

INCOME SHELTER

A legacy building strategy

Using excess income
today to provide a lasting
legacy tomorrow



The **Income Shelter** concept is a legacy building strategy designed to optimize the value of that portion of the estate which people don't intend to spend. It is set up to provide guaranteed, tax-free monies earmarked for future generations or favourite causes.

How does it work?

Conventional investments are taxed each year and/or create a large tax bill upon the death of the owner. Income earned can disqualify people ages 65+ in particular from many government tax credits and benefits. These alternative investments are also difficult to pass on to heirs without probate and associated valuation and transfer costs.

The income shelter uses excess income to purchase a permanent life insurance policy. This creates an immediate and larger after-tax legacy compared to other investments.

Many people have a portion of income that they invest and wish to leave as a legacy for future generations; assets they never intend to spend themselves.

This concept demonstrates that a life insurance policy can be used successfully as a tax shelter for annual investments that are intended to provide maximum tax-free dollars to a beneficiary at death for a pre-determined purpose or bequest.

Earnings that accrue to the policy are tax-sheltered (provided they stay in the exempt portion of the policy). In alternative investments, annual growth is reduced by taxes, prior to reinvestment.

If premiums are not paid for the life of the policy, the fund value of the life policy is used to pay the ongoing annual cost of providing life insurance from tax –deferred earnings. If objectives change, and premature access to the cash value of the life policy is required, a portion of the withdrawals could be taxable.

Funding options

Deposits can be made on a monthly or annual basis, either for a set period of time or for life.

Optional lump sum deposits may be accommodated as well. Actual deposits and results vary with the age, sex, health and tax bracket of the individual.

Each person's legacy plan has unique objectives and equally unique cash flow considerations. This strategy can handle to handle a variety of funding options.

Why set up an Income Shelter?

For qualified individuals, the income shelter offers:

1. a large, immediate estate value
2. an increasing value driven by tax-sheltered growth of extra deposits (based on current legislation)
3. a tax-free value at death
4. reduced time and costs for estate settlement if a named beneficiary(s) is chosen
5. possible creditor protection for individual and beneficiary(s).

Who is it for?

This strategy is designed primarily for people:

- interested in significantly enhancing the net worth of their estate to provide a larger legacy for future generations or favourite causes
- age 50+
- with above average income
- in upper tax brackets
- with sufficient disposable income to commit to substantial deposits to complete the program
- with adequate assets and cash flow to assure an ongoing, comfortable lifestyle for themselves.

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¹ *Financial Post Magazine*, June 2010, based on revenue

² As at June 22, 2011

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