

**CONVERTING CORPORATE SURPLUS
INTO NON-TAXABLE FUNDS**



Convert corporate surplus into
tax-free funds for heirs

Tax-efficient investing of corporate surplus

You may have thought that corporate surplus would attract high taxation regardless of how you managed the funds. But there is a way to convert surplus capital into tax-free funds.



Talk to your Assante advisor

Are you concerned about the tax bite on your company's surplus capital? You may be interested in further information on tax-sheltered investing of corporate surplus. Talk to your Assante advisor to find out more.

Assante provides integrated wealth management solutions to simplify and enhance your life. Your Assante advisor will assess your financial requirements in order to choose the best solution for you from a number of leading financial service providers.



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CONVERT CORPORATE SURPLUS INTO TAX-FREE FUNDS FOR HEIRS



Does your company have a significant amount of surplus capital?

Surplus capital represents somewhat of a dilemma.

If you remove the capital from the corporation, either as salary or as dividends, the amount will attract high personal taxation. But if you leave it in the company, the capital receives the highest rate of corporate taxation – often higher than your personal tax rate. Which explains why this money is often referred to as “trapped” corporate surplus.

So, how can you manage this surplus, without sacrificing a large percentage to taxes? Fortunately, there is a solution, and it may suit you if you fit this profile:

- > You own a Canadian-controlled private corporation – either an operating company, holding company or investment company.
- > You have significant excess corporate funds.
- > You do not require the surplus capital currently for business needs.
- > You ultimately see these funds going to your heirs.

Your solution? Tax-sheltered investing using universal life insurance

You can tax-shelter your surplus capital as a corporate investment, then have the accumulated funds go to your heirs, tax-free.

It all begins by transferring the surplus capital into a universal life insurance policy. The company owns the policy and is named as beneficiary. The business owner is the person whose life is insured.

Universal life insurance is a highly flexible product comprised of an insurance component and an investment component. You can have a policy that’s primarily insurance, primarily investments, or a balance of both. On the investment side, you can select from a wide range of investments. And your investments grow tax-deferred.

With this solution, the company receives the insurance and investment proceeds tax-free when the life insured passes away.

In order to keep this plan tax-efficient, the company creates a Capital Dividend Account. It’s an account specifically for untaxed gains that will pass tax-free from the company to shareholders.

The tax-free proceeds, less the adjusted cost base (ACB), go to the Capital Dividend Account. Then the proceeds are paid to shareholders as a tax-free dividend. The shareholders, under this plan, are the heirs. The ACB is treated as a taxable dividend. However, in most cases the ACB will be minimal, and quite often reduces to zero.

UNIVERSAL LIFE INSURANCE PROVIDES ADDITIONAL BENEFITS

Universal life offers additional benefits, thanks to its flexibility and tax advantages:

- > **Increased estate value** – You increase the after-tax value of the corporation to the estate because proceeds go from the company to heirs tax-free. Otherwise, those funds would be subject to capital gains exposure.
- > **Access to cash** – Want to make sure you have future access to the funds you transferred to the universal life policy? Your policy can maximize the amount of funds you have in the investment account, and minimize the amount you spend on life insurance. This provides available cash for a future business need or opportunity.
- > **Maximum estate benefit** – A policy can also be designed where you purchase as much insurance as possible, while still holding significant funds in the tax-deferred investment component. Suitable for situations where you don’t foresee a need for cash, this method can provide a greater estate benefit.