Corporate investment shelter strategy

Because you've made your business a success. Pass it on.

An investment strategy using tax-exempt life insurance.

Meet Mark and Susan

Both 55, they own a successful company and have accumulated $2 million in excess assets. What they don't use for retirement they want to leave to their children.

If you have a successful company, you probably have corporate investments. You may be planning to use this as retirement income, and then leave as much as possible to your heirs. Sadly, the amount your children receive after corporate and personal taxes may not be nearly as much as you had planned. Fortunately, you can maximize the after-tax value of these assets using the corporate investment shelter strategy.

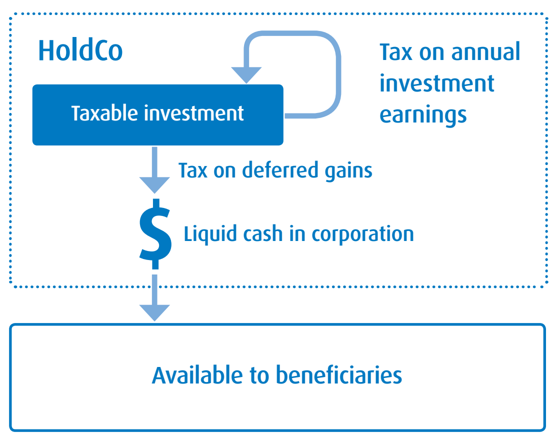
Twenty years ago, Mark and Susan started a business, called OpCo, and also set up a holding company, called HoldCo, to protect OpCo's excess income from creditors. Over the years they've been transferring tax-free inter-corporate dividends into HoldCo, and HoldCo now has $2 million of assets in a portfolio of stocks and bonds. Mark and Susan want to use this to supplement their retirement income with $45,000 of dividend income every year for the rest of their lives, and then transfer the balance of HoldCo's assets to their children.

The challenge

Multiple layers of taxation prevent Mark and Susan from maximizing the value of their corporate assets.

- With corporate investments in HoldCo, the rate of return will be eroded by corporate taxes, both on investment earnings and on deferred capital gains.
- When the HoldCo investments are liquidated on the death of the second parent, the dividends paid out will be taxable to their estate.
- This will diminish the after-tax value of the corporate investments for the children — exactly the opposite of what Mark and Susan are trying to do.

Taxable Investments



Source: Sun Life Assurance Company of Canada, 2014

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The solution

Pay less tax and leave more with the corporate investment shelter strategy.

With the corporate investment shelter strategy, Mark and Susan still draw $45,000 in net dividends from HoldCo every year for their retirement at age 65, but HoldCo transfers the excess assets to a permanent life insurance policy. The policy fund is invested to match their asset allocation objectives.

The policy fund grows tax-deferred during their lifetime (there is no tax on growth).

Upon the death of the second parent, the policy pays HoldCo a tax-free death benefit, and allows some or all of the proceeds to be paid out as a tax-free capital dividend.

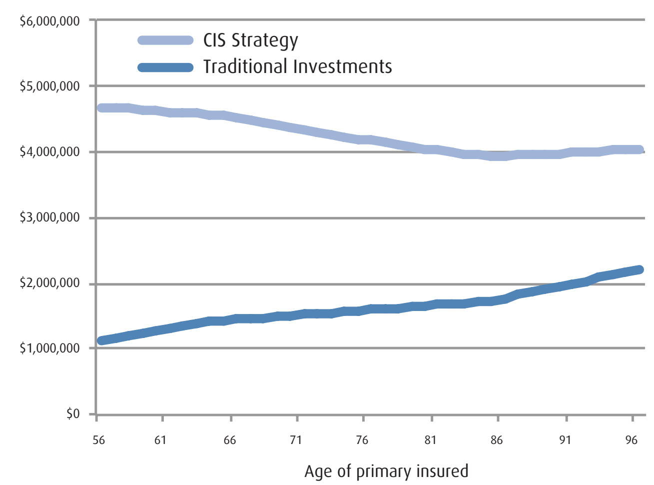
The children receive the maximum after-tax value of the corporate investments – exactly what Mark and Susan wanted.

The result

The corporate investment shelter strategy made a difference in excess of $1.8 million.

By age 85 (the average life expectancy of the last survivor), Mark and Susan's estate may be worth $1.8 million more than if they had continued to rely on taxable investments.

Estate Values



Assumed dividend scale of current -1% participating insurance plan, and 4.0% for the taxable fixed-income investment. Both age 55, non-smoker, standard risk. Illustration generated on December 20, 2016.

The corporate investment shelter strategy is a cost-effective way to ensure that the fruits of your hard earned business success go to your children. For more information, speak with your BMO financial professional who will refer you to an Estate & Insurance Advisor (Financial Security Advisor in Quebec) from BMO Estate Insurance Advisory Services.

BMO Estate Insurance Advisory Services