

MAXIMIZE CORPORATE ASSETS: MOVING CORPORATE SURPLUS FUNDS TO INCREASE YOUR ESTATE VALUE



Reduce your tax burden and increase the value of your estate with a tax-exempt life insurance policy taken out by your company.

About the strategy

Maximizing corporate assets is a financial planning strategy that's designed to increase the value of your estate. Your company simply transfers its surplus taxable funds into a tax-exempt life insurance policy.

Who it's for

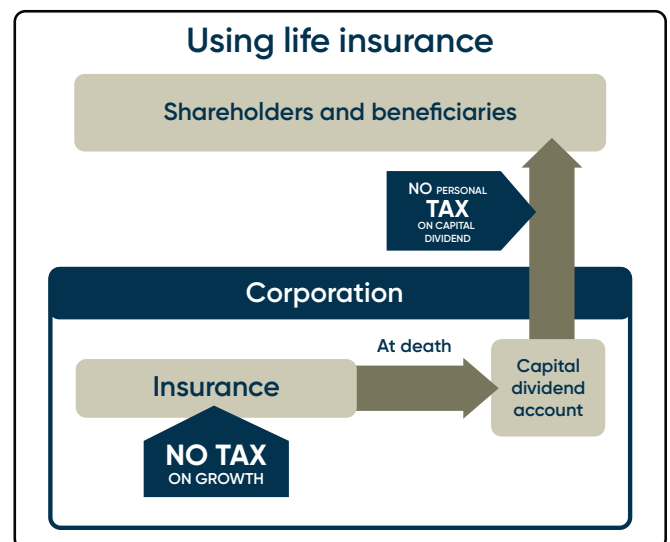
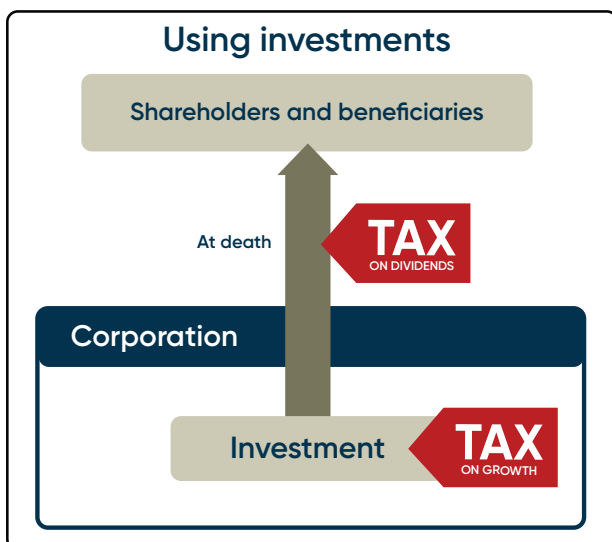
- › Canadian companies that have surplus funds
- › Shareholders aged 45 and over who:
 - › Wish to maximize the wealth they pass on when they die
 - › Favour long-term planning strategies

How it works

By maximizing corporate assets you increase the value of your estate. All your company has to do is take out an exempt life insurance policy under which the shareholder is the insured and the company is the beneficiary. The company transfers funds to the policy, creating cash value. These funds grow tax-sheltered, increasing the death benefit payable under the policy.

When the insured dies, the death benefit is paid to the company tax-free. The death benefit, minus the policy's adjusted cost basis (ACB), is posted to the company's capital dividend account (CDA).

The company can then pay a tax-free dividend up to the amount available in the CDA, reducing the tax you pay and leaving more money to pass on to your loved ones or charitable organizations when you die.



Why it works

- › It provides protection that increases the value of your estate, immediately and in the future.
- › The cash value is an asset that grows tax-sheltered, increasing the tax-free death benefit.
 - › Your company will not have to pay any more tax on sums transferred to a life insurance policy.
- › The death benefit is credited to your company’s capital dividend account (minus the ACB).
 - › The amount credited to the CDA can be paid to your estate as a tax-free dividend and distributed to the heirs and charitable organizations specified in your will.

The following example compares twin brothers aged 54 who are both non-smokers.

Each brother has his own company, whose financial and fiscal characteristics are identical in every respect. Both brothers decide to invest the same amount, \$25,000, every year for the next 15 years. They want their investments to go to their respective children after they die.

One brother chooses to maximize corporate assets by investing in a \$500,000 permanent life insurance policy, while his twin opts for a fixed-income investment. We’ll assume an interest rate of 3%. Both brothers die simultaneously in an accident. Let’s see how maximizing corporate assets can increase estate value, assuming a 47% corporate tax rate on investment income and a 35% rate on dividends.

Age	Fixed-income option			Maximizing corporate assets			
	Annual interest (\$)	Balance after taxes (\$)	Net estate value (\$)	Accumulated value (\$)	Cash value before taxes (\$)	Net estate value (\$)	Advantage (\$)
55	750	25,398	16,658	22,645	10,143	514,096	497,438
65	8,938	302,676	207,150	262,942	262,942	674,936	467,786
75	13,843	468,763	339,964	347,234	347,234	756,195	416,231
85	16,208	548,861	422,156	192,864	192,864	662,772	240,616
95	18,978	642,646	518,393	264,164	264,164	764,164	245,771

*Minimum interest rate: 1.5% The amounts above are drawn from computer simulations based on assumptions that are not guaranteed. Changing the assumptions will affect the illustrated benefits under the planning strategy. The net estate value is based on the assumption that the insured sums and the other investment are paid out as dividends at death. The net estate value does not take account of any capital gain on the company’s shares following the deemed disposition at death.

Permanent life insurance can help you leverage your company’s assets and achieve your long-term financial and estate planning goals.

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