



Insurance planning opportunities in light of new tax measures

The following table highlights and summarizes key changes to the taxation of private corporations. These changes were included in recent draft legislation and announced in the 2018 Federal Budget

Key changes	Insurance implications and opportunities
Small business tax rates	
<p>The December 13, 2017 draft legislation reduced the small business corporate tax rate from 10.5% to 10% in 2018 and to 9% in 2019. The lower small business tax rate applies on up to the first \$500,000 of active business income.</p>	<p>Implication: When corporate tax rates are lower than individual income tax rates more capital may be retained inside the business creating trapped corporate surplus.</p> <p>Opportunity: Use life insurance to fund higher capital gains tax liability at death due to higher business values.</p> <p>Implication: A reduction in small business tax rates also results in a corresponding increase to non-eligible dividend tax rates. This change causes an increased tax cost to distribute current earnings (as well as trapped corporate surplus) to individual shareholders.</p> <p>Opportunity: Corporate-owned life insurance proceeds credit the capital dividend account on death allowing for a more tax-efficient distribution of funds out of the corporation to the estate.</p>
<p>Budget 2018 proposes to limit the ability of businesses with passive investment income higher than \$50,000 to benefit from the small business tax rate.</p>	<p>Implication: Exempt life insurance does not produce passive investment income unless there is a disposition. Repositioning a portion of a corporation's passive investments into a life insurance policy reduces passive investment income and may limit the erosion of the small business limit.</p>

<p>If a corporation (and its associated corporations) earns more than \$50,000 of passive investment income in a given year, the small business limit (currently \$500,000) will be reduced by \$5 for every \$1 of passive investment income above the \$50,000 threshold, reducing to zero at \$150,000 of passive investment income.</p>	<p>Opportunities:</p> <ul style="list-style-type: none"> • Using corporate-owned life insurance to transfer corporate wealth to the next generation through strategies such as Corporate Estate Bond. • Using corporate-owned life insurance to provide additional retirement funding with Corporate Insured Retirement Program. • Corporate-held critical illness insurance with return of premium does not produce investment income. <p>Implication: Higher personal distributions may occur rather than retention corporately.</p> <p>Opportunity: Use the Personal Estate Bond concept for estate maximization.</p>
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Tax on split income (TOSI)

<p>The December 13, 2017 draft legislation modified the tax on split income (TOSI) rules and narrowed the scope to which the rules apply.</p> <p>For example, the TOSI rules may apply where income is distributed from a corporation to family members who hold non-voting/non-participating shares or who hold their shares through a family trust and who are not actively engaged in the business on a regular basis.</p> <p>Where caught by the TOSI rules, the income is taxed at the highest personal marginal tax rate on the first dollar.</p>	<p>Implication: Fewer, less tax-effective distributions may mean higher retention of after-tax profits (i.e. trapped surplus) resulting in more passive investments held corporately and higher capital gains tax liabilities on death.</p> <p>Opportunities:</p> <ul style="list-style-type: none"> • Reposition trapped corporate surplus into corporate-owned life insurance to achieve exempt growth and tax-efficient distribution on death. • Use life insurance to fund higher capital gains tax liabilities on death due to higher business values.
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The clients to talk to about these implications and opportunities

- Business owners who have passive and active business income within their corporate group
- Incorporated professionals

Questions?

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