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Insurance: protection for the unexpected

American inventor Benjamin Franklin famously said, “By failing to prepare, you’re preparing to fail.”

The same is true when it comes to financial security planning. Clients need more than just a retirement goal: they need a well-balanced plan that includes insurance, so if the unexpected should happen, they and their family are prepared.



Why it's important

In reality, there are numerous things that could threaten a client's financial security they may not anticipate: perhaps they experience a critical illness, are unable to work because of a disability or die prematurely. Will they or their family be taken care of if the worst should happen?

Insurance is a strategic, creative and invaluable tool that can help protect a client's income and their assets today, and in the future.

It can reduce taxes, generate cash flow, provide financing to serve various potential needs and help protect a client and their family in troubled times.

Help your clients protect what matters most by building a balanced financial security plan that includes insurance through Canada Life™.

What you can expect

In late November, you'll receive a strong collection of income and asset protection marketing material to help you meet the needs of clients and help you to grow your business. Stay tuned for more details.

For more information about insurance, visit Canada Life RepNet™, contact your MGA, branch office or your local regional marketing centre.

Wage loss replacement plan — salary versus dividends for business owners



As a result of the increase in tax rates on dividends, business owners in high tax brackets may want to consider the advantages of taking salaries instead of only dividend incomes from their businesses. Taking a salary will open the door to retirement plan contributions and Canada Pension Plan/Quebec Pension Plan contributions, and it puts a wage loss replacement plan back on the table.

If business owners go back to paying themselves salaries instead of dividends, wage loss replacement plans will likely gain a greater share in the marketplace.

This could be an opportunity for you to revisit business owner clients for whom wage loss replacement plans were once less attractive. Wage loss replacement plans could lead to multiple sales and larger case sizes in your existing block of business.

Canada Life™ has two new supporting documents to help you start conversations with your clients.

CONVERSATIONS



Salary versus dividends for business owners — tax and planning article

This article focuses on the advantages and disadvantages of clients taking only dividend income from their businesses. It can be found on Canada Life RepNet™ under Product & tools > Estate & tax planning > Tax & planning articles > Living benefits.



Wage loss replacement plan — positioning approaches

This positioning document can aid you in opening up dialogue about wage loss replacement plans with your business owner clients. It can be found on RepNet under Product & tools > Living benefits > Product details > Disability insurance.

Canada Life also has existing supporting material to help you grow your business and service more business owner clients in the wage loss replacement plan market.

- *Wage loss replacement plan advisor guide* (form 62 CAN)
- *Wage loss replacement plan brochure* (form 63 CAN)
- *Taxation reference guide for disability and critical illness insurance* (form 92 CAN)
- *Wage loss replacement plan calculator*
- *Wage loss replacement plan user guide*

For more information, contact your regional marketing centre and ask to speak to your living benefits specialist.

Canada Life			
Taxation of disability insurance plans			
Structure	Individually owned (policy owned by employee)	Business owned (policy owned by employer)	Business owned (policy owned by employee)
Description	An individual owns and pays for a disability insurance policy (including self-employed owners of an unincorporated business).	An employer owns a disability insurance policy and the employee pays the premium.	A group of individual disability insurance policies owned and paid for by the employee with monthly payments to the employee (e.g. wage loss replacement plan).
Deductibility of premium	The premium is treated as an expense of doing business for income tax purposes and is not deductible.	The premium cost is deductible to the employer as a salary expense.	The premium cost is deductible as an expense to the employee.
Tax treatment of premium payment for insured individual	Not applicable.	The premium paid by the employer on an employee-owned policy must be included in the employee's income as a taxable employee benefit.	Not applicable.
Taxation of benefits	Disability benefits received are not taxable.	Disability benefits received are not taxable.	Disability benefits received by the employee are taxable. If the employee pays a portion of the premium, the benefits received are reduced by the amount of any premium paid by the employee.

Taxation reference guide for disability and critical illness insurance (form 92 CAN)



Wage loss replacement plan brochure (form 63 CAN)

News briefs

National Bank credit application for RRSP loans updated

As indicated earlier this year, Financial Consumer Agency of Canada (FCAC) regulations required a change to the way you handle financing products that have more than one applicant. Updated applications allow applicants to choose either separate or single disclosure.

National Bank of Canada's *Credit application RRSP loan* (form 18785-012 2014-03-15) or (form 18785-011 2014-03-15) includes the new disclosure options and is now available. Current versions of both electronic and printed applications will be accepted until Friday, Nov. 14, 2014.

Please note the version dates for these applications are **2014-03-15**.



Real estate fund manager announcement

Effective January 1, 2015, Dave Rose, Vice-President, Portfolio Management, is retiring from Great-West Life Realty Advisors (GWLRA), after over 30 years of service. We sincerely thank Dave for the significant contributions he has made over the years and wish him the very best on his retirement.

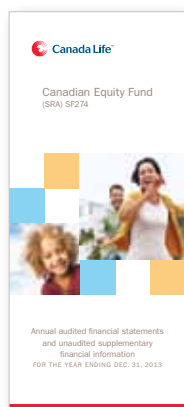
Steven Marino, currently Senior Vice-President, Investments at GWLRA will assume the role of Portfolio Manager for the Canada Life Real Estate Fund.

NEWSLINK | REMINDERS AND UPDATES

Form update: Notice of replacement of insurance of persons contract (Quebec only)

The *Notice of replacement of insurance of persons contract* has been reformatted and revised. This updated form is available on the Autorité des marchés financiers (AMF) website, lautorite.qc.ca, and has been mandatory since Oct. 22, 2014.

For more information please visit Canada Life RepNet™ under headline news.



Canadian equity fund brochure update

The *Canadian Equity Fund (SRA) SF274* (form 5030 CAN) brochure has been updated and is now available on RepNet under Product and Tools > Life insurance > Participating life > Financial reporting.

< *Canadian Equity Fund (SRA) SF274* (form 5030 CAN)

Permanent life insurance case study update

The *Permanent life insurance case study* (form 46-4067) has been updated and can be found on RepNet under Products & tools > Life insurance > Universal life > Product details > Millennium catalogue.



< *Permanent life insurance case study* (form 46-4067)

Value of advice website now available



Several high-profile studies confirm working with an advisor is one of the best investments Canadians can make for their financial futures.

The value of advice website was created to help advisors confidently convey this to current and prospective clients.

Use the site as your interactive marketing toolbox to:

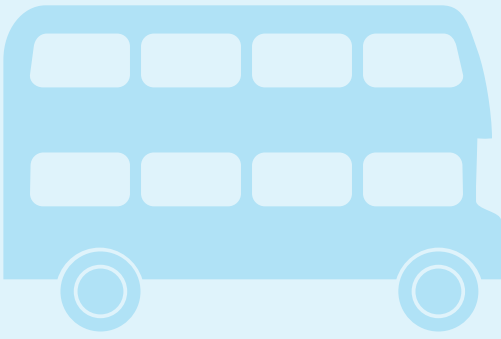
- Create custom materials tailored to client life-stages, needs and goals
- Create your personalized key message song sheet
- Choose ready-made marketing materials
- Boost your online presence with approved blogs and graphics
- Find information that will help answer “How do you get paid?”

Promote and communicate the added value that comes with working with a professional like you. Explore the value of advice website, and check back often to see what's new.

How to access the site:

1. Visit Canada Life RepNet™ and click on the Value of advice thumbnail located on the homepage
2. Visit **cl.value-of-advice.ca** and log in with your RepNet username and password

For more information, contact your local regional marketing centre.



LONDON

...calling

Don't miss the next Canada Life Platinum conference, May 13 to 18, 2016.

Full qualification details can be found on RepNet under Home > Events > Platinum conference.

Please direct all comments and inquiries to: Lauren.Smolen@canadalife.com

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In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies and to an advisor in group insurance/annuity plans for group products.

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Ontario RMC: 416-552-3100 | 1-877-594-1100

Prairie RMC: 403-266-8912 | 1-888-578-8083

Corporate-owned life insurance

A business owner has two main options for ownership of his or her life insurance policy: corporate ownership or personal ownership.

Using corporate dollars to pay the insurance premium is an attractive opportunity, but how does corporate-owned life insurance work and how should the policy be structured? How does the death benefit get paid out from a corporation as a tax-free capital dividend? Why is life insurance so effective at maximizing estate values compared with investments of a similar risk class? This article provides an introduction to these questions and other things to consider when contemplating corporate ownership of a life insurance policy.

Why have your corporation own your life insurance policy?

The main advantage of a corporately owned life insurance policy is that a business owner can realize significant annual savings by having his or her corporation own the policy and pay the premiums with retained earnings from

Questions and other things to consider when contemplating corporate ownership of a life insurance policy

active business income. That's because life insurance premiums are generally not deductible for tax purposes, so if a corporation's tax rate is lower than the business owner's personal tax rate – which it usually is – it would require less pre-tax income to fund the premiums through the corporation compared with paying for them personally.

For example, suppose Betty owns a Canadian corporation and considers

purchasing a life insurance policy with an annual premium of \$10,000. Betty's personal marginal tax rate is 46 per cent, and her corporation's tax rate is 18 per cent. If Betty purchases the policy personally, her corporation will have to earn and then pay \$18,518 to Betty in order for Betty to have \$10,000 after tax to pay the annual premium. In contrast, if Betty's corporation owns and funds the life insurance policy, the corporation would only have to earn \$12,195 before taxes to fund the \$10,000 annual premium. The result is that the corporation saves about \$6,323 per year when the premiums are paid with corporate dollars.

How does the death benefit get distributed from the private corporation tax-free?

Corporate ownership is an even more attractive ownership option when you consider that in many cases, the death benefit can be paid out of the corporation as a tax-free capital dividend. Life insurance death benefit proceeds, received either personally or corporately, aren't subject to tax. In addition, when a private corporation owns a policy and receives the death benefit proceeds, there's a mechanism that allows proceeds to go tax-free to shareholders through the corporation's capital dividend account.

The capital dividend account credit is unique to life insurance. Upon death of the life insured, a private corporation receives the death benefit tax-free and

continued

National estate and tax consultants:

Innovative and customized solutions for business owners, professionals and affluent clients

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that amount, less the adjusted cost basis of the policy, is added to the corporation's capital dividend account. The policy's adjusted cost basis is generally the sum of the cumulative premiums paid minus the cumulative net cost of pure insurance. It's often the case that the effect of the net cost of pure insurance is to grind down the adjusted cost basis to nil by the time the life insured reaches his/her life expectancy, at which time the entire death benefit could be paid to the company's shareholder(s) as a tax-free capital dividend. In many cases if the life insured dies at life expectancy, the corporately owned policy will leave the estate with the same amount of insurance proceeds as the estate would have received if the policy was owned personally.

Life insurance can be an excellent financial product for maximizing a life insured's estate value.

When the corporation receives the life insurance proceeds and credits its capital dividend account, it can then pay out the death benefit, to the extent of the capital dividend account balance, as a tax-free capital dividend to whoever owns shares of the corporation after the owner's death. The shareholder(s) could be the deceased's estate, spouse or heir(s), depending on what is stated in the deceased owner's will. The capital dividend may be paid as a cash dividend on shares or as payment upon redemption of shares by the corporation. Canada Life™ would provide details of the policy's adjusted cost basis to help the corporation's tax accountant calculate the capital dividend account balance available to pay a tax-free capital dividend. The corporation's accountant would need to file a form with the Canada Revenue Agency (and Revenue Quebec, if applicable) before the dividend is paid as a tax-free capital dividend. Any part of the insurance proceeds not covered by the capital dividend account balance would generally be paid from the corporation as a taxable dividend.

How should a corporate-owned life insurance policy be set-up?

When owned by a corporation, a life insurance policy is not protected from creditors of the corporate policyowner/beneficiary. Typically a business owner will have a holding company own the policy to protect the policy's cash value from potential creditors of the operating company. Should a company own the insurance policy and later be sold or otherwise dissolved, there may be tax consequences when transferring ownership of the policy.

The corporation that owns and pays for the policy should also be the policy beneficiary, otherwise potential taxable shareholder benefit issues could arise. For example, if the business owner or his or her spouse was the policy beneficiary, then the premium payments could be treated as a taxable shareholder benefit, which would not be deductible by the corporation. If another corporation was the policy beneficiary, then in certain circumstances, the premiums paid could be included in the taxable income of the other corporation.

How can corporate-owned life insurance maximize estate values in comparison to investments?

Business owners will often accumulate excess wealth within their corporations because they don't need to use the income personally. Accordingly, there can be a significant tax deferral by leaving wealth within the corporation rather than distributing it and paying personal tax on it. These retained earnings are often invested in interest-bearing assets that generate income taxed at the highest corporate tax rate, which ranges between 44.67 per cent and 50.67 per cent depending on the province or territory where a corporation does business. In contrast, the cash value growth within a tax-advantaged life insurance policy is not subject to annual accrual taxation. This feature, coupled with the capital dividend account credit (explained above), results in life insurance having two significant and unique tax advantages compared with investments: tax-advantaged growth and tax-free distribution from a private corporation. Therefore, life insurance can be an excellent financial product for maximizing a life insured's estate value.

For example, suppose Betty in the above example is age 50, a non-smoker and standard risk life insured. Betty has her corporation purchase an Estate Achiever Max 20 participating life insurance policy with a \$10,000 annual premium that will have to be paid for 20 years. Compare the estate values of this arrangement at select ages to the estate values if the same premium dollars are invested in a corporately owned GIC earning interest at five per cent. The corporate tax rate on passive income is assumed to be 47 per cent, and Betty's personal tax rate on non-eligible dividends is 35 per cent.

	Estate values	
Age	GIC @ 5%	Estate Achiever Max 20
75	\$231,031	\$543,977
85	\$319,649	\$805,586
95	\$434,759	\$1,092,593

The above example is for illustrative purposes only. Situations will vary according to specific circumstances.

The results of this comparison show that along with the immediate enhancement to Betty's estate, permanent life insurance can help generate a larger inheritance for a spouse or other heirs compared with investments by keeping both policy growth and distribution from the corporation after death better protected from tax erosion.

This material is for informational purposes only and should not be construed as providing legal or tax advice. Reasonable efforts have been made to ensure its accuracy, but errors and omissions are possible. All comments related to taxation are general in nature and are based on current Canadian tax legislation and interpretations for Canadian residents, which are subject to change. For individual circumstances, consult with your legal or tax professional. This information is provided by The Canada Life Assurance Company and is current as of date of publication.