

Planning for Private Corporations

Corporate Estate Transfer Strategy

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Important considerations

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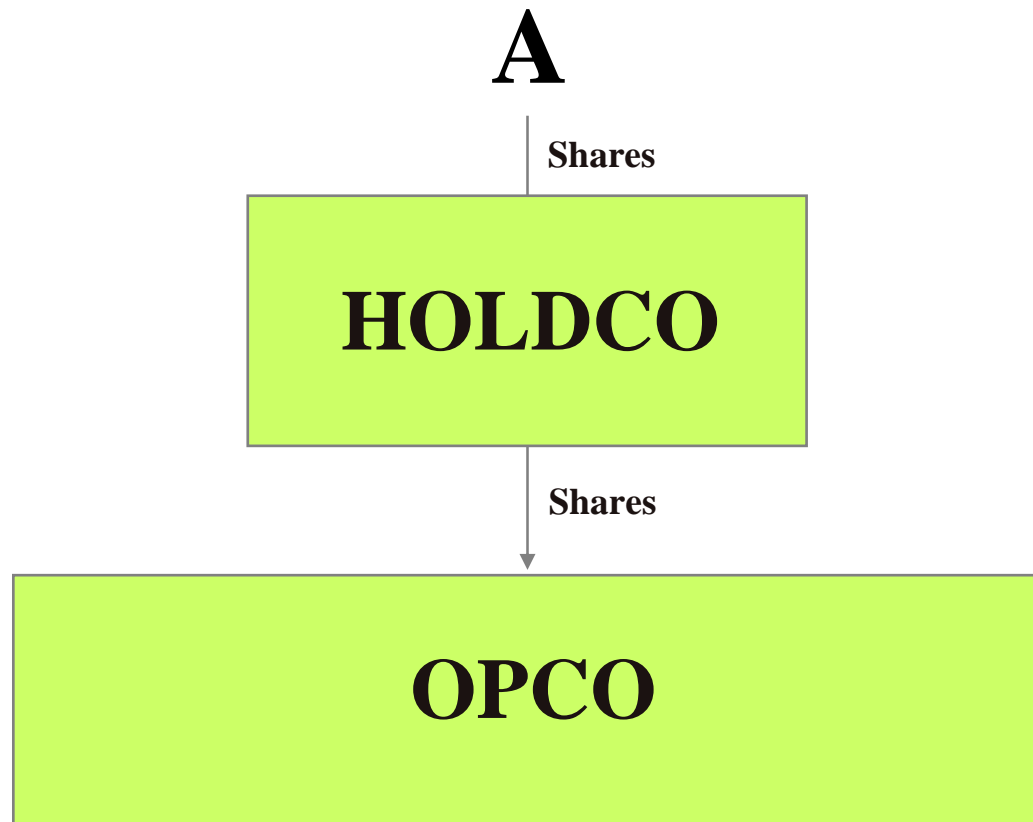
Agenda

- Introduction
- Understanding taxes on business income
- The Corporate Estate Transfer Strategy
- An example case study
- Summary

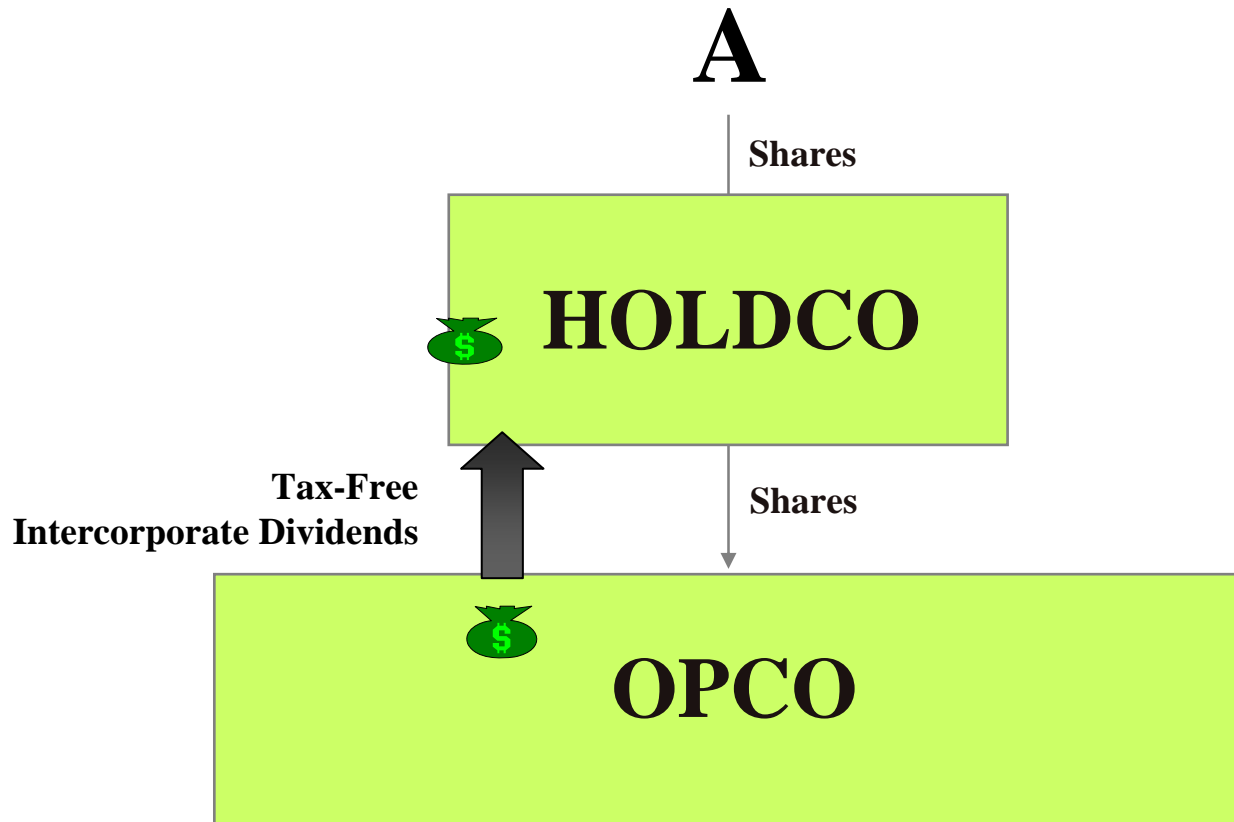
Introduction

- Business owners often have private corporations with significant investment portfolios
- Funds for corporate investment portfolios come from
 - Retained earnings of active business
 - Growth on passive investments
 - Sale of business assets

Retained earnings of active business



Retained earnings of active business



Corporate tax on business income

- Private corporations are eligible for the low rate tax on active business income
- Creates a significant tax deferral opportunity

Corporate tax on business income

Tax Rates on Active Business Income

2009 Rates

Federal and Province of Ontario Corporate Tax Rates Combined

	Active Business Income			
	\$0 - \$400,000	\$400,000 - \$500,000	\$500,000 - \$1,400,000	> \$1,400,000
Total corporate tax (CCPC)	16.50%	24.50%	37.25%	33.00%
Personal top marginal tax rates	46.41%	46.41%	46.41%	46.41%
Tax deferral opportunity	29.91%	21.91%	9.16%	13.41%

Corporate tax on business income

- There is a strong incentive to leave profits in the corporation to maintain the tax deferral
- Shareholders are left looking for ways to invest and protect this retained income

Corporate tax on investment income

- Corporations can invest this excess income in stocks, bonds, mutual funds, seg funds, real estate, income trusts, etc.
- Income on investment portfolios held in private corporations is taxed at the highest corporate tax rates

Corporate tax on investment income

Two critical factors to consider:

1. The corporate tax rate on passive investment income is high
2. Shareholders are looking for ways to invest corporate funds in the most tax-efficient manner

Is there a solution to both these needs?

Corporate Estate Transfer Strategy

Corporate estate transfer strategy

- What is it?
 - A planning strategy for private corporations using corporate-owned life insurance to maximize corporate asset values transferred to next generation

Corporate estate transfer strategy

- Who is it designed for?
 - Corporations carrying on an active business and earning excess cash flow for investment
 - Investment holding companies earning passive income from investments

Corporate estate transfer strategy

- What are the benefits?
 - Life insurance protection today
 - Tax-advantaged asset accumulation
 - Potential to access asset values in retirement
 - Significantly higher after-tax estate values

Corporate estate transfer strategy

- How does it work?
 - Corporation acquires a life insurance policy
 - Corporation is owner and beneficiary of the policy

TODAY

Corporate estate transfer strategy

- How does it work?
 - Deposits funded from excess corporate cash flow
 - Increase in policy values is not subject to taxation

ACCUMULATION

Corporate estate transfer strategy

- How does it work?
 - Policy cash values can be accessed to supplement retirement income, if desired
 - Tax implications depend on method used to access cash values

ACCESS

Corporate estate transfer strategy

- How does it work?
 - Insurance proceeds paid tax-free to corporation
 - Insurance proceeds credited to capital dividend account of corporation (CDA)
 - Corporation can distribute tax-free capital dividends to shareholders using CDA

ESTATE

Corporate estate transfer strategy

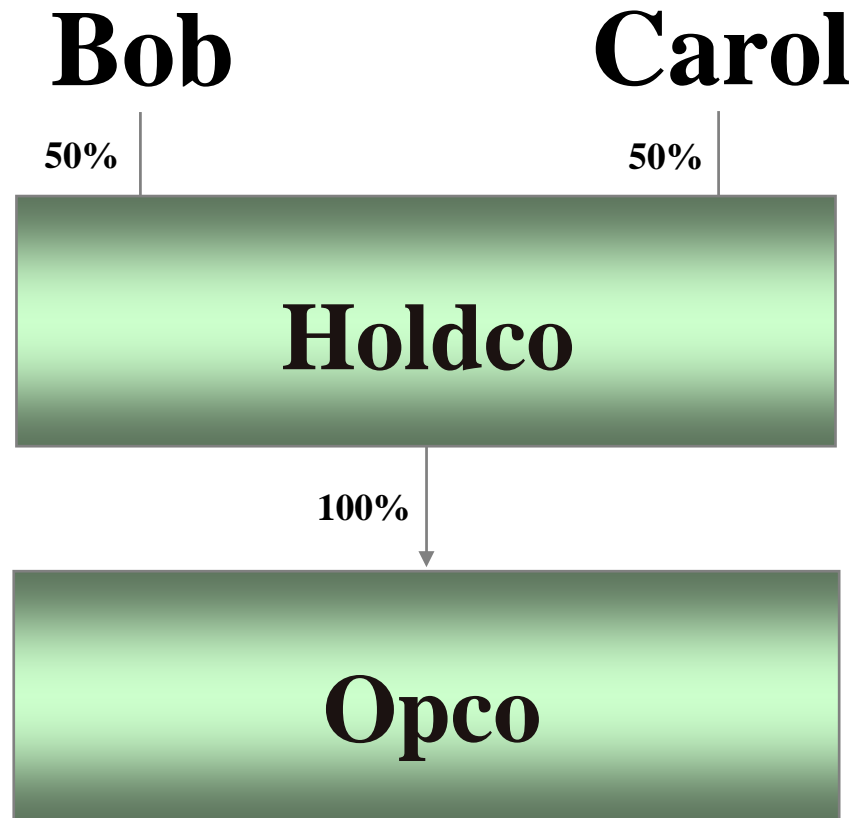


Case study: Bob and Carol

Case study

- Fact situation
 - Bob and Carol are both age 50
 - Bob and Carol own Holdco
 - Opco carries on an active business
 - Opco is generating excess earnings
 - Bob and Carol plan to retire in about 10 years

Case study



Case study

- Proposal ...
 - Holdco purchases an insurance policy on Bob and Carol on a joint-last basis
 - Holdco owns the insurance and is the beneficiary of the policy
 - Premiums are funded from tax-free intercorporate dividends from Opco to Holdco or from investments already in Holdco

Case study

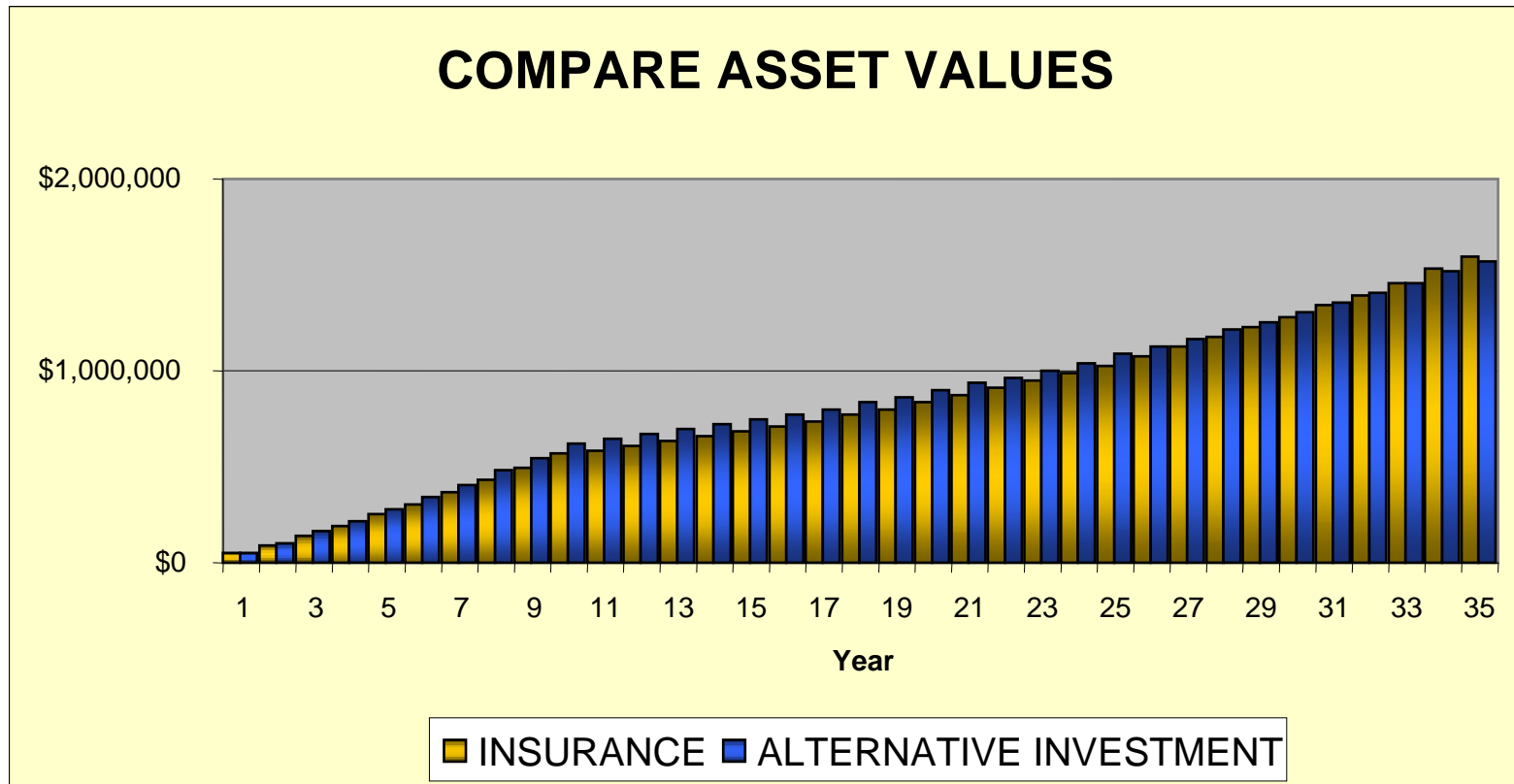
- Assumptions ...
 - Insurance proposal
 - \$1.25-million permanent insurance
 - Joint-life policy on Bob and Carol
 - Planned premiums are \$50,000 for ten years
 - Assume a 5% crediting rate (net of fees)

Case study

- Assumptions ...
 - Alternative investment (for comparison)
 - Assume 5% total return (net of fees)
 - 20% interest
 - 20% dividends
 - 30% realized capital gains
 - 30% unrealized capital gains
 - Essentially, comparing realistic numbers

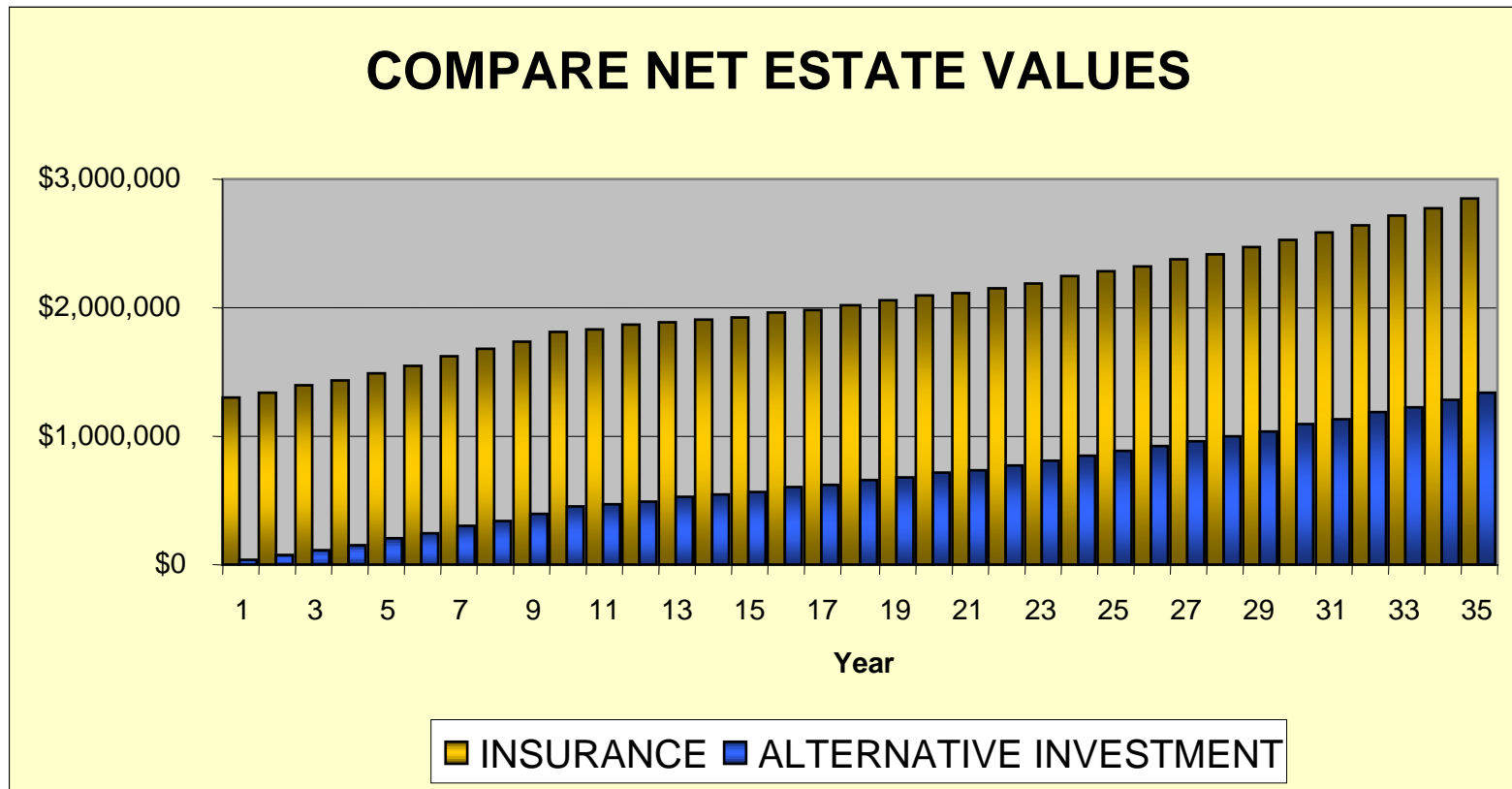
Case study

- Comparing the alternatives ...



Case study

- Comparing the alternatives ...



Summary

Proper corporate planning can result in substantial tax savings

The Corporate Estate Transfer Strategy can provide you with significant benefits



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