Save it.
Spend it.
Leave it.

A strategy for corporate asset efficiency

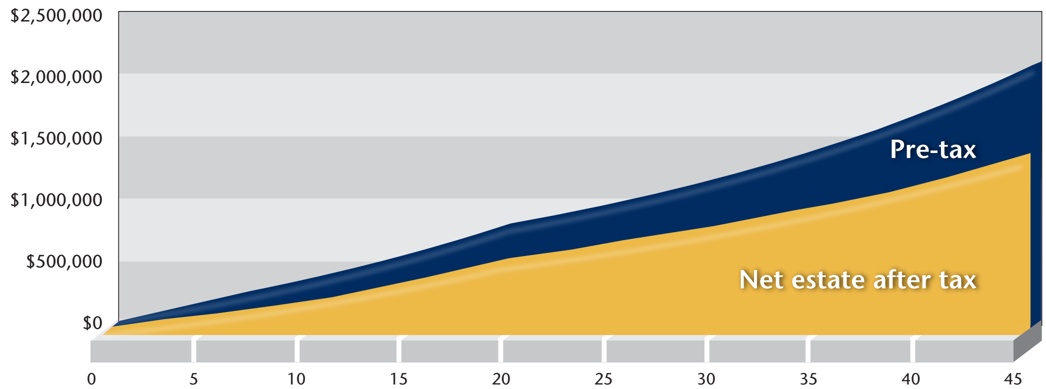
Are taxes eroding your success?

Business is good. Your corporation has a solid track record and generates more cash than you need day-to-day.

However, if that excess cash is sitting in investments, the Canada Revenue Agency may be collecting almost as much as you are. That's because the growth of passive investments is taxed at the highest corporate rate.

Taxes on these investments erode your growth, year after year. As this example shows, over a period of 45 years, more than a third of the growth may be lost to taxes.

How much growth you can lose to taxes



(All examples are based on the assumptions specified on the next page.)

An alternative strategy using tax-advantaged life insurance

The primary reason for life insurance is protection at death. However, permanent life insurance may also dramatically increase the net cash you can take out of your company over the long term.

Save it. Redirect some of your company's excess cash from taxable investments to tax-advantaged permanent life insurance. Growth inside the policy is not eroded by income tax, within prescribed limits. Save on taxes to keep more money working for you.

Spend it. Access the policy's accumulated cash value by using the policy as collateral for a line of credit. Use loan advances to provide your business or yourself with a stream of income.

Leave it. At death, the policy's death benefit pays off the loan. The full death benefit payable to your company (less adjusted cost basis, if any) is eligible for distribution to shareholders – including your successors or heirs – as tax-free dividends.

Example of potential results

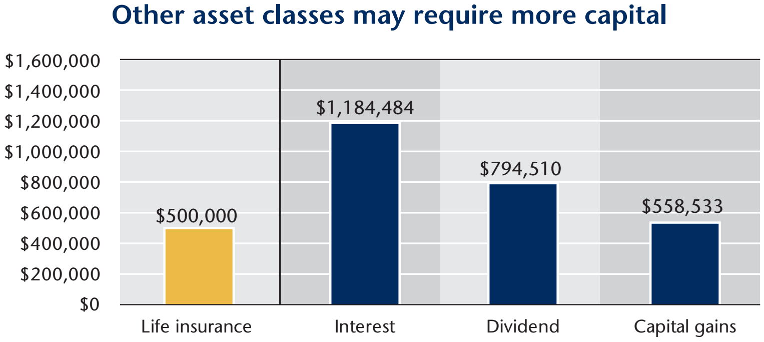
As this table shows, over the long term, this strategy with life insurance can transfer more corporate cash to you and your estate.

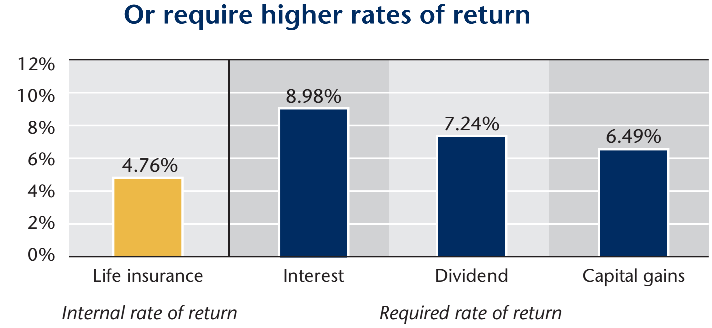
Comparison assuming death at age 85	Investments	Life insurance
Cumulative deposits/premiums ($25,000/year for 20 years)	$ 500,000	$ 500,000
Cumulative net cash flow to shareholder from age 65 to 85	$ 775,250	$ 1,041,030
At death, net benefit to shareholder's estate, after loan repaid	$ 0	$ 856,989
Amount eligible for tax-free dividends	$ 125,773	$ 2,982,066
Internal rate of return, based on after-tax cash flows and net benefit to shareholder's estate	1.86%	4.76%

See assumptions on next page.

Which asset classes can help you achieve your goals most efficiently?

As these examples show, to produce the same net cash flow and estate benefit as life insurance, other asset classes may cost more or require taking on more risk.





Comparison on death at age 85. See assumptions below.

Talk with us today

This strategy is not for everyone. Talk with Milestone Wealth and Estate Planning Group about the risks and benefits and how it fits your specific situation. If it appears appropriate, we can prepare a personalized report for you, tailored to your company's cash flow, its current investments and your personal goals.

Assumptions for examples. Company: Canadian-controlled private corporation. Insured person: male, non-smoker, age 40, standard risk. Life insurance: London Life 20-Pay participating life insurance, $750,000 initial death benefit, $25,000 premium for 20 years, paid-up additions, based on London Life's dividend scale and premium rates as at August 2012. Collateral loan: 5% interest rate, interest paid and immediately borrowed, interest deductible, 90% maximum loan/cash value ratio at age 90. Investment mix used in comparisons: 50% interest (4% growth rate, 46.17% tax rate), 20% taxable dividends (5% growth, 33.33% tax), 30% realized capital gains (6% growth, 23.09% tax). 32.57% tax on dividends to shareholder's estate. Comparison at death in policy year 45, age 85. Figures not adjusted for time value of money. Required rate of return on investments illustrates pre-tax return required to achieve same after-tax internal rate of return as life insurance. This example is not complete without a complete London Life illustration, including cover page, reduced example and product features page, all having the same date. Read each page carefully as they contain important information.

Important considerations. Do not purchase life insurance just because you may be able to obtain a collateral loan in the future. Collateral loans should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The availability and terms of a collateral loan depend on the lender's financial underwriting and other requirements. The corporation should have enough income and capital to pay the insurance premiums payable under the policy and to cover loan interest and repayment if it becomes necessary to do so. The information provided is based on current tax legislation and interpretations for Canadian residents. It is accurate to the best of knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature. It is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

600–970 Lawrence Avenue West, Toronto, ON M6A 3B6
416-789-4527
Fax: 416-789-0236 | www.milestonewepg.ca

MILESTONE
WEALTH & ESTATE
PLANNING GROUP INC.
making every mile count