PREFERRED ESTATE TRANSFER®
PREFERRED RETIREMENT SOLUTION®

For corporate clients

ADVISOR GUIDE

advanced insurance planning

Equitable Life of Canada®
Works for me.®

ABOUT EQUITABLE LIFE OF CANADA®

Equitable Life® is proud to be one of Canada's largest mutual life insurance companies. We are owned by our participating policyholders, not shareholders. This allows us to focus on management strategies that foster prudent long-term growth, continuity and stability.

We are dedicated to meeting our commitments to our customers – to provide good value and meet their needs for insurance protection and wealth accumulation – now and in the future. That's why Canadians have turned to Equitable Life since 1920 to protect what matters most.

Equitable Life is a focused, stable and strong company. We have sufficient earnings and capital to meet our future growth targets, and we continue to grow steadily. Our growth in sales has been driven by our ability to implement our strategic plan, placing a priority on products, service and execution. Our financial success reflects our continued commitment to profitable growth and our ability to navigate a changing regulatory and economic environment.

Our mutual structure is a key element of our value proposition, along with our diversified product portfolio and superior service. As an organization we're progressive, competitive and firmly committed to serving the best interests of our policyholders, through longer-term strategies that foster ongoing stability, growth and profitability.

ABOUT THIS GUIDE

This guide features the *Corporate* Preferred Estate Transfer® and *Corporate* Preferred Retirement Solution®. It outlines the marketing opportunities and support, key features, sample case studies, key tax considerations, and tips for illustrating the concepts. These are concepts, not products or contracts. While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases. FOR ADVISOR USE ONLY.

Questions? Equitable Life is committed to providing you with the service and support you need to grow your business. If you have questions about these concepts, please contact your Equitable Life Regional Sales Manager.

THE PREFERRED SOLUTIONS FOR CORPORATE CLIENTS

Making life insurance work for them and their business.

Give your corporate clients preferential treatment with Equitable Life's preferred financial planning concepts.

Their challenges

An estimated $3.7 trillion in business assets is expected to change hands by the year 2022 as 550,000 owners exit their businesses.[1] Those assets are typically held in traditional investments that incur corporate tax when retained in the company and personal tax when disbursed and distributed to the owners. The fact that a business owner's net worth is tied up in their company creates some unique challenges for them:

- How do they get their shares out of the corporation and into the hands of their heirs as tax-efficiently as possible?
- How can they structure the corporate investments to minimize tax?
- How do they access the value of their business to supplement their retirement?

Equitable Life has the solutions[2] to help your corporate clients meet these goals.

The preferred solutions

Whether your corporate clients are looking to leave a larger inheritance to their loved ones or supplement their retirement income, Equitable Life has the solution. The following concepts are available using Equimax® participating whole life and Equation Generation® IV universal life and can be illustrated on a single life, joint first-to-die and joint last-to-die basis.

Corporate Preferred Estate Transfer®

The focus of this concept is to transfer the value of shares from the corporation to the shareholder's estate in the most tax-efficient way possible.

Corporate Preferred Retirement Solution®

This concept is an extension of the *Corporate* Preferred Estate Transfer.

The focus of the *Corporate* Preferred Retirement Solution is to supplement cash flow later in life by accessing cash through a collateral loan from a third-party lending institution.[3]

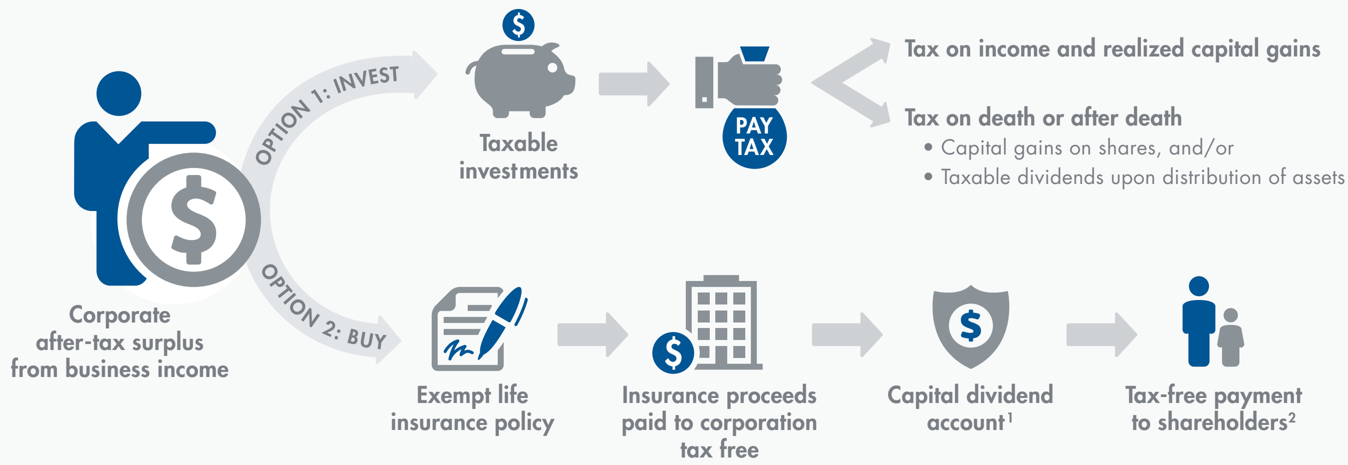
Corporate Preferred Estate Transfer	*Corporate* Preferred Retirement Solution
With this concept, the corporation redirects some of the after-tax surplus from business income into a corporately-owned permanent life insurance policy rather than taxable investments. This can reduce the fair market value of the corporation thereby reducing capital gains tax and increase the value of their estate.	Once the cash surrender value of a corporately-owned permanent life insurance policy is large enough to meet the third-party lending institution's (bank) loan requirements, either the shareholder or the corporation may apply for a loan from that third-party lender using the policy as collateral. The bank loan can supplement their retirement cash flow.

The *Corporate* Preferred Estate Transfer and *Corporate* Preferred Retirement Solution provide tax-effective ways to meet your clients' needs.

[1] http://www.cbc.ca/news/business/baby-boomer-retirement-glut-poses-risk-cibc-says-1.1298898 [2] These are concepts, not products or contracts. They are based on current tax legislation and may change. Your clients should consult with their tax and legal professionals for independent advice with respect to their individual circumstances. [3] With a collateral bank loan, the lender will be a third-party lending institution. Availability of a loan from the third-party lending institution is not guaranteed by Equitable Life and is not part of the life insurance contract. The borrower must apply for and meet the third-party lending institution's loan qualification requirements. The borrower may be able to borrow from a third-party lending institution an amount up to 100% of the policy's cash value. Loan minimums vary by third-party lending institution. Some require a minimum collateral loan of $250,000. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third-party lending institution at the time of loan and are subject to change at any time. There may be conditions, fees and costs associated with arranging the collateral bank loan. Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments

Reducing taxes and increasing the value of their estate (*Corporate* Preferred Estate Transfer)

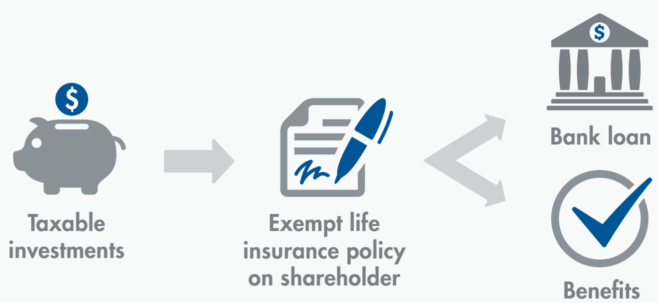
Corporate clients want the most tax-efficient way to get the value of their shares out of their company and into the hands of their estate. Should they use corporate after-tax surplus from business income to buy an exempt life insurance policy, or invest in taxable investments? The choice is clear.



[1] An amount calculated as the insurance proceeds less the adjusted cost base of the policy at the time of death is credited to the capital dividend account. [2] Dividend paid to shareholders, including the estate of the deceased. Tax may be payable (a) on the shares owned at death: if the cash surrender value of the policy is included in the value of common shares; or if stop-loss rules apply; or (b) if the policy has an adjusted cost basis and some of the death benefit is distributed as taxable dividends.

Enjoying retirement (*Corporate* Preferred Retirement Solution)

A business owner's income in retirement is often dependent on getting their value out of the corporation.
What is their plan to access that value? You can help your corporate clients increase their cash value in retirement.

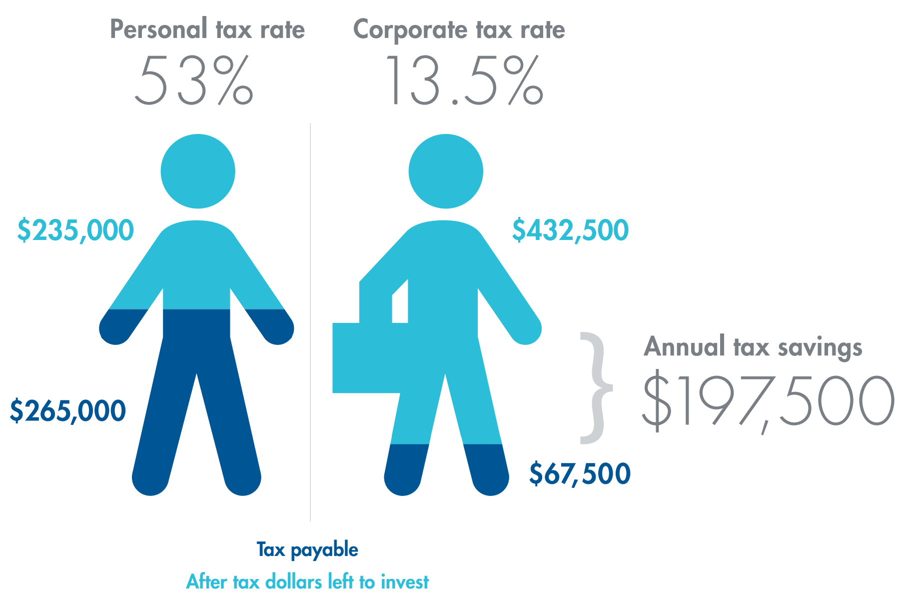


- Collateral loan to supplement income at retirement (either shareholder or corporation can apply for the loan)
- Insurance protection for their business
- Tax-advantaged growth

Starting the conversation

Understanding the risks that business owners face, and asking the right questions can generate interest in finding out how the *Corporate* Preferred Estate Transfer and *Corporate* Preferred Retirement Solution can help them. Here are some questions to ask:

Do they have a will?	This is a good indicator that they have taken some steps toward estate planning. These people are ideal candidates for life insurance as it is a product specifically designed to provide for a tax-efficient transfer of wealth.
Do they have surplus from business income that are not required for use in the business?	Most business owners have the majority of their assets invested in the corporation. With corporate tax rates being lower than personal tax rates, a significant corporate surplus from after-tax business income can be created. For example: Compare the annual tax savings when the first $500,000 of active business earnings is taxed on a corporate versus a personal basis.



Keeping the surplus in the business to invest rather than paying it out as a taxable dividend to be invested personally results in 84% more after-tax dollars to invest.

If they have taxable investments outside the corporation, you can help them create a more tax-efficient investment portfolio. By redirecting money that is taxed annually into a permanent life insurance policy, they also can benefit from tax-advantaged growth in the plan.

Help them understand the value of using their corporation to build wealth.

Do they have a business succession plan?	Fewer than 25% of small business owners have a plan on how they will exit the business at retirement.[1] Exit planning involves maximizing the value of the business and finding a tax-efficient way of converting their ownership so they can achieve their personal financial goals, such as leaving a legacy or supplementing their retirement. The plan should consider: • How much money they need to achieve their financial goals? • How much of that value will come from their business? What is the business worth? How can the value of the business be monetized tax-efficiently? • How much will come from other assets? • Is there a gap? The *Corporate* Preferred Estate Transfer and *Corporate* Preferred Retirement Solution can help fill that gap.

FOR INDIVIDUAL CLIENTS, please refer to the Preferred Estate Transfer and Preferred Retirement Solution (Advisor Guide) which can be accessed from the Financial Planning Concepts page on EquiNet by clicking the Individual Clients link.

[1] http://www.cbc.ca/news/business/10-surprising-stats-about-small-business-in-canada-1.1083238

Marketing materials

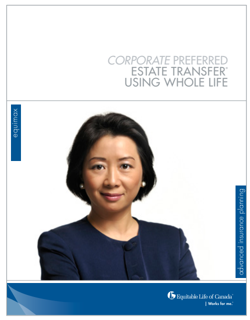
The following marketing material is available to assist with presenting these concepts to your corporate clients.

Client material

(available in English and French on EquiNet)

Corporate Preferred Estate Transfer

Client flyer
#1562



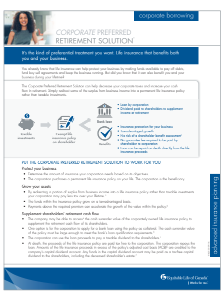
Client brochure
(with Equimax participating whole life case study)
#1570

Tax and Estate Planners' Guide to Corporate Life Insurance

Resource material for tax and estate planning professionals
#1569
(Hardcopies are available through your Regional Sales Manager)

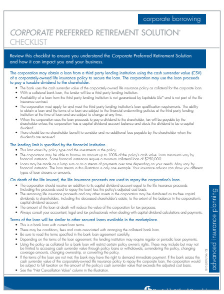
Corporate Preferred Retirement Solution

Corporate borrowing



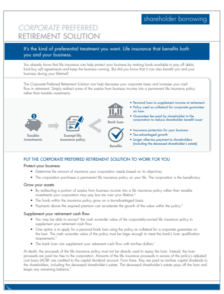
Flyer #1816

Brochure #1840
(with Equimax participating whole life case study)



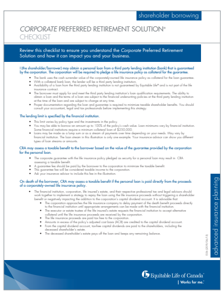
Checklist #1815

Shareholder borrowing



Flyer #1563

Brochure #1571
(with Equimax participating whole life case study)



Checklist #1556

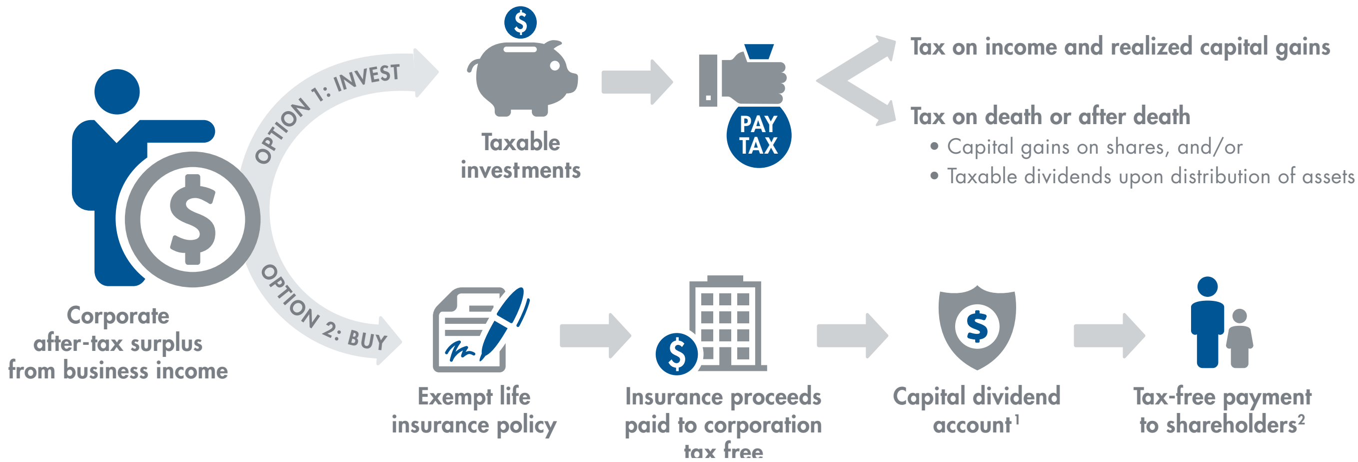
How to order

Log in to EquiNet at **www.equitable.ca/advisorhome**. Select Marketing Materials under Insurance, and then select the supply order form 1390. Please request marketing material from your MGA. Your MGA should complete the order form, scan it and email it to **supply@equitable.ca** or FAX it to 519-883-7424

CORPORATE PREFERRED ESTATE TRANSFER®

At a glance

Looking for the most tax-efficient way to get the value of your shares out of your company and into the hands of your estate? The choice is clear.



THE *CORPORATE* PREFERRED ESTATE TRANSFER

The *Corporate* Preferred Estate Transfer uses corporately-owned life insurance to create a tax-free inheritance. The corporation simply redirects a portion of its after-tax surplus created from business income into a permanent life insurance policy rather than taxable investments.

PUT THE *CORPORATE* PREFERRED ESTATE TRANSFER TO WORK FOR YOU

Reduces the fair market value (FMV) of the corporation

- The value of the owner's shares is based on the FMV of the corporation's assets.
- Redirecting a portion of surplus from business income into a life insurance policy rather than taxable investments reduces the assets in the corporation.
- This may reduce the capital gains tax payable.

Increases the value of your estate

- The cash value of an exempt life insurance policy grows on a tax-advantaged basis. Depending on the plan you choose, the cash value can increase the death benefit.
- When the proceeds of the life insurance policy are paid tax-free to the corporation, amounts in excess of the policy's adjusted cost basis (ACB)[3] are credited to the capital dividend account so they can be paid as tax-free capital dividends to the shareholders, including the deceased shareholder's estate.
- Since business income is taxed at a lower rate than personal income, using after-tax corporate dollars from active business income to pay the premiums is the least expensive way to fund the policy.

IT COULD BE THE RIGHT SOLUTION FOR YOU IF …

- ☑ You are the owner or majority shareholder of a Canadian corporation.
- ☑ You have taken care of your retirement plan.
- ☑ The corporation has taxable investments.
- ☑ You need life insurance to protect your business.
- ☑ You want a tax-efficient way to get the value of your shares out of your company and into the hands of your estate.
- ☑ They have an up-to-date will.

Print this information

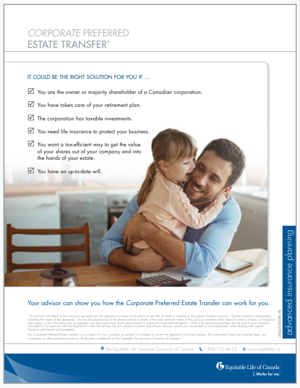
A pdf version of this information (Form #1562) can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link.

Equitable Sales Illustration® System

Page 1 will automatically be included in the concept report produced from the illustration system.


CORPORATE PREFERRED ESTATE TRANSFER

Page 1


CORPORATE PREFERRED ESTATE TRANSFER

Page 2

[1] An amount calculated as the insurance proceeds less the adjusted cost base of the policy at the time of death is credited to the capital dividend account. [2] Dividend paid to shareholders, including the estate of the deceased. Tax may be payable (a) on the shares owned at death: if the cash surrender value of the policy is included in the value of common shares; or if stop-loss rules apply; or (b) if the policy has an adjusted cost basis and some of the death benefit is distributed as taxable dividends. [3] ACB is the premiums paid less the net cost of pure insurance calculated in accordance with the Regulations under the Income Tax Act, subject to certain adjustments. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments.

CORPORATE PREFERRED ESTATE TRANSFER

Case study

The following case study illustrates the *Corporate* Preferred Estate Transfer concept using Equimax® participating whole life. The concept can be illustrated on a single life, joint first-to-die and joint last-to-die basis.

Case study: Using Equimax participating whole life

Meet Catherine

The situation	The need
• Catherine (age 50) owns a profitable business. • She can allocate $50,000 of surplus from business income each year for the next 10 years.	• Catherine wants to pay taxes on her shares at death and create an inheritance for her daughter. • She is looking for a tax-efficient way to get the value of her shares out of the company into the hands of her heirs.

Two options

Taxable investments

Catherine invests $50,000 of surplus from business income each year for 10 years in a taxable investment.

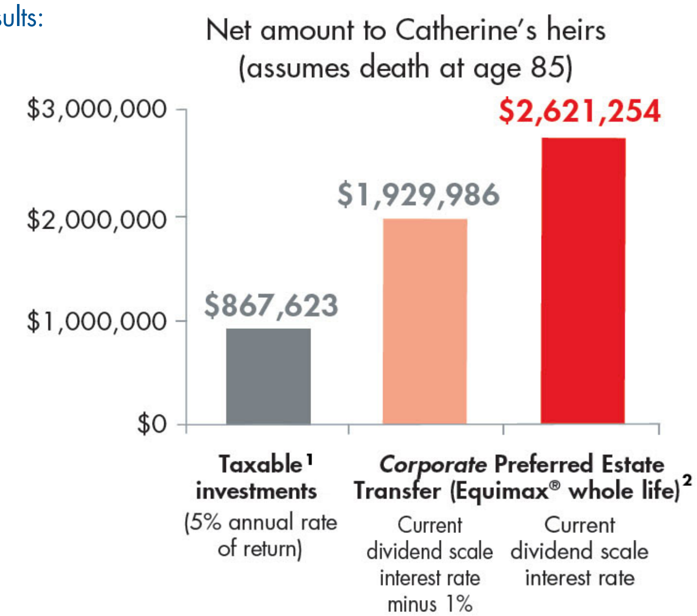
- Annual rate of return of 5%.
- Taxable investment portfolio (50% interest and 50% dividends).
- Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 45%; corporate tax rate on investment income is 50%.
- No withdrawals are made.

Exempt life insurance policy on shareholder

Catherine transfers $50,000 of surplus from business income each year for 10 years to pay the annual premium for a corporately-owned Equimax Estate Builder® whole life insurance policy. (*Corporate* Preferred Estate Transfer)

- 20 pay, paid-up additions dividend option.
- Initial death benefit $1,000,000.
- The $50,000 annual deposit is a combination of required premium ($33,560) and an additional deposit (Excelerator deposit option) ($16,440).
- The sales illustration for this case study shows a premium offset point at year 10, after which time Catherine may be able to stop paying premiums for her policy. A decrease in the life insurance dividend scale will affect the illustrated values; may delay the premium offset point and require her to pay premiums for longer than previously illustrated; or require her to resume paying premiums for a period of time if her policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapses, claims experience, taxes, and other experience of the participating block of policies.

Let's compare the results:



The preferred solution

With participating whole life insurance, Catherine can create a larger estate than with taxable investments.

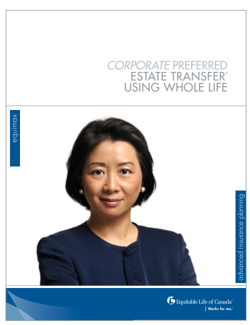
Other taxable asset classes require a higher rate of return to produce the same net estate value at age 85 as an Equimax participating whole life insurance policy.

	Required annual pre-tax rate of return[3]				
	Life insurance (Anuual after-tax internal rate of return (IRR))	Interest	Dividends	Realized capital gains	Deferred capital gains[4]
Current dividend scale	5.54%	12.32%	9.97%	7.91%	6.77%
Alternate dividend scale (current minus 1%)	4.50%	10.38%	8.39%	6.63%	5.76%

Marketing material available can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link.

Brochure #1570

(with Equimax participating whole life case study)



[1] Average annual rate of return of 5%. Taxable investment portfolio (50% interest and 50% dividends). [2] Equimax Estate Builder® participating whole life insurance, 20 pay. Paid-up additions dividend option. Initial death benefit $1,000,000. The $50,000 annual deposit is a combination of required premium ($33,560) and an additional deposit (Excelerator deposit option) ($16,440). Illustrated values are for a female, age 50, standard non-smoker rates in effect as of September 14, 2020 and the dividend scale at that time remaining unchanged for the life of the policy. The sales illustration for this case study shows a premium offset point at year 10, after which time you may be able to stop paying premiums for your policy. A decrease in the life insurance dividend scale will affect the illustrated values; may delay the premium offset point and require you to pay premiums for longer than previously illustrated; or require you to resume paying premiums for a period of time if your policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapses, claims experience, taxes, and other experience of the participating block of policies. [3] Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 45%; corporate tax rate on investment income is 50%. [4] Assumes capital gains are deferred until age 85.

With the Corporate Preferred Retirement Solution, once the cash surrender value of a corporately-owned life insurance policy is large enough to meet a third-party lending institution's (bank) loan requirements, either the shareholder or the corporation may apply for a bank loan using the CSV of the policy as collateral.

Corporate Preferred Estate Transfer®

Corporate Preferred Retirement Solution®

This concept is an extension of the *Corporate* Preferred Estate Transfer.

Corporate Preferred Estate Transfer + Solution to supplement cash flow later in life by accessing cash though a collateral bank loan.

Two ways to borrow

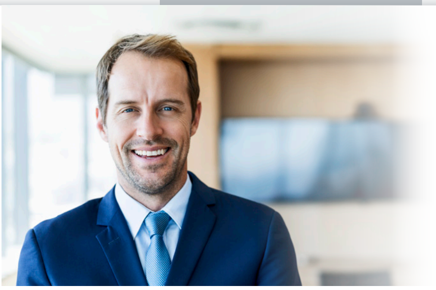
Who applies for the bank loan determines whether the concept is a shareholder borrowing solution or a corporate borrowing solution.

Shareholder borrowing	Corporate borrowing
The shareholder (life insured) applies for a personal bank loan with the corporation providing a guarantee secured by the policy as collateral.	The corporation applies for a bank loan using the policy as collateral for the loan and distributing the loan proceeds as a dividend to the shareholder.

Key differences

Some key differences include …	Shareholder borrowing	Corporate borrowing
Larger <u>initial</u> annual cash flow to shareholder for retirement purposes.	Yes	No
Possible assessment of a shareholder benefit by CRA in respect of the loan.	Yes	No
Guaranteed fee should be paid by the borrower to minimize the shareholder benefit assessment by CRA.	Yes	No
Alternative collateral required by estate trustee at time of death.	Maybe	No
Loan reduces the value of the corporation at time of shareholder's death.	No	Yes

These differences will be addressed in detail under the shareholder borrowing and corporate borrowing sections of this guide.



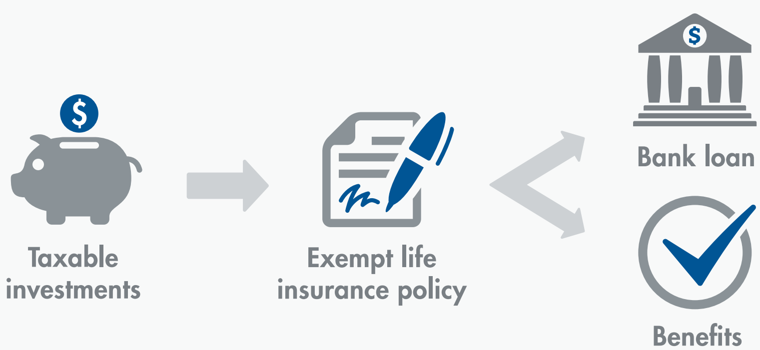
CORPORATE PREFERRED RETIREMENT SOLUTION (SHAREHOLDER BORROWING)

At a glance

It's the kind of preferential treatment you want. Life insurance that benefits both you and your business.

You already know that life insurance can help protect your business by making funds available to pay off debts, fund buy sell agreements and keep the business running. But did you know that it can also benefit you and your business during your lifetime?

The *Corporate* Preferred Retirement Solution can help decrease your corporate taxes and increase your cash flow in retirement. Simply redirect some of the surplus from business income into a permanent life insurance policy rather than taxable investments.



Bank loan:
- Personal loan to supplement income at retirement
- Policy used as collateral for corporate guarantee on loan
- Guarantee fee paid by shareholder to the corporation to reduce shareholder benefit issue[1]

Benefits:
- Insurance protection for your business
- Tax-advantaged growth
- Larger after-tax payment to shareholders (including the deceased shareholder's estate)

PUT THE *CORPORATE* PREFERRED RETIREMENT SOLUTION TO WORK FOR YOU

Protect your business

- Determine the amount of insurance your corporation needs based on its objectives.
- The corporation purchases a permanent life insurance policy on your life. The corporation is the beneficiary.

Grow your assets

- By redirecting a portion of surplus from business income into a life insurance policy rather than taxable investments your corporation may pay less tax over your lifetime.[2]
- The funds within the insurance policy grow on a tax-advantaged basis.
- Payments above the required premium can accelerate the growth of the value within the policy.[3]

Supplement your retirement cash flow

- You may be able to access[4] the cash surrender value of the corporately-owned life insurance policy to supplement your retirement cash flow.
- One option is to apply for a personal bank loan using the policy as collateral for a corporate guarantee on the loan. The cash surrender value of the policy must be large enough to meet the bank's loan qualification requirements.[5]
- The bank loan can supplement your retirement cash flow with tax-free dollars.[1]

At death, the proceeds of the life insurance policy must not be directly used to repay the loan. Instead, the loan proceeds are paid tax free to the corporation. Amounts of the life insurance proceeds in excess of the policy's adjusted cost basis (ACB)[6] are credited to the capital dividend account. From there, they are paid as tax-free capital dividends to the shareholders, including the deceased shareholder's estate. The deceased shareholder's estate pays off the loan and keeps any remaining balance.[7]

IT COULD BE THE RIGHT SOLUTION FOR YOU IF ...

- ☑ You are the owner or majority shareholder of a Canadian corporation.
- ☑ The corporation has taxable investments.
- ☑ You are looking for ways to reduce corporate taxes.
- ☑ You want to supplement your retirement cash flow.
- ☑ You need life insurance to protect your business.
- ☑ You have an up-to-date will.

Print this information

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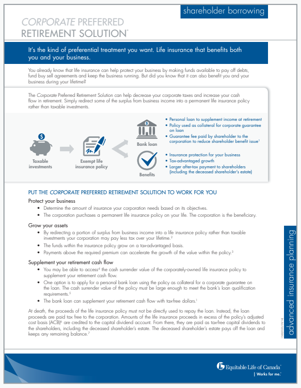
Equitable Sales Illustration System

Page 1 will automatically be included in the concept report produced from the illustration system.



Page 1

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[1] Using a corporately-owned life insurance policy as security for a corporate guarantee on a personal bank loan (shareholder borrowing) could result in a taxable benefit to the borrower under the Income Tax Act (Canada). In most cases, a guarantee fee should be paid by the borrower to the corporation to minimize the taxable benefit. This guarantee fee will be considered taxable income to the corporation. Another option is to consider having the corporation obtain the collateral loan and distributing the loan proceeds as taxable dividends to the shareholder (corporate borrowing). The corporation and the borrower should obtain professional tax advice when implementing and carrying-out the Corporate Preferred Retirement Solution to ensure compliance with the tax legislation at that time to avoid adverse tax consequences. Equitable Life of Canada does not and cannot provide guidance on the amount or rate of a guarantee fee that would avoid a taxable benefit to the borrower because that amount or rate is dependent upon the value of the guarantee, which is dependent on facts specific to each corporation and borrower. [2] The amount of any tax savings will depend on the nature of your taxable investment and assumes no taxes are triggered if investments are sold to fund premiums. [3] The extra payment is limited to the amount required to maintain the tax-exempt status of the policy. For universal life, the policy may be credited positive or negative returns depending on the investment accounts selected. Review the product illustration for full details. [4] Options include but may not be limited to partial surrenders of the policy, policy loans and collateral bank loans. The tax implications of each option vary and need to be considered before selecting an option. [5] With a collateral bank loan, the lender will be a third-party lending institution. Availability of a loan from the third-party lending institution is not guaranteed by Equitable Life and is not part of the life insurance contract. The borrower must apply for and meet the third-party lending institution's loan qualification requirements. The borrower may be able to borrow up to 100% of the policy's cash value. Loan minimums vary by financial institution. Some financial institutions require a minimum collateral loan of $250,000. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third-party lending institution at the time of loan and are subject to change at any time. There may be conditions, fees and costs associated with arranging the collateral bank loan. [6] ACB is the premiums paid less the net cost of pure insurance calculated in accordance with the Regulations under the Income Tax Act, subject to certain adjustments. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments. [7] Arrangements will be required between the lender, corporation and life insured's estate to ensure that the life insurance proceeds do not directly repay the bank loan. In some instances, the estate may be required to provide alternative collateral to secure the loan.

How does it work: Before death

Corporate after-tax surplus from business income

Corporation buys exempt life insurance

Tax-advantaged growth

Shareholder applies for a personal loan from their financial institution

Corporation provides guarantee for loan using cash value (CSV) of the policy as collateral for the guarantee

Shareholder pays a guarantee fee to corporation

Risk: Using a corporately-owned life insurance policy as security for a corporate guarantee on a personal bank loan could result in a shareholder benefit.

How to reduce or eliminate the risk: It is recommended that the shareholder pay the company a guarantee fee for pledging a corporate asset for a loan that is for personal use.

Guarantee Fee

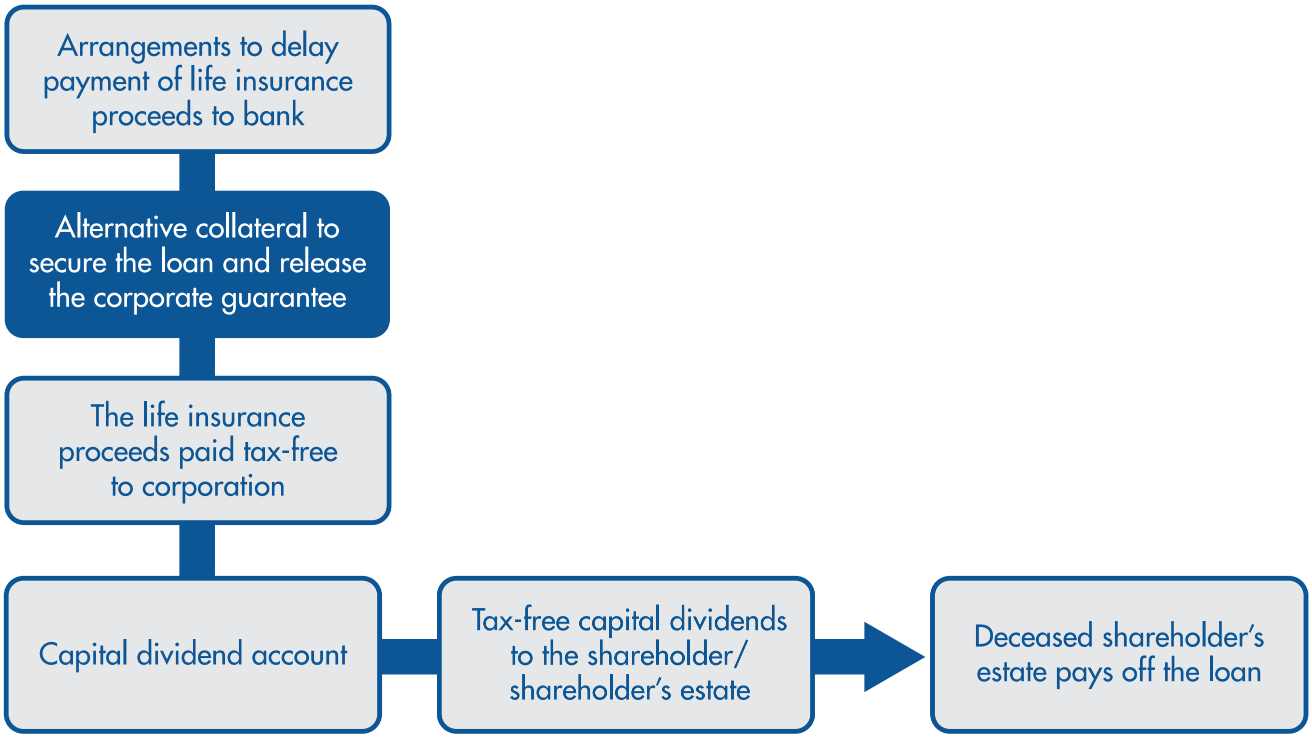
- CRA's position is that a shareholder has received a benefit when the shareholder has used the property of the corporation, including the cash surrender value (CSV) of a corporate life insurance policy, as collateral for a loan. The benefit is the value of the guarantee provided by the corporation.
- In the past, the CRA has made non-binding comments that, where the shareholder is able arrange the loan on the same terms and interest rate without the use of the CSV as collateral, there is very little if any benefit.
- To minimize the amount of any potential shareholder benefit, it is recommended that the shareholder pay an annual guarantee fee to the corporation.

Guarantee fee = Rate % X Outstanding loan balance each year (including capitalized interest)

- The rate used to calculate the guarantee fee is dependent on many factors including the interest rate that the borrower would have been able to obtain if the corporate guarantee had not been provided.
- That rate is charged on the outstanding loan balance each year.
- Since many loans capitalize interest, the loan balance increases each year.
- Although the initial annual cash flow to the shareholder is larger with shareholder borrowing when compared to corporate borrowing, over time, the total accumulated net cash flow to the shareholder may be smaller with shareholder borrowing. Why? Even after the annual loans stop, the shareholder must continue to pay the guarantee fee each year on accumulated loan amounts plus capitalized interest.
- The guarantee fee received by the corporation will be included in the corporation's income and taxed as passive income.
- The corporation can issue a dividend back to the shareholder based on the after-tax balance of the guarantee fee it receives.

NOTE: The guarantee fee should be calculated by a financial professional with knowledge in this specific area.

How does it work: At death



Risk: If the loan is paid directly from the proceeds of the corporately-owned life insurance policy, then CRA may assess the entire death benefit as a taxable shareholder benefit and reduce the addition to the company's CDA by the amount of the loan paid.

How to reduce or eliminate the risk: The deceased shareholder's estate may be required to provide alternative collateral to the bank to secure the loan. The lender releases the corporate guarantee and pays the life insurance proceeds to the corporation.

Alternative collateral to secure the loan and release the corporate guarantee

- The corporation approaches the life insurance company to delay payment of the death benefit proceeds directly to the third-party lending institution until appropriate arrangements can be made.
- The deceased shareholder's executor or estate trustee requests the lending institution to accept alternative collateral from the estate to secure the loan. The lender releases the corporate guarantee on the loan.
- The life insurance proceeds are paid tax free to the corporation.
- Amounts in excess of the policy's adjusted cost basis (ACB) are credited to the corporation's capital dividend account.
- From the capital dividend account, tax-free capital dividends are paid to the deceased shareholder's estate.

  The deceased shareholder's estate pays off the loan and keeps any remaining balance.

About the loan

- The lending limit is specified by the third-party lending institution (bank).
  - This limit varies by policy type and the investments in the policy. The corporation may be able to borrow an amount up to 100% of the policy's cash value. Loan minimums vary by third party lending institution. Some require a minimum collateral loan of $250,000.
  - This is a bank loan with current loan terms. There may be conditions, fees and costs associated with arranging the collateral bank loan.
- On death of the borrower, CRA may assess a taxable benefit if the personal loan is paid directly from the proceeds of a corporately-owned life insurance policy.
- If the terms of the loan are not met, the bank may have the right to demand immediate payment. If the bank seizes the cash surrender value of the corporately-owned life insurance policy in order to honour the corporation's guarantee to repay the personal loan, CRA may assess a taxable benefit. The result could be:
  - Full taxation for the corporation on the amount of the policy's cash surrender value that exceeds the adjusted cost basis.
  - Taxation of the amount of the loan repaid by the policy as a shareholder benefit in the hands of the shareholder.
  - Loss of the life insurance coverage.
- Economic fluctuations may impact the amount and timing of loan advances when borrowing against the cash surrender value of the life insurance policy.
- It is possible to exceed the bank lending limit. If this happens, depending on loan terms, bank may provide options for managing the loan.
- The loan cannot be part of a retirement benefit that the corporation is obligated to make.

CORPORATE PREFERRED RETIREMENT SOLUTION (SHAREHOLDER BORROWING) Checklist (Form #1556)

Your clients should review this checklist to ensure they understand the *Corporate* Preferred Retirement Solution (shareholder borrowing) and how it can impact them and their business. It will automatically be included in the concept illustration report. This checklist can be accessed from the Financial Planning Concepts page on EquiNet by clicking the Corporate Clients link.

CORPORATE PREFERRED RETIREMENT SOLUTION (SHAREHOLDER BORROWING)

Case study

The following case study illustrates the *Corporate* Preferred Retirement Solution (shareholder borrowing) concept using Equimax participating whole life. The concept can be illustrated on a single life, joint first-to-die and joint last-to-die basis.

Case study: Using Equimax participating whole life

Meet Colin

The situation	The need
• Colin (age 35) owns a profitable business. • He plans to retire at age 65. • The corporation can allocate $29,000 of surplus from after-tax business income each year for the next 10 years to help Colin achieve his retirement goal.	• Colin anticipates he will need to supplement his after-tax retirement cash flow by $36,000 each year for 20 years, starting at age 65. • Colin wants a tax-efficient way to increase his cash flow in retirement while creating an estate.

Two options

Taxable investments

Colin invests the $29,000 of surplus from business income each year for 10 years in a taxable investment.

- Annual rate of return of 5%.
- Taxable investment portfolio (50% interest and 50% dividends).
- Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%.
- Withdrawals of $36,000 each year for 20 years, starting at age 65.

Exempt life insurance policy on shareholder

Colin transfers the $29,000 of surplus from business income each year for 10 years to a corporately-owned Equimax Estate Builder® whole life insurance policy to pay the premium. (*Corporate* Preferred Retirement Solution)

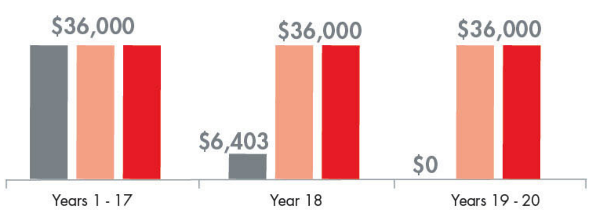
- 20 pay, paid-up additions dividend option.
- Initial death benefit $950,000.
- The sales illustration for this case study shows a premium offset point at year 10, after which time Colin may be able to stop paying premiums. Values illustrated are based on the rates in effect as of September 14, 2020 for a male, age 35, assuming a standard non-smoker risk class and the dividend scale in effect at that time remaining unchanged for the life of the policy. A decrease in the life insurance dividend scale may delay the premium offset point and require Colin to pay premiums for longer than previously illustrated; or require him to resume paying premiums for a period of time if his policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies.
- Colin takes a personal bank loan for $36,000 each year for 20 years, starting at age 65, using the cash surrender value of the corporately-owned life insurance policy as collateral for a corporate guarantee on the loan. The loan interest rate is 7%. the Maximum to to CSV ratio is 90%. Both the interest and the guarantee fee are capitalized.

Let's compare the results

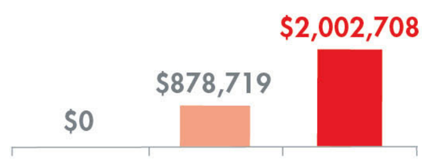
While the *Corporate* Preferred Retirement Solution is sufficient to supplement Colin's retirement cash flow by $36,000 annually until age 85, the taxable investments are depleted before that time, leaving Colin short on his retirement goals. By choosing the *Corporate* Preferred Retirement Solution with shareholder borrowing, Colin will have:

- Immediate life insurance coverage of $950,000 for his corporation.
- Supplemental retirement cash flow for 20 years.
- When Colin turns 65, he can apply for a personal bank loan[1] using the corporately-owned life insurance policy as collateral for a corporate guarantee on the loan.
- Higher net amount payable to his heirs than with the taxable investment.

Annual after-tax amount available to supplement Colin's retirement cash flow for 20 years starting at age 65



Net amount to Colin's heirs (assumes death at age 85 and after loan repayment)



Scale has been modified for display purposes.

- Taxable investment (5% annual rate of return)[2]
- *Corporate* Preferred Retirement Solution (Equimax® whole life insurance)[3] Current dividend scale interest rate minus 1%
- *Corporate* Preferred Retirement Solution (Equimax® whole life insurance)[3] Current dividend scale interest rate

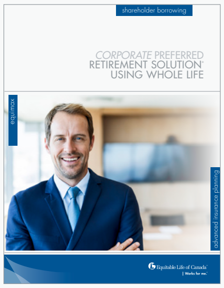
The preferred solution

Other taxable asset classes require a higher rate of return to produce the same estate value at age 85 as a life insurance policy.

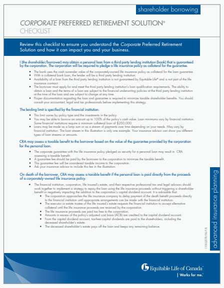
	Required annual pre-tax rate of return[4]				
	Life insurance (Annual after-tax internal rate of return (IRR))	Interest	Dividends	Realized capital gains	Deferred capital gains[5]
Current dividend scale	5.48%	11.28%	9.13%	7.45%	6.32%
Alternate dividend scale (current minus 1%)	4.36%	9.17%	7.42%	6.04%	5.28%

Marketing material available can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link.

Brochure #1571



Checklist #1556



[1] Shareholder borrowing. Loan amount of $36,000 per year for 20 years at a rate of 7% (6% interest rate plus 1% guarantee fee paid by the shareholder to the corporation) with assumed age of death at 100. Maximum loan to CSV ratio of 90% and shows both the interest and the guarantee fee being capitalized. Interest repayment is also available. At age 85, the bank loan balance is $1,403,738. Tax paid by corporation on guarantee fee has not been incorporated into the calculations. [2] Taxable investment portfolio (50% interest, 50% dividends). Assumes an average annual interest rate of 5%. Withdrawals of $36,000 per year for 20 years starting at age 65. [3] Equimax Estate Builder® participating whole life insurance, 20 pay. Paid-up additions dividend option. Initial death benefit $950,000. The sales illustration for this case study shows a premium offset point at year 10, after which time you may be able to stop paying premiums. Values illustrated are based on the rates in effect as of September 14, 2020 for a male, age 35, assuming a standard non-smoker risk class and the dividend scale in effect at that time remaining unchanged for the life of the policy. A decrease in the life insurance dividend scale may delay the premium offset point and require you to pay premiums for longer than previously illustrated; or require you to resume paying premiums for a period of time if your policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies. [4] Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%. [5] Assumes capital gains are deferred until age 85.

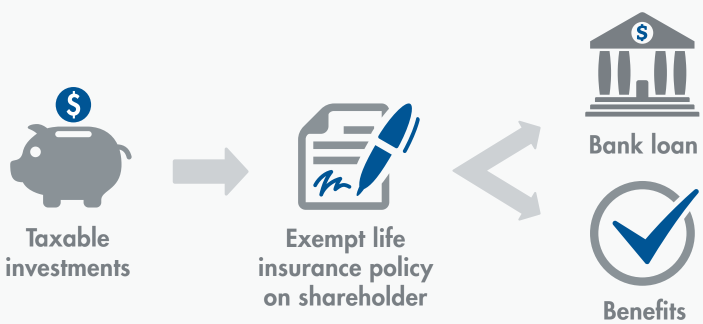
CORPORATE PREFERRED RETIREMENT SOLUTION®

At a glance

It's the kind of preferential treatment you want. Life insurance that benefits both you and your business.

You already know that life insurance can help protect your business by making funds available to pay off debts, fund buy sell agreements and keep the business running. But did you know that it can also benefit you and your business during your lifetime?

The *Corporate* Preferred Retirement Solution can help decrease your corporate taxes and increase your cash flow in retirement. Simply redirect some of the surplus from business income into a permanent life insurance policy rather than taxable investments.



- Loan by corporation
- Dividend paid to shareholders to supplement income at retirement

- Insurance protection for your business
- Tax-advantaged growth
- No risk of a shareholder benefit assessment[1]
- No guarantee fee required to be paid by shareholder to corporation
- Loan can be repaid on death directly from the life insurance proceeds

PUT THE *CORPORATE* PREFERRED RETIREMENT SOLUTION TO WORK FOR YOU

Protect your business

- Determine the amount of insurance your corporation needs based on its objectives.
- The corporation purchases a permanent life insurance policy on your life. The corporation is the beneficiary.

Grow your assets

- By redirecting a portion of surplus from business income into a life insurance policy rather than taxable investments your corporation may pay less tax over your lifetime.[2]
- The funds within the insurance policy grow on a tax-advantaged basis.
- Payments above the required premium can accelerate the growth of the value within the policy.[3]

Supplement shareholders' retirement cash flow

- The company may be able to access[4] the cash surrender value of the corporately-owned life insurance policy to supplement the retirement cash flow of its shareholders.
- One option is for the corporation to apply for a bank loan using the policy as collateral. The cash surrender value of the policy must be large enough to meet the bank's loan qualification requirements.[5]
- The corporation can use the loan proceeds to pay a taxable dividend to the shareholders.[1]

- At death, the proceeds of the life insurance policy are paid tax free to the corporation. The corporation repays the loan. Amounts of the life insurance proceeds in excess of the policy's adjusted cost basis (ACB)[6] are credited to the company's capital dividend account. Any funds in the capital dividend account may be paid as a tax-free capital dividend to the shareholders, including the deceased shareholder's estate.[7]

IT COULD BE THE RIGHT SOLUTION FOR YOU IF …

☑ You are the owner or majority shareholder of a Canadian corporation.

☑ The corporation has taxable investments.

☑ You need life insurance to protect your business.

☑ You are looking for ways to reduce corporate taxes or taxes on death.[8]

☑ You want to supplement the retirement cash flow of your shareholders without the risk of a shareholder benefit assessment.

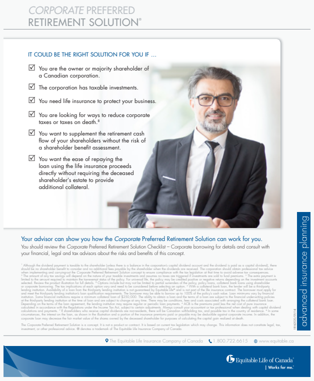
☑ You want the ease of repaying the loan using the life insurance proceeds directly without requiring the deceased shareholder's estate to provide additional collateral.

Print this information

A pdf version of this information (Form #1816) can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link.

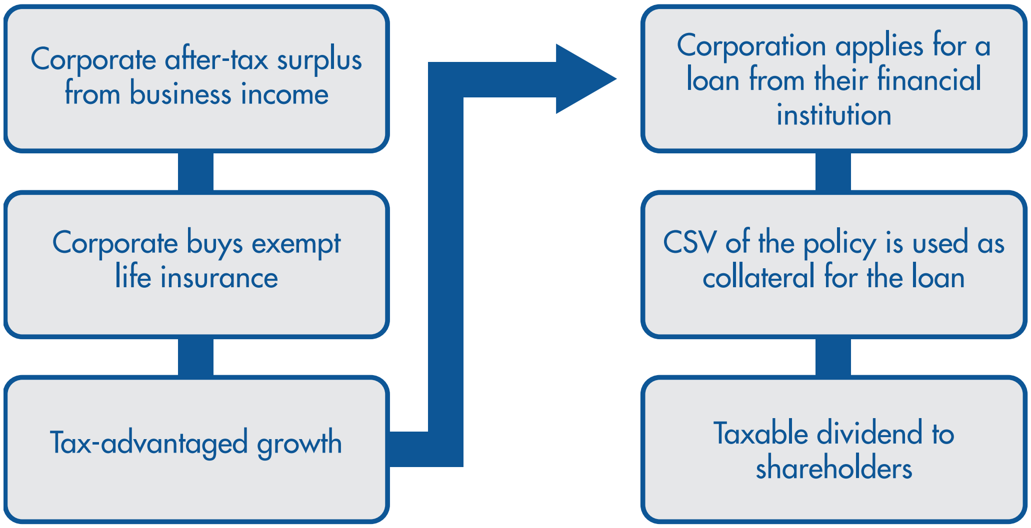
Equitable Sales Illustration System

Page 1 will automatically be included in the concept report produced from the illustration system.



[1] Although the dividend payment is taxable to the shareholder (unless there is a balance in the corporation's capital dividend account and the dividend is paid as a capital dividend), there should be no shareholder benefit to consider and no additional fees payable by the shareholder when the dividends are received. The corporation should obtain professional tax advice when implementing and carrying-out the Corporate Preferred Retirement Solution concept to ensure compliance with the tax legislation at that time to avoid adverse tax consequences. [2] The amount of any tax savings will depend on the nature of your taxable investments and assumes no taxes are triggered if investments are sold to fund premiums. [3] The extra payment is limited to the amount required to maintain the tax-exempt status of the policy. For universal life, the policy may be credited positive or negative returns depending on the investment accounts selected. Review the product illustration for full details. [4] Options include but may not be limited to partial surrenders of the policy, policy loans, collateral bank loans using shareholder or corporate borrowing. The tax implications of each option vary and need to be considered before selecting an option. [5] With a collateral bank loan, the lender will be a third-party lending institution. Availability of a loan from the third-party lending institution is not guaranteed by Equitable Life® and is not part of the life insurance contract. The borrower must apply for and meet the third-party lending institution's loan qualification requirements. The borrower may be able to borrow up to 100% of the policy's cash value. Loan minimums vary by financial institution. Some financial institutions require a minimum collateral loan of $250,000. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third-party lending institution at the time of loan and are subject to change at any time. There may be conditions, fees and costs associated with arranging the collateral bank loan. Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments. [6] ACB is the premiums paid less the net cost of pure insurance calculated in accordance with the Regulations under the Income Tax Act, subject to certain adjustments. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments.
[7] If shareholders who receive capital dividends are non-residents, there will be Canadian withholding tax, and possible tax in the country of residence. [8] In some circumstances, the interest on the loan, as shown in the illustration and a portion of the insurance premiums paid or payable may be deductible against corporate income. In addition, the corporate loan may decrease the fair market value of the shares owned by the deceased shareholder for purposes of calculating the capital gain realized at death.

How does it work: Before death



Tax: The shareholder will likely incur tax on the dividend paid to them to supplement their income.

The dividend payment would not be taxable to the shareholder IF there was a balance in the corporation's capital dividend account and the directors of the corporation elected that the dividend is a capital dividend.

Tax advantages of corporate borrowing

While corporation borrowing may cause the shareholder to incur tax on the dividend, there are some significant tax advantages:

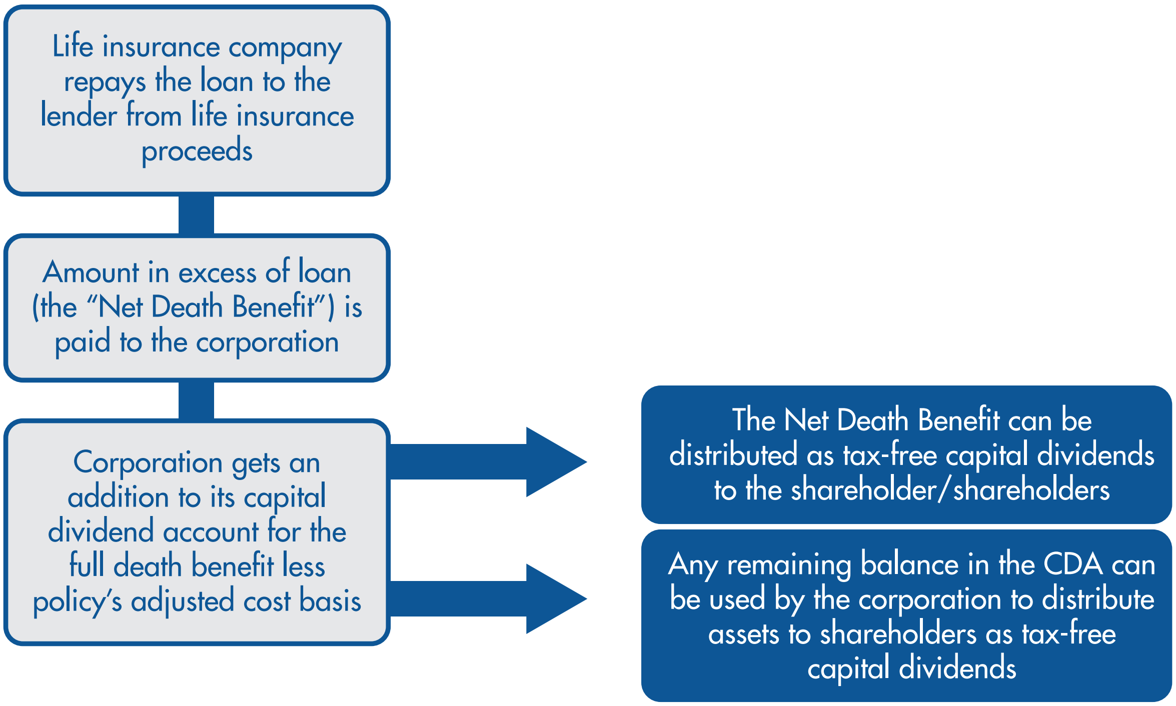
- There is less risk of shareholder benefit assessment. Since a corporate asset is not being used to obtain a shareholder loan, there is not a requirement to pay a guarantee fee or risk of a shareholder benefit assessment for an improper guarantee fee. Further, there is no risk that at the time of repayment, the shareholder may have to pay tax on the full amount of the loan as a shareholder benefit if the life insurance proceeds repay the loan.
- The initial annual cash flow to the shareholder is smaller with corporate borrowing because of the tax payable on the dividend received.
- Over time however, the total accumulated net cash flow to the shareholder may be larger with corporate borrowing. Why?

Shareholder borrowing: The shareholder may have to pay an annual guarantee fee to the corporation to minimize the potential tax from a shareholder benefit assessment by CRA. The guarantee fee is based on the annual loan balance. As the loan balance increases, so does the annual guarantee fee. Even after the annual loans stop, the shareholder must continue to pay the guarantee fee each year for on accumulated loan amounts (which may include capitalized interest).

Corporate borrowing: Dividend tax is only payable on the amount of the loan distributed by the corporation. So, for example, the interest that is capitalized on the corporate loan is not taxed as a dividend because it is not distributed to the shareholder.

- The interest on the loan, as shown in the illustration, may be deductible against corporate income to the extent that dividends are paid from accumulated earnings. CRA administratively allows interest to be deducted where the loan is used to "fill the hole" left by the dividend.
- In addition, the collateral insurance deduction (the lesser of the premiums paid or payable on the policy and the net cost of pure insurance) may be deductible against corporate income on a pro-rata basis in respect of the loan outstanding as a percent of the policy's death benefit.
- The interest and collateral insurance deduction only have value if the corporation has taxable income to use the deductions.
- The corporate dividends paid with the loan proceeds are taxable when paid to the shareholder. There may already be a plan to redeem shares over time to reduce total share value on death. There may also be Refundable Dividend Tax on Hand (RDTOH), CDA balances, losses or lower tax rates available which can reduce the cost of paying the loan proceeds out as dividends.
- Depending on the corporate share structure, the corporate loan may reduce tax at death because it reduces the value of corporation, and therefore may reduce the value of the deceased shareholder's shares of the corporation.

How does it work: At death



Impact on the capital dividend account (CDA)

- At death, when the loan is repaid, the corporation gets an addition to its CDA for the full death benefit less the policy's ACB. There is no deduction for the amount of the loan repaid.
- This usually results in a balance in the corporation's CDA from the life insurance proceeds after the loan is repaid. This may mean that other assets or future earnings can be distributed to shareholders as tax-free capital dividends.

The repayment of a corporate loan is much easier than a shareholder loan in that it can be paid directly without requiring the lender to release its security on the policy (which usually requires the deceased's estate to provide additional collateral or repay the loan directly).

About the loan

- The lending limit is specified by the third-party lending institution (bank).
- This limit varies by policy type and the investments in the policy. The corporation may be able to borrow an amount up to 100% of the policy's cash value. Loan minimums vary by third-party lending institution. Some require a minimum collateral loan of $250,000.
- This is a bank loan with current loan terms. There may be conditions, fees and costs associated with arranging the collateral bank loan.
- On death of the life insured, the life insurance proceeds are used to repay the corporation's loan.
- The amount of the loan at death will reduce the value of the corporation immediately before death for tax purposes.
- If the terms of the loan are not met, the bank may have the right to demand immediate payment.
- If the bank seizes the cash surrender value of the corporately-owned life insurance policy to repay the corporate loan, the corporation would be subject to full taxation on the amount of the policy's cash surrender value that exceeds the adjusted cost basis.
- Economic fluctuations may impact the amount and timing of loan advances when borrowing against the cash surrender value of the life insurance policy.
- It is possible to exceed the bank lending limit. If this happens, depending on loan terms, bank may provide options for managing the loan.
- The loan cannot be part of a retirement benefit that the corporation is obligated to make.

CORPORATE PREFERRED RETIREMENT SOLUTION (CORPORATE BORROWING)

Checklist (Form #1815)

Your clients should review this checklist to ensure they understand the *Corporate* Preferred Retirement Solution (corporate borrowing) and how it can impact them and their business. It will automatically be included in the concept illustration report. Your clients can complete, sign, and date it to confirm they have reviewed it.

This checklist can be accessed from the Financial Planning Concepts page on EquiNet by clicking the Corporate Clients link.

CORPORATE PREFERRED RETIREMENT SOLUTION (CORPORATE BORROWING)

Case study

The following case study illustrates the *Corporate* Preferred Retirement Solution (corporate borrowing) concept using Equimax participating whole life. The concept can be illustrated on a single life, joint first-to-die and joint last-to-die basis.

Case study: Using Equimax participating whole life

Meet Melissa

The situation	The need
• Melissa (age 37) owns a profitable business. • She plans to retire at age 65. • The corporation can allocate $36,000 of surplus from after-tax business income each year for the next 10 years	• Melissa anticipates that starting at age 65, she will need to supplement her after-tax cash flow by $37,000 each year for 20 years. • She wants a tax-efficient way to increase her cash flow in retirement while creating an estate.

Two options

Taxable investments

- Melissa invests the $36,000 of surplus from business income each year for 10 years in a taxable investment.
- Annual rate of return of 5%.
- Taxable investment portfolio (50% interest and 50% dividends).
- Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%.
- Before-tax withdrawals of $61,667 (for an after-tax amount of $37,000) per year for 20 years starting at age 65.

Exempt life insurance policy on shareholder

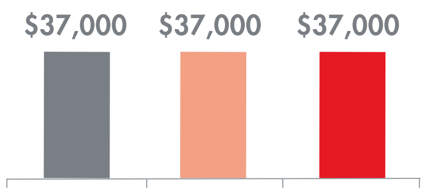
- Melissa transfers the $36,000 of surplus from business income each year for 10 years to a corporately-owned Equimax Estate Builder® whole life insurance policy to pay the premium. (*Corporate* Preferred Retirement Solution)
- 20 pay, paid-up additions dividend option.
- Initial death benefit $1,200,000.
- The sales illustration for this case study shows a premium offset point at year 10, after which time Melissa may be able to stop paying premiums for her policy. A decrease in the life insurance dividend scale may delay the premium offset point and require her to pay premiums for longer than previously illustrated; or require Melissa to resume paying premiums for a period of time if her policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies.
- When Melissa turns 65, the corporation can apply for a bank loan using the corporately-owned life insurance policy as collateral.
- The loan amount is $61,667 (for an after-tax amount of $37,000) for 20 years at a rate of 6% with an assumed age at death of 100.
- The illustration assumes maximum loan to CSV ratio of 90% and shows interest being capitalized.
- The corporation can use the loan proceeds to pay Melissa a taxable dividend for 20 years, starting at age 65.

Let’s compare the results

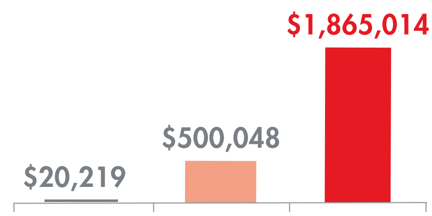
While both the *Corporate* Preferred Retirement Solution and the taxable investment are sufficient to supplement Melissa’s retirement cash flow by $37,000 annually until age 85, the annual withdrawals from the taxable investment significantly reduce the net amount available to Melissa’s heirs at death.By choosing the *Corporate* Preferred Retirement Solution with corporate borrowing, Melissa will have:

- Immediate life insurance coverage of $1,200,000 for her corporation.
- Supplemental retirement cash flow for 20 years.
- When Melissa turns 65, the corporation can apply for a bank loan[1] using the cash value of a corporately-owned life insurance policy as collateral. The corporation can then use the loan proceeds to pay Melissa a taxable dividend.
- Higher net amount payable to her heirs than with the taxable investment.

Annual after-tax amount available to supplement Melissa’s retirement cash flow for 20 years starting at age 65



Net amount to Melissa’s heirs (assumes death at age 85 and after loan repayment)



Scale has been modified for display purposes.

- Taxable investment (5% annual rate of return)[2]
- *Corporate* Preferred Retirement Solution (Equimax® whole life insurance)[3] Current dividend scale interest rate minus 1%
- *Corporate* Preferred Retirement Solution (Equimax® whole life insurance)[3] Current dividend scale interest rate

The preferred solution

Other taxable asset classes require a higher rate of return to produce the same estate value age 85 as a life insurance policy.

	Required annual pre-tax rate of return[4]				
	Life insurance (Annual after-tax internal rate of return (IRR))	Interest	Dividends	Realized capital gains	Deferred capital gains[5]
Current dividend scale	5.79%	10.59%	8.57%	6.99%	6.00%
Alternate dividend scale (current minus 1%)	4.57%	7.52%	6.08%	4.94%	4.47%

Marketing material available can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link.

Brochure #1840

With Equimax participating whole life case study.

Checklist #1815

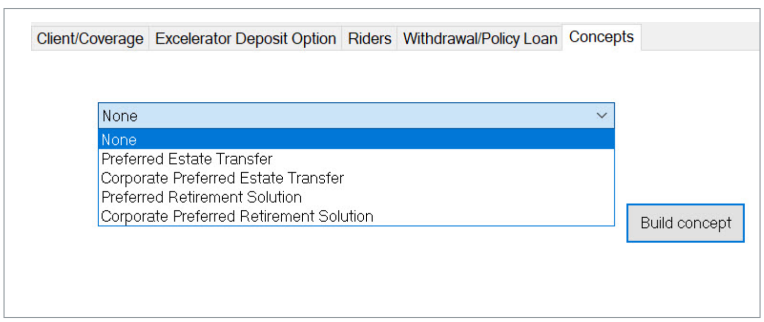
[1] Corporate borrowing. Loan amount of $61,667 for 20 years at a rate of 6% with an assumed age at death of 100. Illustration assumes maximum loan to CSV ratio of 90% and shows interest being capitalized. Interest repayment is also available. At age 85, the bank loan balance is $2,404,564. 9 Taxable investment portfolio (50% interest 50% dividends). Assumes an average annual interest rate of 5%. Before-tax withdrawals of $61,667 (after-tax withdrawals of $37,000) per year for 20 years starting at age 65. [2] Equimax Estate Builder® participating whole life insurance, 20 pay. Paid-up additions dividend option. Initial death benefit $1,200,000. The $36,000 annual deposit is a combination of required premium ($28,418) and an additional deposit (Excelerator deposit option) ($7,582). Illustrated values are for a female, age 37, standard non-smoker rates in effect as of September 14, 2020 and the dividend scale at that time remaining unchanged for the life of the policy. The sales illustration for this case study shows a premium offset point at year 10, after which time you may be able to stop paying premiums for your policy. A decrease in the life insurance dividend scale may delay the premium offset point and require you to pay premiums for longer than previously illustrated; or require you to resume paying premiums for a period of time if your policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies. [3] Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%. [4] Assumes capital gains are deferred until age 85. [5] In some circumstances, the interest on the loan, as shown in the illustration and a portion of the insurance premiums paid or payable may be deductible against corporate income. In addition, the corporate loan may decrease the fair market value of the shares owned by the deceased shareholder for purposes of calculating the capital gain realized at death.

COMPLETING THE CONCEPT ILLUSTRATION

Using Equimax and Equation Generation IV

Access the concepts

- Open the Equitable Sales Illustrations® System and select the product you wish to illustrate.
- Enter product assumptions.
- Click on the Concepts tab and select the concept you wish to illustrate.
- Click the "Build concept" button.



Enter concept assumptions

Corporate Preferred Retirement Solution

Tips for completing the concept illustration system and using the concept reports can be accessed from the Financial Planning Concepts page on EquiNet by clicking the Corporate Clients link.

Using Equimax participating whole life

TAX CONSIDERATIONS FOR CORPORATELY-OWNED LIFE INSURANCE

What every accountant needs to know

Corporate life insurance policies should be part of the basic toolkit of every tax and estate planner dealing with private corporation shares. However, some professionals may not be familiar with the planning opportunities using corporately-owned life insurance.

Tax and Estate Planners' Guide to Corporate Life insurance

The Tax and Estate Planners' Guide to Corporate Life insurance (Form #1569) is a support piece for tax and estate planners who want a high-level review of two unique planning opportunities using corporately-owned life insurance to meet estate and retirement needs for corporate clients.

Can be accessed from the Financial Planning Concepts page on EquiNet by clicking on the Corporate Clients link, or in hardcopy through your Regional Sales Manager.

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Tax and Estate Planners' Guide to Corporate Life Insurance – Executive Summary

Corporate life insurance policies should be considered part of the basic toolkit of every tax and estate planner dealing with private corporation shares. The planning points are:

- a corporation may purchase life insurance policies using retained earnings or by using leverage.
- corporate life insurance creates liquidity to pay taxes and debt on death.
- in family business succession planning non-active children can be treated fairly through the payment of death benefit proceeds.
- corporate life insurance may supplement other post-mortem tax plans.
- taxable investments may be re-allocated as deposits to the policy.
- investments in an exempt policy grow tax free as they are excluded from accrual taxation under subsection 12.2(1).
- the death benefit proceeds of the policy – the total money paid on death - above the adjusted cost basis (ACB), maybe credited to the capital dividend account (CDA).
- dividends paid from the capital dividend account may be excluded from the income of the shareholder under paragraph 83(2)(b).
- a policy can accumulate significant cash surrender value (CSV).
- CSV may be assigned as collateral for a loan.
- a life insurance policy may be used as collateral for a loan.
- where a corporately-owned life insurance policy is used as collateral for a loan taken by the shareholder, the potential for taxable shareholder benefits must be considered. The value of shareholder benefits may be impacted by any arrangements between the shareholder and the corporation as well as the value of any guarantee fees paid by shareholder to the corporation.
- provided the collateral loan is within the lending limit of the lender additional collateral may not be required.
- depending on the lender and terms of the loan, interest on a collateral loan may be capitalized. If a policy loan is obtained, interest may be capitalized if there is room within the lending limits of the policy loan.
- a policy loan does not have to be re-paid while alive. With a collateral loan, depending on the terms of the loan agreement, it may be possible to structure the loan so that it does not have to be repaid until death. If the shareholder is the borrower, arrangements may have to be made with the lender to allow for the loan to be repaid indirectly from the death benefit proceeds of the policy.
- if the corporation is the borrower, the loan proceeds can be paid out as dividends to reduce the value of the corporation and shares in the estate, as part of a wasting freeze or otherwise.

Tax and Estate Planners' Guide to Corporate Life Insurance – Executive Summary (continued)

- interest paid on corporate loans to pay dividends may be deductible if used for an income earning purpose and there is sufficient income in the corporation to use the deduction.
- if interest is deductible, the lesser of the policy premiums paid or payable, and the net cost of pure insurance (NCPI) of an assigned policy may be deductible under paragraph 20(1)(e.2) if other conditions are met.
- GST/HST does not apply because life insurance is a financial instrument; and, the provision of services related to, including the payment of death benefit proceeds of life insurance, are exempt financial services. The provinces and territories impose a premium tax of 2% to 4% which is paid by the insurance company.
- individual life insurance premiums are generally not subject to provincial sales tax (PST).

In order to plan effectively with corporate life insurance it is necessary to understand its legal properties, tax attributes and accounting treatment.

Detailed information can be found in the Tax and Estate Planners' Guide to Corporate Life Insurance, (Form #1569).

NOTE: Changes to income tax legislation may impact the information in this guide. Your clients should ensure that competent tax, estate and legal professionals have been consulted regarding their particular situation prior to implementation.

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