



No-Limit TFSA For Your Company Corporate-Owned Life Insurance

Written by: Mark Halpern, CFP, TEP
Certified Financial Planner, Trust & Estate Practitioner

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Family. Business. Legacy.

You like Tax-Free Savings Accounts (TFSAs) because investments grow tax-free, and money can be withdrawn tax-free.

But you can only deposit a maximum of \$5,500/year.

Business owners and incorporated professionals can enjoy the same tax-exempt attributes of a TFSA with no upper limit. **It's called Corporate-Owned Life Insurance.**

Unique treatment under Canada's Income Tax Act

In contrast to other financial investments (stocks, bonds, GICs, real estate, precious metals, cryptocurrencies, and portfolio investments) permanent cash value Life Insurance is tax-exempt.

Why would Business Owners want it?

Most affluent Canadians are sufficiently self-insured by virtue of their assets. They don't need insurance for traditional risk mitigation purposes.

Business owners use corporate-owned life insurance as a tax effective way to accumulate passive wealth inside a company, access that wealth tax-effectively and transfer it virtually tax-free to surviving beneficiaries.

The Problem: Money Invested by a Company

Businesses often invest retained profits or surplus cash in taxable investments. This usually occurs when the business owner doesn't need the extra income and has a higher marginal tax rate than their business. They take advantage of the low corporate tax rates on active business income by saving money in their corporations, if they don't require it for personal purposes. This accomplishes a tax deferral only. Eventually these funds will come out of the corporation and be taxed at high dividend tax rates.

The Solution

Invest some retained profits in corporate-owned, tax-exempt permanent life insurance.

There are four main benefits:

1. The savings component (Cash Surrender Value) of the policy will grow tax-free; and
2. The cash value can be accessed tax-effectively, and;
3. Funds invested will no longer be subject to passive income rules, and;
4. A significant portion, if not all, of the policy proceeds payable at death can be paid to the shareholder's estate as a tax-free capital dividend.

Other Tax Advantages

Premiums are paid with corporate after-tax dollars, which are taxed at a much lower tax rate than the individual shareholder's personal tax rate. The corporate tax rate applicable to active business income in Ontario is approximately 13% and to investment income is just over 50%. The top individual marginal tax rate in Ontario is approximately 53.5%. Upon death, an individual is deemed to dispose of his/her property at its fair market value. Life insurance proceeds get paid out to heirs tax-free (less the adjusted cost base) through the company Capital Dividend Account (CDA).

Mark Halpern can be reached by phone at 905-475-1313, or by email: Mark@WEALTHinsurance.com