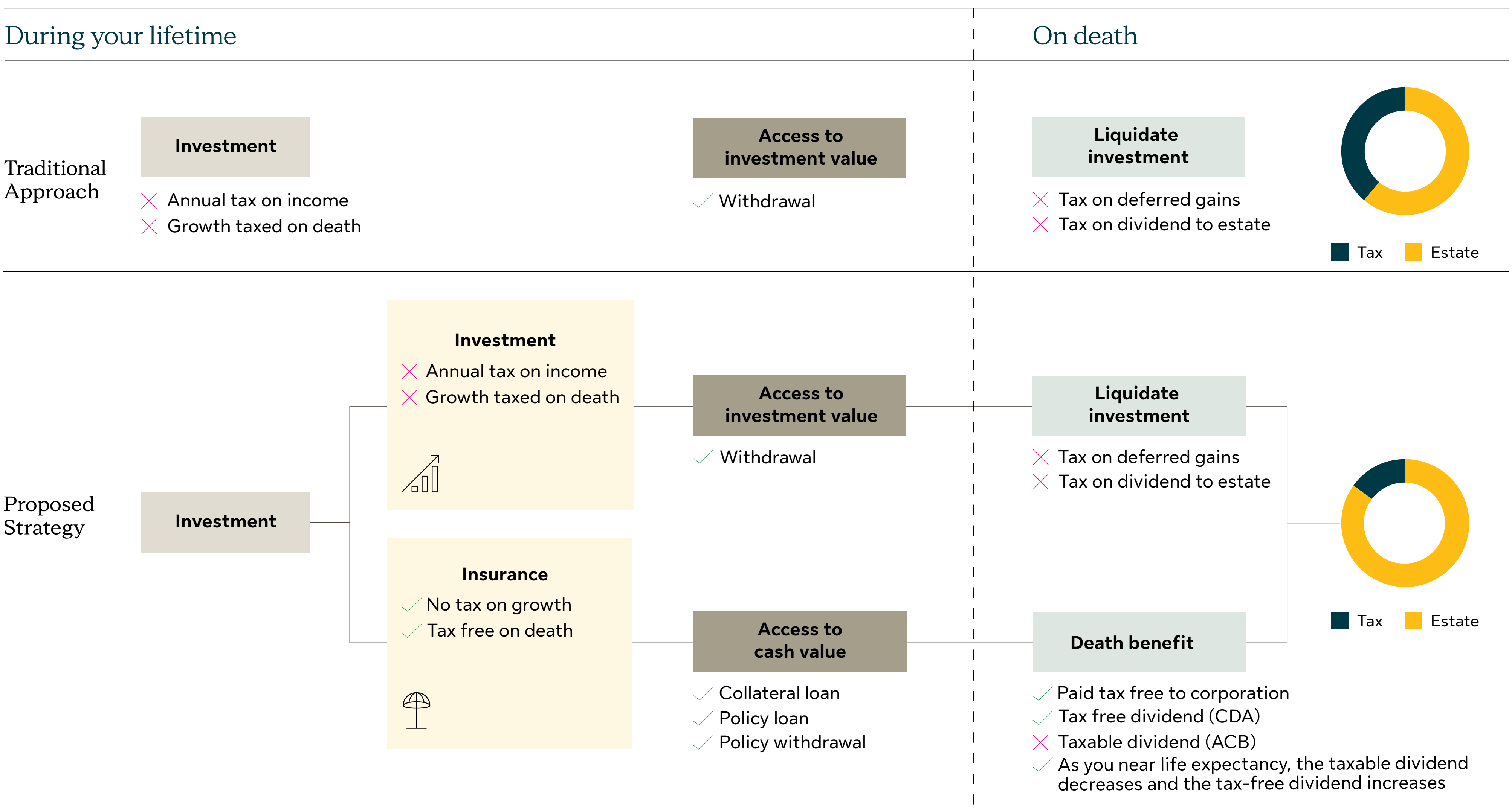
Corporate Asset Transfer

A tax-exempt life insurance strategy

You own a private corporation that has significant assets in taxable investments. Your corporation's investment portfolio is overexposed to a single asset class, with a large portion allocated to fixed income investments. You want to create a diversified, stable pool of assets without sacrificing liquidity, but also want to maximize and protect the value of your estate for your beneficiaries.

The Corporate Asset Transfer strategy helps to diversify your corporation's asset mix in a tax-efficient manner, provides comparable liquidity to a traditional investment portfolio, and can help to significantly increase the value of your corporation and what you can leave to your beneficiaries.



How it works

Your corporation buys a permanent life insurance policy on your life to protect the value of the corporation for future generations. Your corporation owns the policy, pays the premiums and is also the beneficiary. In addition to protection, the policy also offers a number of benefits.

- Tax-preferred cash value accumulation. Transferring a portion of the corporation's fixed income investments to insurance reduces the taxes paid on investment income. It also allows you to diversify your corporation's asset mix, lowering the overall volatility in the portfolio.
- If the corporation needs access to the cash value in the policy, there are options available — like taking a policy loan, taking withdrawals from the policy, or assigning the policy to a lending institution as security for a loan. The cash values in the life insurance policy may offer higher collateral values than traditional investment portfolios offer, and it may be possible to access up to 90% of the cash value in this manner.
- On your death, the tax-free death benefit is paid to the corporation. Even if part or all of the death benefit goes to pay off a loan from a lending institution, the corporation may post the entire death benefit to its capital dividend account (CDA), minus an amount equal to the policy's adjusted cost basis (ACB). An amount equal to the CDA can be paid out of the corporation as a tax-free capital dividend. Any amount remaining can be paid as a taxable dividend.

When to use it

Consider this strategy if you:

- Are the shareholder and key-person of a Canadian controlled private corporation (CCPC).
- Have a holding company with a significant fixed-income portfolio.
- Are looking for ways to diversify your corporation's asset mix.
- Are interested in reducing tax on corporate investment income.
- Want to satisfy the corporation's life insurance needs without giving up liquidity within its existing investment portfolio.

Notes

There are additional considerations and risks associated with the Corporate Asset Transfer strategy beyond those discussed here. Policy loans and withdrawals may have tax implications. Before implementing any strategy, consult with your tax and legal advisors.

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