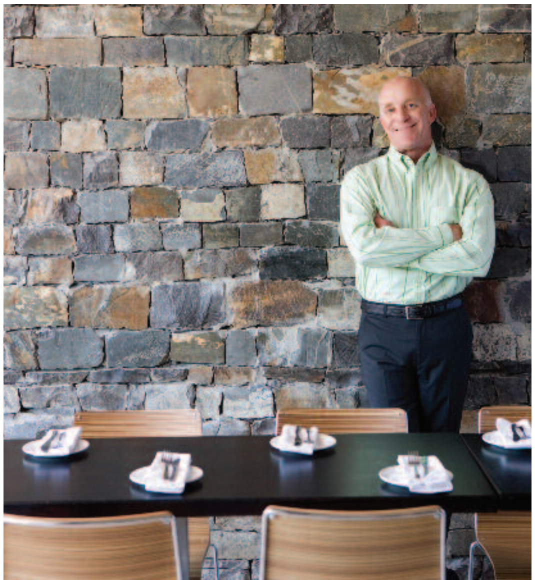
Tax-Free Dividend with Life Insurance



Imagine this scenario. You are the primary share-holder of a Canadian controlled private corporation. Locked inside your company is $500,000 surplus capital for which you have no immediate personal need, but to which you will eventually want your heirs to have access.

Convert a taxable dividend into a tax-free dividend

If you receive the surplus capital in the form of a dividend, the entire amount will be subject to tax.

If you leave it in the corporation, the investment income will be taxed at the highest corporate tax rate, which, in some cases, can be higher than your personal income tax rate. (Only active business income is eligible for tax breaks.) There is an insurance product that may help you to tax shelter your retained earnings and pass your shares to your heirs tax-free.

This product is permanent life insurance. By transferring the $500,000 into a life insurance policy, the funds may grow tax-free. Upon the death of the insured, the corporation receives a tax-free death benefit. The benefit, less the adjusted cost base, is credited to the corporation's Capital Dividend Account.

The Capital Dividend Account can be paid out to shareholders (your heirs) tax-free. The result: You've increased the ultimate after-tax value of your corporation to your estate. In effect, you, as the business owner, may avoid being taxed twice - on the company's profits and on the increase in the value of the estate by the life insurance.

How does it work?

John, 72, and his wife, Susan, 71, both non-smokers, own a business that has a cash surplus of $500,000. This surplus could be invested inside the company at 6% or transferred into a permanent life insurance product such as a Universal Life or Whole Life policy.

Below is an example of how Universal Life insurance may work. The $500,000 could be used to buy a Universal Life policy with a face value of $1.25 million and a projected rate of return of 5%. (The more conservative rate for the life insurance policy reflects its long-term nature).

The following table illustrates the difference in projected estate values between using Universal Life insurance and leaving the surplus in the company.

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Who can benefit from this solution?

Life Insurance may be useful for those who:

- Own an incorporated business that has surplus capital (retained earnings) and
- Have no personal need for the surplus capital, i.e., it is likely to form part of his or her estate.

If you own a company that has sold assets for cash, or have sold a business that had been owned through a holding company, life insurance may be the protection you need.

Life Insurance may provide financial security for your business.

You've worked hard to build your business. A product of sacrifice and dedication, your success deserves to be protected from events beyond your control.

Permanent life insurance may offer that protection. It may help your business continue to operate and retain its value in the event of your death, or the loss of a partner or key employee.

If you would like to learn more about converting a taxable dividend into a tax-free dividend through life insurance, contact a BMO Nesbitt Burns Investment Advisor for an introduction to an Estate & Insurance Advisor from BMO Nesbitt Burns Financial Services Inc.

Net Estate Value After Tax

Year	Ages	Estimated Estate Value of Universal Life Policy, rate of return projected at 5%	Value of Funds* left in the company invested at 6%*	Potential Life Insurance Advantage
1	73/72	$1,573,235	$339,756	$1,233,479
5	77/76	$1,623,599	$403,246	$1,220,353
10	82/81	$1,680,536	$493,690	$1,186,846
20	92/91	$1,598,302	$719,079	$879,223
25	97/96	$1,539,456	$858,762	$680,694

* The amount is paid as a taxable dividend.
** The dividend amount is increased by any RDTOH. (Refundable Dividend Tax on Hand)

Values are at August 2008 and are not a guarantee of future earnings, rates of returns or premiums.
Personal dividend tax rate: 35% (non-eligible dividends), Corporate tax rate: 51%.

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