Wealth Transfer strategy can be an efficient way to pass corporate assets to your loved ones. On the death of the life insured(s), the corporation receives the policy death benefit 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. Distributions may then be made by the corporation as tax-free dividends to the shareholder.

Accessing capital while alive

Tax-exempt life insurance policies have the ability to accumulate cash values that may be an asset to the corporation. These values may then be accessed in several ways with each having its own considerations. Commonly, the policy's cash surrender value may be withdrawn (in whole or in part) or borrowed against. The decision may have tax consequences so it is important to consult your qualified tax advisor.

Illustrating the Corporate Wealth Transfer strategy

In the examples (right), the clients are couples, non-smokers and of different age ranges. We have assumed that the company's tax rate on passive investment income is at the national average tax rate of 50.20%[1] with a dividend tax rate of 43.90%.

The various clients are evaluating how to invest $50,000 per year for the next 10 years for the purpose of transferring wealth to the next generation. They are considering a conservative investment portfolio and a tax-exempt life insurance policy.

Universal life insurance is used as the recommendation, structured as joint-last-to-die policies, which means that each life insurance policy will only generate the death benefit when the second spouse passes away. As each example utilizes different ages, the amount of insurance purchased varies. The younger and healthier a couple is, the more insurance benefit their premiums will be able to buy.

[1]Highest national average tax rate is 50.20%.

55-year-old couple depositing $50,000 per year for 10 years compared to investing the same amounts

Tax-exempt life insurance					Conservative Portfolio	IRR*
Year	Age	Total death benefit	CDA credit	Net estate value	Net estate value	
1	55	$1,860,364	$1,811,461	$1,838,847	$29,254	6975.36%
20	75	$1,864,524	$1,453,736	$1,683,777	$547,138	15.23%
40	95	$1,866,093	$1,866,093	$1,866,093	$1,307,312	7.01%

This example is provided for a male and female, both age 55 using a Canada Life Universal Life insurance (10 Pay-cost of insurance).

65-year-old couple depositing $50,000 per year for 10 years compared to investing the same amount

Tax-exempt life insurance					Conservative Portfolio	IRR*
Year	Age	Total death benefit	CDA credit	Net estate value	Net estate value	
1	65	$1,175,364	$1,126,962	$1,154,067	$29,254	4337.60%
10	75	$1,178,896	$717,216	$975,757	$357,781	27.41%
30	95	$1,180,247	$995,860	$1,099,117	$839,589	6.83%

This example is provided for a male and female, both age 65, using a Canada Life Universal Life insurance (10 Pay–cost of insurance).

75-year-old couple depositing $50,000 per year for 10 years compared to investing the same amount

Tax-exempt life insurance					Conservative Portfolio	IRR*
Year	Age	Total death benefit	CDA credit	Net estate value	Net estate value	
1	75	$863,000	$815,285	$841,857	$29,254	3,134.97%
10	85	$863,000	$444,842	$678,862	$357,781	18.99%
20	95	$863,000	$689,709	$786,603	$547,138	8.26%

This example is provided for a male and female, both age 75 using a Manulife Financial Innovision insurance policy (Yearly Renewable Term to age 85/15 years-cost of insurance with a level death benefit).

The examples above are each provided on a joint-last-to-die basis for a male and female, both non-smoking. Rates effective February 17, 2020 using a universal life insurance policy with a 1.5% interest rate and deposits ending after year 10. Compared to a conservative portfolio (made up of interest, dividends, realized and deferred gains) earning 4.52%. **These values are for illustration purposes only, and are not guaranteed. *IRR: Internal rates of return.**

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 your life-licensed insurance advisor.