

CORPORATE INSURED ANNUITY

Optimize your
business investment
while reducing
your taxes



Candidate

A small business corporation enjoys tax advantages that allow it to earn and grow business wealth, but for the storage of surplus cash that same corporation is an imperfect vehicle, and can often penalize the shareholder/owners.

The Corporate Insured Annuity concept provides a strategic tax-planning alternative to traditional fixed income methods for extracting surplus cash and reducing the capital gain on the company.

Opportunity

Annuity income is a combination of capital and interest, with only the latter being taxable. With interest-only investments, after-tax income will normally be greater using an annuity.

A corporation receives proceeds of a life insurance policy tax-free, and may in turn distribute most or all of those proceeds tax-free to shareholders through a mechanism called the capital dividend account.

Challenge

A small business corporation can access tax rates below 20% for active business income. Non-active income – investment income – may be subject to rates closer to 50%.

The difference in rates is managed through a Canada Revenue Agency (CRA) mechanism called the refundable-dividend-tax-on-hand (RDTOH), a deposit remaining with the CRA earning no income for the corporation.

RDTOH is recoverable when taxable dividends are paid, but investments producing interest-only income cause significant build-up in RDTOH, and in the long-term may result in a portion of that RDTOH being unrecoverable. Passive investments held in a company increase the capital gain on shares deemed to be sold at the death of the shareholder.

Strategy

A corporation purchases a zero-guarantee-period non-prescribed annuity; allocate part of the annual income to the premium on a life policy that will replace the capital at the annuitant's death.

Annual dividends, funded by the annuity to shareholders will normally enable a complete recovery of annual RDTOH. At death, most or all of the insurance proceeds may flow tax-free out of the corporation through the application of the capital dividend account mechanism. The strategy reduces the value of the company for capital gains calculations on the death of the shareholder. The value of the company is preserved for the heirs.

In some cases, particularly for those in the 65-75 age range, a guaranteed paid-up life policy may be used to significantly enhance expected results in later years.

Sample – Case-Specific Parameters

Life	Gender	Male
	Age	65
	Status	Non-smoker
Corporate rate on investments		50.00%
Shareholder dividend rate		35.00%
Illustration interest rate		4.00%
Available funds		\$500,000 *
Funds to purchase annuity		\$500,000
Annuity type		Single life
Annuity guarantee period		none
Life insurance estate benefit		\$500,000
Annual annuity income		\$45,000
Life insurance annual cost		\$15,944

* This can either be the same as annuity principal, or annuity principal plus first year premium

Projected Results

(based on assumptions previous chart)

	Age 75	Age 80	Age 85
Increased annual dividend to shareholder	\$11,289	\$13,036	\$14,566
Estate value increase	\$262,160	\$271,767	\$290,000

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our vision is to be the leading, independently-owned, Canadian financial services company committed to simplicity, being easy to do business with and having a personal touch.

¹ Source: Office of the Superintendent of Financial Institutions (OSFI), based on general and segregated fund assets

² As at June 22, 2011

STEPUP

Providing you with the estate planning and wealth strategies that matter most, the Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team is comprised of practicing professionals whose primary objective is to support you as you help your clients reach their financial goals.

This document reflects the views of Empire Life as of the date issued. The information in this document is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. The Empire Life Insurance Company assumes no responsibility for any reliance made on or misuse or omissions of the information contained in this document. Please seek professional advice before making any decision.

™ Trademark of **The Empire Life Insurance Company**. Policies are issued by The Empire Life Insurance Company.

Investments • Insurance • Group solutions
www.empire.ca info@empire.ca