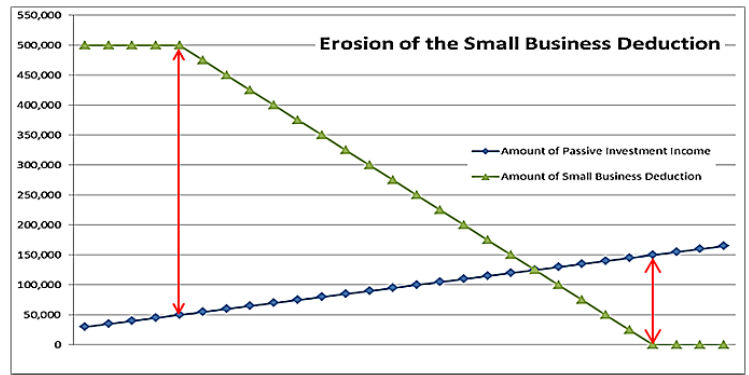


Tax Is A Primary Consideration For Business Owners

The recent Liberal budget has made the following changes to the small business deduction limit which will result in higher taxes being paid by corporations on investment, or passive, income. The initial small business deduction limit of \$500,000 is reduced by \$5 for every \$1 of passive income. Once the corporation has earned \$150,000 of passive income, the limit has been reduced to \$0. Depending on the province, the loss of this \$500,000 limit results in additional tax cost of **\$60,000-\$80,000!!** Business advisors realize that tax is always a primary consideration for business owners. This article gives you the confidence to have proactive conversations and to highlight potential opportunities to minimize this tax bill.

Here is an example for a corporation that earns \$10,000 of passive income in excess of the \$50,000 threshold:

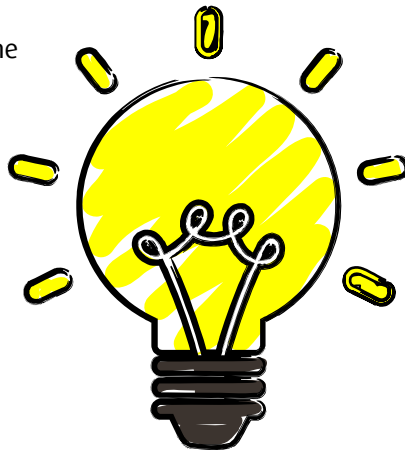
- The corporation loses \$6,500 in tax benefits (13% of \$50,000).
- The corporation pays corporate taxes of \$11,517 on the \$10,000 of passive income in excess of the \$50,000 threshold, or an effective tax rate of 115%!



Consider using life insurance as an additional investment opportunity and diversification strategy. It offers the following advantages:



There is no taxation during the accumulation period.



The receipt of the life insurance policy death benefit creates a credit in the company's Capital Dividend Account which can be paid out tax-free to shareholders.



You can access cash value to supplement retirement income on a potentially tax-free basis.



There is no taxation on the death benefit received.

Please see the following case study:

Two 50 year olds making annual deposits of \$250,000 into an insurance contract for 10 years versus the corporation investing the money in regular investments earning a 7% rate of return. The client is also looking for future cash flow to supplement retirement income from ages 75-90.

Here is how it looks ...

Client Details			Life Insurance Investment					Conventional Investment Account					
Year	Age	Annual Deposit	Annual Withdrawal	Cash Surrender Value	Death Benefit	Taxes on Death	Wealth Transfer	RoR 7%	Annual Withdrawal	Taxes 50.2%	SBD 12.0%	Account Balance	Wealth Transfer
1	50	249,999		152,286	5,539,664	156,688	5,382,996	17,500		8,785	10,500	248,214	134,804
5	54	249,999		899,496	7,764,872	814,878	6,949,994	86,259		43,302	51,755	1,223,475	692,788
6	55	249,999		1,142,576	8,334,477	992,882	7,341,595	103,143		51,778	60,000	1,464,839	837,912
7	56	249,999		1,437,234	8,910,805	1,183,843	7,726,962	120,039		60,259	60,000	1,714,618	990,263
8	57	249,999		1,765,482	9,494,604	1,382,846	8,111,758	137,523		69,037	60,000	1,973,104	1,150,094
9	58	249,999		2,128,907	10,086,645	1,590,153	8,496,492	155,617		78,120	60,000	2,240,600	1,317,664
10	59	249,999		2,529,086	10,688,005	1,806,011	8,881,994	174,342		87,520	60,000	2,517,422	1,493,245
20	69	0		4,823,229	10,989,719	2,183,506	8,806,213	214,053		107,455	0	3,164,501	2,147,266
26	75	0	387,146	6,124,788	11,210,171	2,089,186	9,120,985	262,913	387,146	131,982	0	3,499,678	2,561,903
30	79	0	387,146	5,799,207	9,398,647	1,778,087	7,620,560	187,333	387,146	94,041	0	2,362,331	2,109,090
35	84	0	387,146	5,256,555	7,353,686	1,228,860	6,124,826	77,059	387,146	38,684	0	752,072	1,342,443
36	85	0	387,146	5,121,563	6,969,512	1,092,555	5,876,957	52,645	387,146	26,428	0	391,143	1,159,155
37	86	0	387,146	4,975,236	6,591,679	946,174	5,645,505	27,380	387,146	13,745	0	17,632	965,061
38	87	0	387,146	4,816,212	6,219,018	789,171	5,429,847	1,234	18,252	620	0	-5	955,886
39	88	0	387,146	4,643,151	5,850,240	621,370	5,228,870	0		0	0	-5	955,886
40	89	0	387,146	4,454,225	5,483,346	596,087	4,887,259	0		0	0	-5	955,886
41	90	0	387,146	4,247,656	5,116,802	568,443	4,548,359	0		0	0	-5	955,885
			\$ 6,194,336					\$ 4,664,004					

¹ Sun Life Protector, Joint Last to die, Standard Rating, Life Pay, Offset after 10 Years. Illustration dated April 24, 2018

What happens?

- Clients runs out of money in conventional investment account and leaves no estate
- Within the policy, there is cash flow for a full 15 years and an estate advantage of \$1,530,000.

Who will benefit most from this strategy?

1. Business owners with significant cash, GICs, money market funds, or fixed-income vehicles.
2. Owners who have funds not earmarked for other purposes in the short-term.
3. Business owners who do not wish to pay the higher personal tax by drawing more income than required.
4. Corporate accounts with a \$1,000,000+ invested.

We, The Kingsmill Saar Wealth Management Group, specialize in insurance advisory. We partner with business owners and their advisors to assess their current situation and planning objectives. At no cost to the client, we also leverage the strength and expertise of BMO Wealth Partners to provide insurance – based planning solutions that help business owners minimize their tax liability, and optimize the value of their business.

Call us today! 905-897-1347

