4 Reasons to Consider Permanent Tax-Exempt Life Insurance

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High net worth clients usually don't require life insurance because they have enough assets to cover their needs, replace income and ensure families are able to maintain their standard of living.

Our clients buy Permanent Tax-Exempt Life Insurance for these 4 Reasons:

1. Generate Liquidity To Pay Tax Liabilities

- Will you face a large tax liability when you die? There may be no liability on the death of the first spouse, but it could happen when the second spouse dies.
- Do you own real estate you'd like to pass on to your children or other beneficiaries? Is it commercial real estate that produces income?
- Do you own a cottage that's increased in value since you bought it?
- If you own shares of a business will capital be required to buy remaining shares when another shareholder dies?
- Do you own a holding company with significant real estate or investment assets?

These situations have capital gains consequences that require quick access to cash shortly after an owner's death. If you don't want to force executors to liquidate assets to pay tax bills, you may want to consider buying permanent tax-exempt life insurance.

Liquidating assets to pay tax liabilities may not be the best solution.
High value real estate may not sell quickly, and it may not be a seller's market when funds are needed. Borrowing may be an expensive option or not readily available. Insurance that pays out when taxes are due is usually the least expensive way to create liquid capital at death.

2. Permanent Tax-Exempt Life Insurance Can Equalize Asset Distribution After Death

Do you own a business? Do all their children work in the business? What if one or two of them work in the business while the third child does not? The common solution is for all three kids to get equal shares in the business. Is it fair that a child who's never worked in the business gets an equal share when the owner passes away?

3. Permanent Tax-Exempt Life Insurance Can Serve As A Tax Shelter

Do you maximize RRSP and TFSA contributions? Is there a specific purpose for those funds? You consider it a good investment because you don't have to pay tax on the growth. If allowed, would you put more than the $6,000 maximum into your TFSA? Permanent tax-exempt life insurance works like an unlimited TFSA, both corporate and personal.

- Shelter excess cash flow from tax
- Shelter passive income inside a corporation
- Insurance proceeds in excess of the cost basis of the policy create a Capital Dividend Account (CDA) credit for the corporation.

4. Permanent Tax-Exempt Life Insurance Can Generate Substantial Tax-Free Returns

Would you want an investment account that could earn a 9% rate of return? If you have excess funds not required for daily expenses, would you be interested in earning more than 9% before tax for your estate? If so, consider permanent tax-exempt life insurance.

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