

Disclaimer

- The following information is being presented with the understanding that it is intended for information purposes only.
- Neither Sun Life Assurance Company of Canada nor the presenter has been engaged for the purpose of providing legal, accounting, taxation, or other professional advice.
- No one should act upon the examples or information without a thorough examination of the legal/tax situation with their own professional advisors, after the facts of the specific case are considered.



Business.
IN VIEW.

Helen Chow

FSA

AVP, Strategic Business
Development &
Marketing Actuary



Business.
IN VIEW.

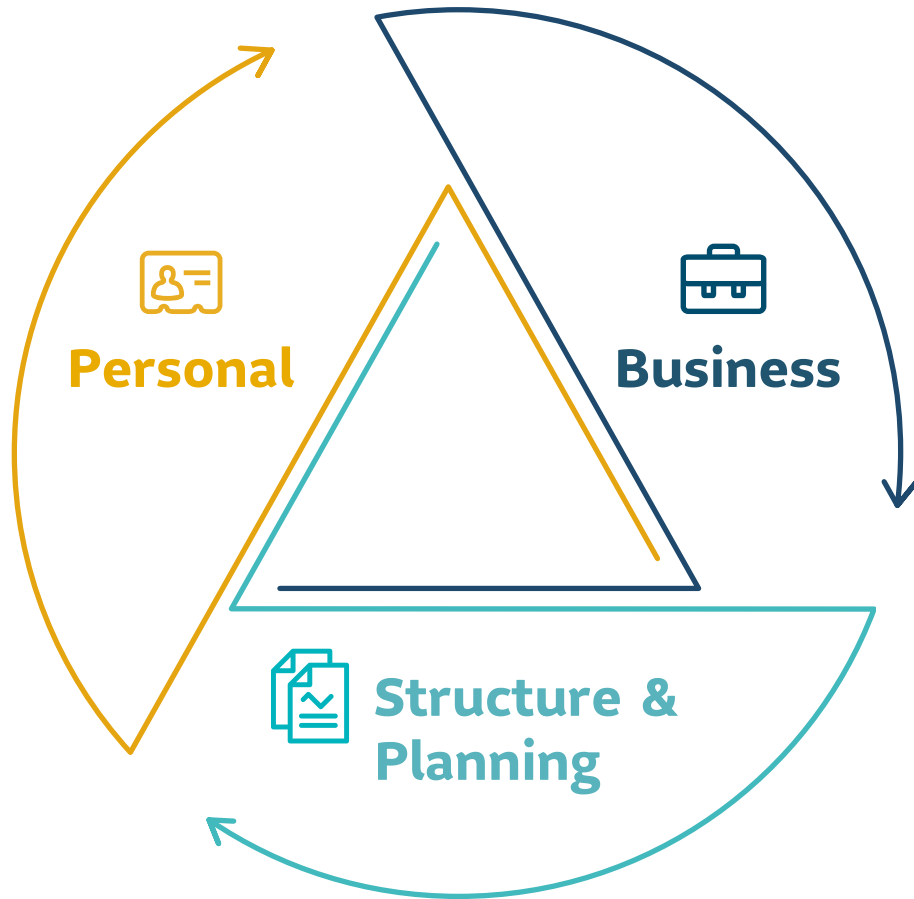
Partnering with the COI

Effective tax planning strategies for corporate Clients



An integrated planning approach is best

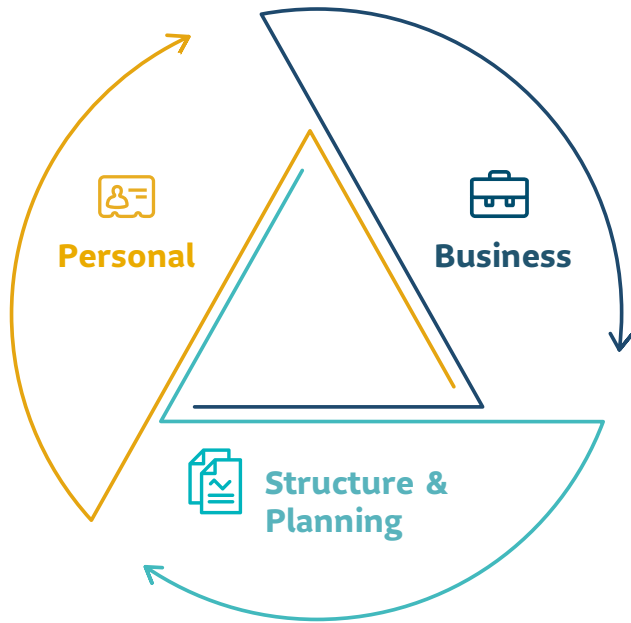
Business owners think in terms of overall net benefits, not individual pieces



Trusted **advisor teams** (lawyer, accountant, financial planner, insurance professional) are best suited to add value when examining the integration of business & personal interests.

An integrated planning approach is best

Business owners think in terms of overall net benefits, not individual pieces



The facts*:

41%

of plan to sell in the next five years, **however**

58%

did not know their company's true value, **and**

37%

have no structures in place to shield sale proceed

* UBS Investor Watch, "Who's the boss?" 2018

Agenda



Corporate Planning Landscape



Post Mortem Planning Options



Case Study: Christopher

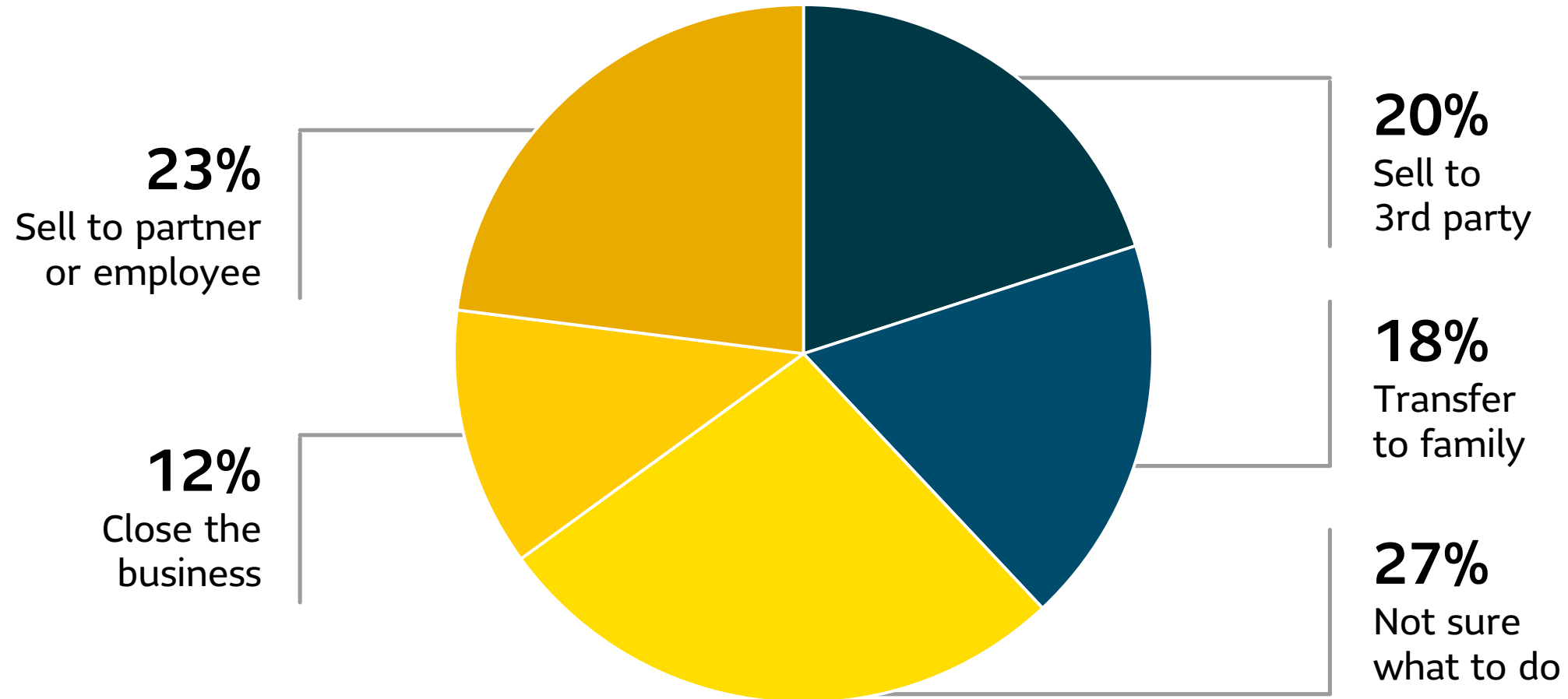
Corporate Planning Landscape

Business.
IN VIEW.



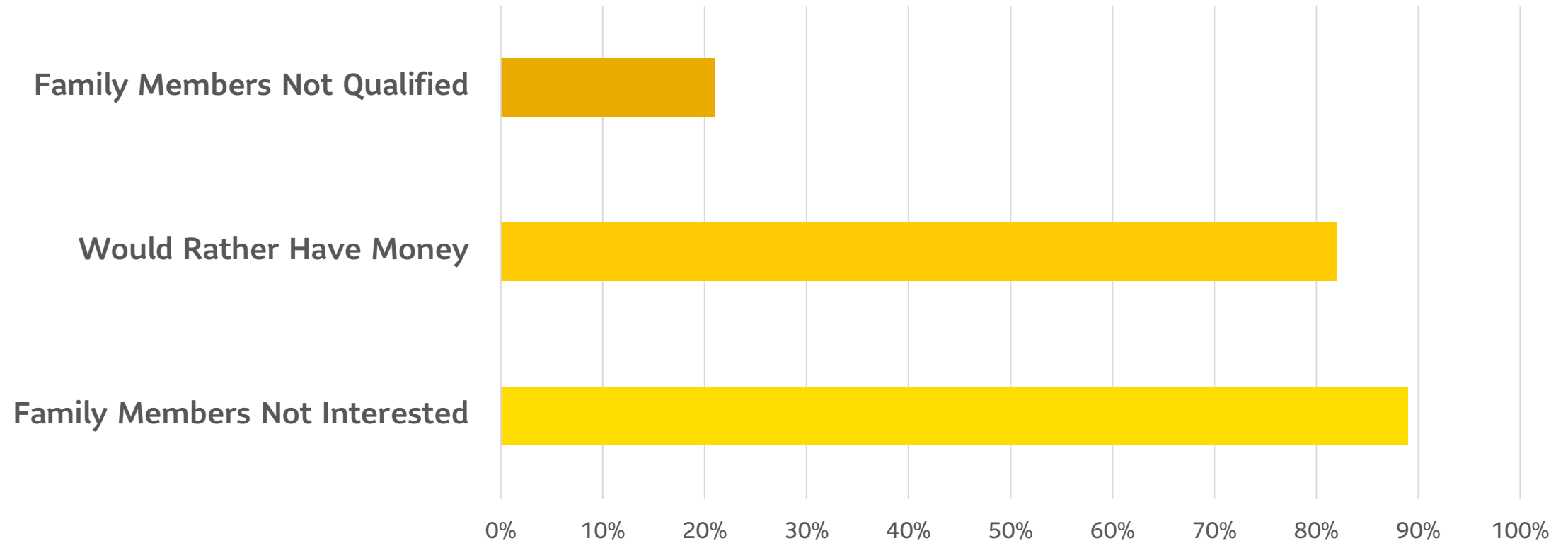
Planning can't start until the goals are set

Only 24% of Canadian business owners have a formal succession plan



Even when the plan is set, barriers exist

What stands in the way of a sale to the next generation?



UBS Investor Watch, "Who's the boss?" 2018

Business.
IN VIEW.



ROI is NOT the priority

Asset protection is job #1

When it comes
to your
money, which
factors are
critically
important?



Over **66%**
To protect my money



57%

retirement
income

44%

tax
optimization

24%

leaving an
inheritance

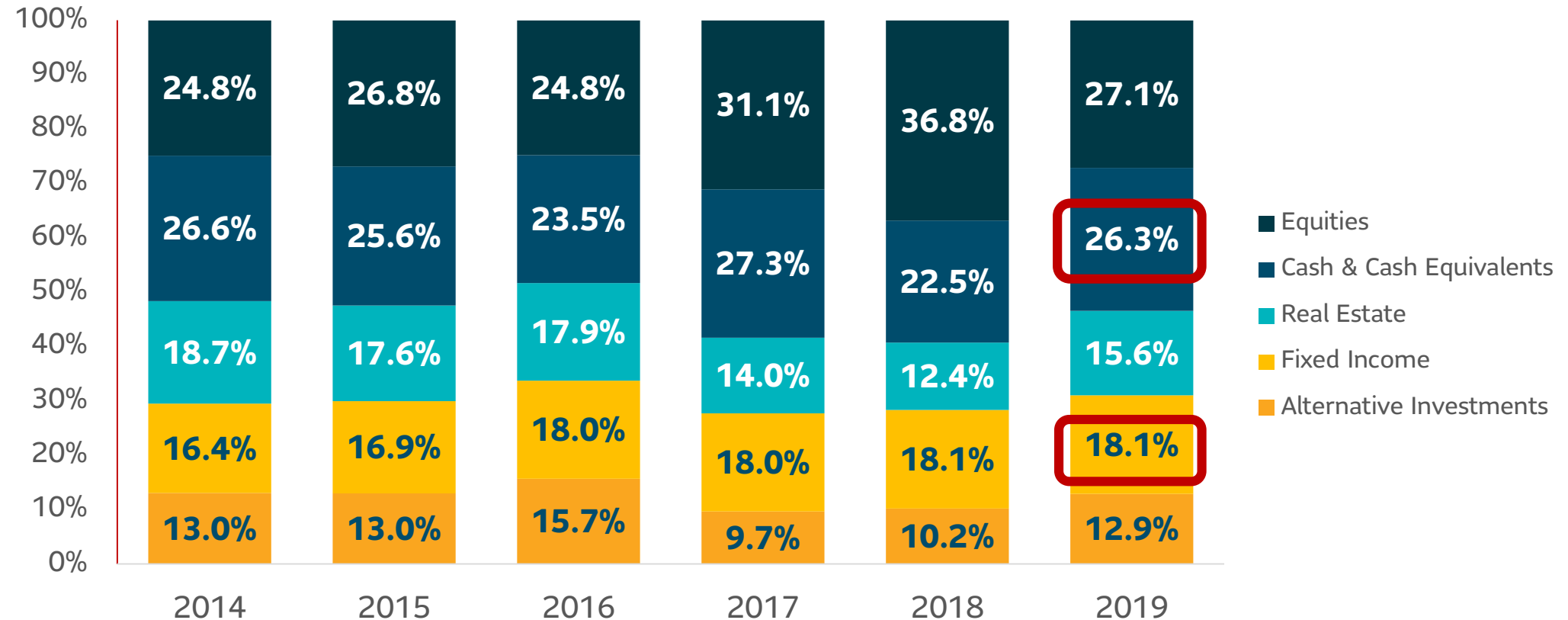
Source: 2016 Ipsos survey of 500 HNW Canadians

Business.
IN VIEW.



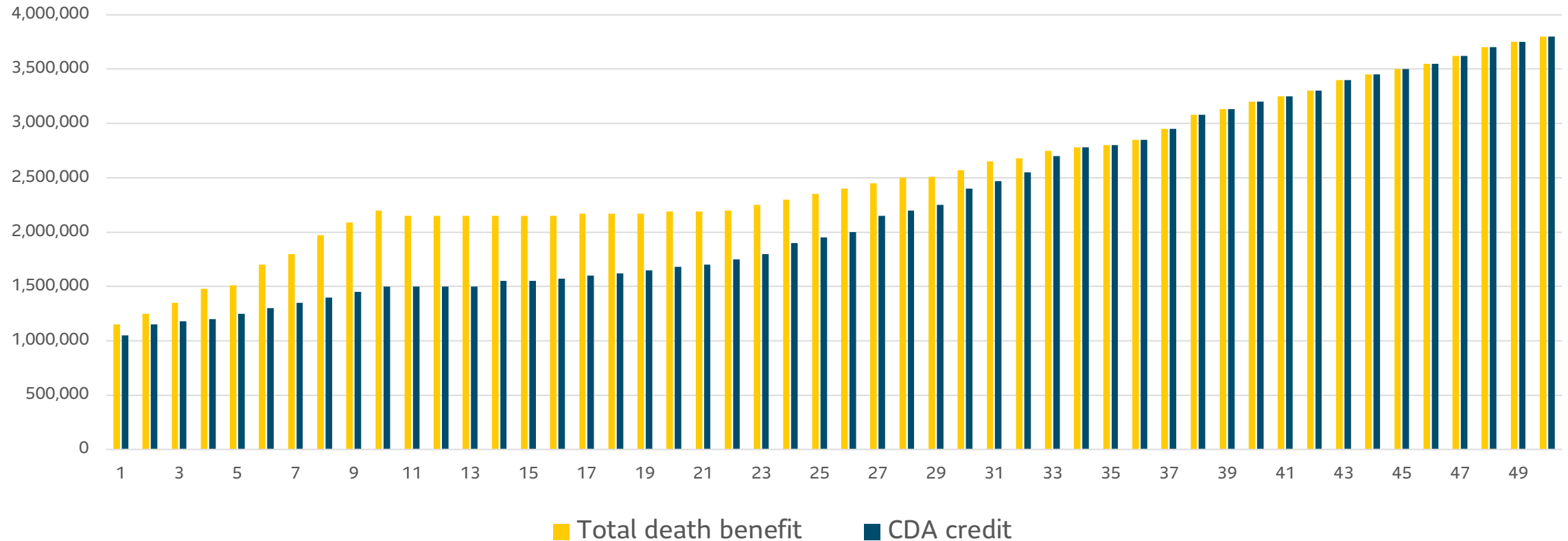
A consistent story

The HNW invest over 40% in safe assets



Maximizing the CDA is often a goal

Full insurance death benefit will pass through CDA by life expectancy*

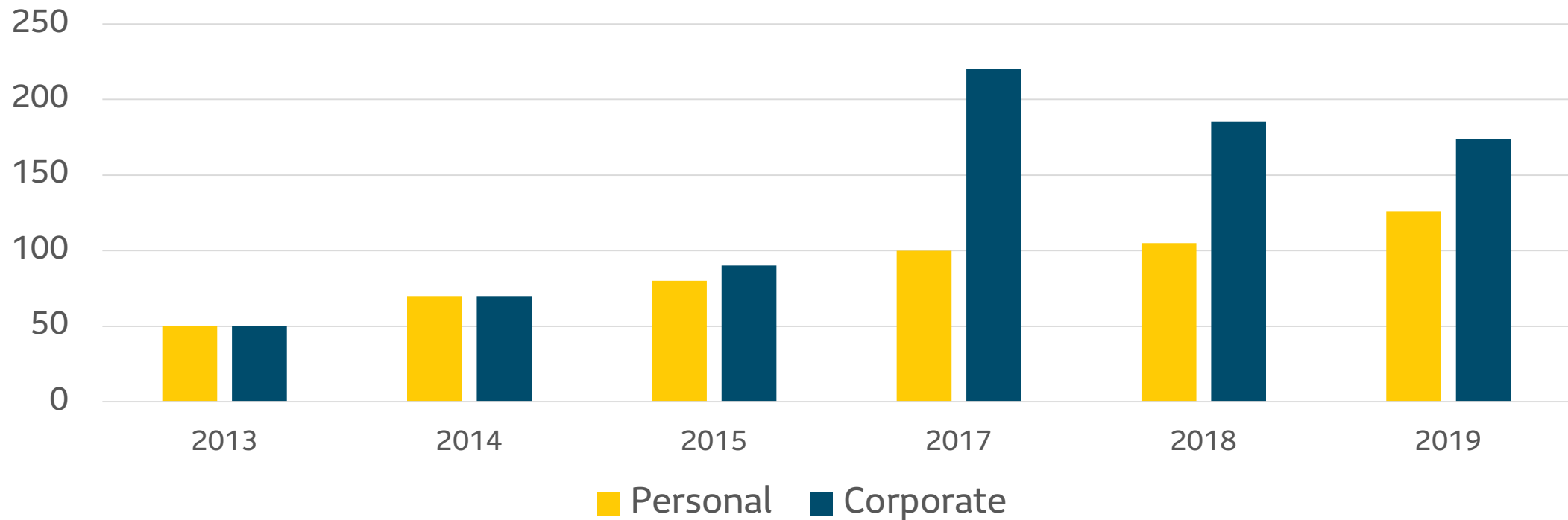


*SPA life pay, 1 million of DB, 10 premiums, max plus premium for MNS50

Understanding the opportunity

Sun Life sales to business owners has dominated in recent years

Hundreds of millions of dollars are being used in Canada to purchase corporate-owned life insurance policies each year.



* New annual premium in \$ millions

Post Mortem Planning Options

Business. |  Sun Life
IN VIEW.





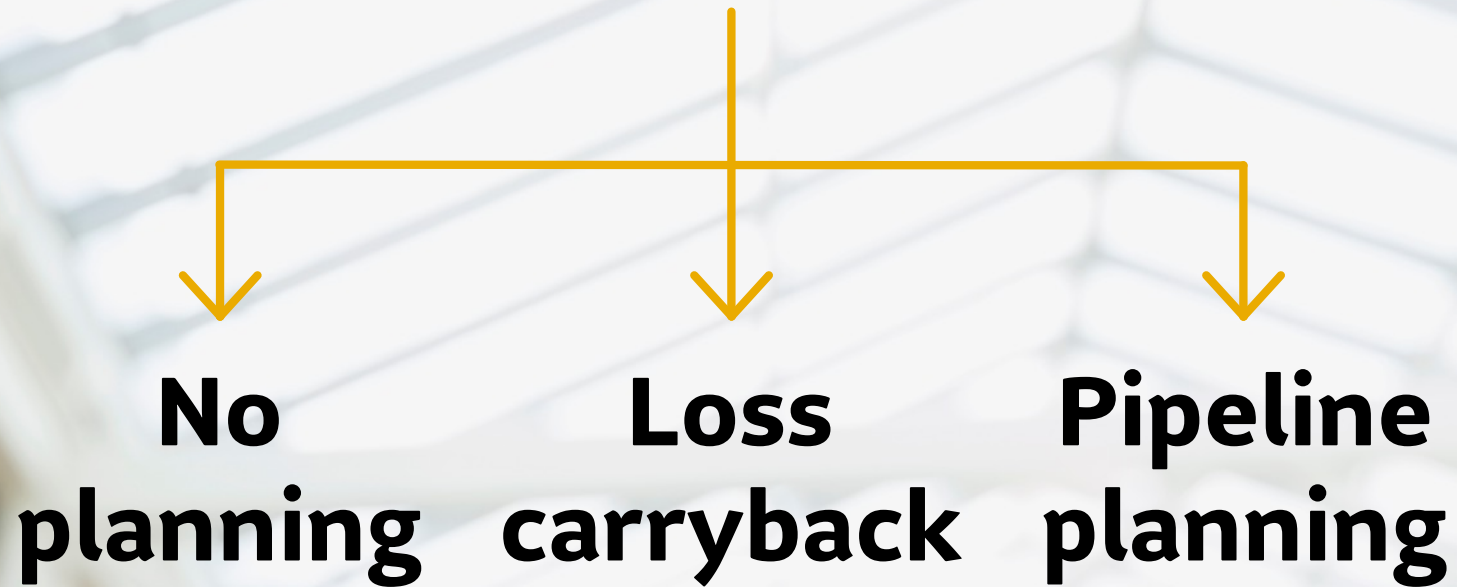
The “off-the-shelf” will

Post mortem planning often starts with the reading of the will AFTER death

- To my spouse, I leave my assets
- And if my spouse should predecease me, I leave my assets to my children in equal shares

Where advice has great value

Three planning paths to choose from



Double taxation on death

The result of no planning

- Capital gains on shares owned by deceased
- Taxable dividends on distribution of assets to the children

Worst case scenario

$$27\% + 47\% = 74\%$$

And for passive assets this does not include the 15% federal tax rate generally paid on earnings inside the corporation

Insurance isn't top of mind

What will the accountants do?

Key post-mortem options to eliminate double tax problem:

1. Loss carryback

2. Pipeline planning

Pipeline planning results in a lower tax rate than loss carryback planning.

HOWEVER, not every client will do a pipeline plan and there is a big question as to whether they will be allowed to in the future.

**What
happens at
death?**



Owner



Invest Co

On death of owner

- Deemed disposition of shares triggering a capital gain
 - Capital gain on value of company over the adjusted cost base



Sun Life

Business.
IN VIEW.

Loss Carryback Planning



After death, shares transfer to estate

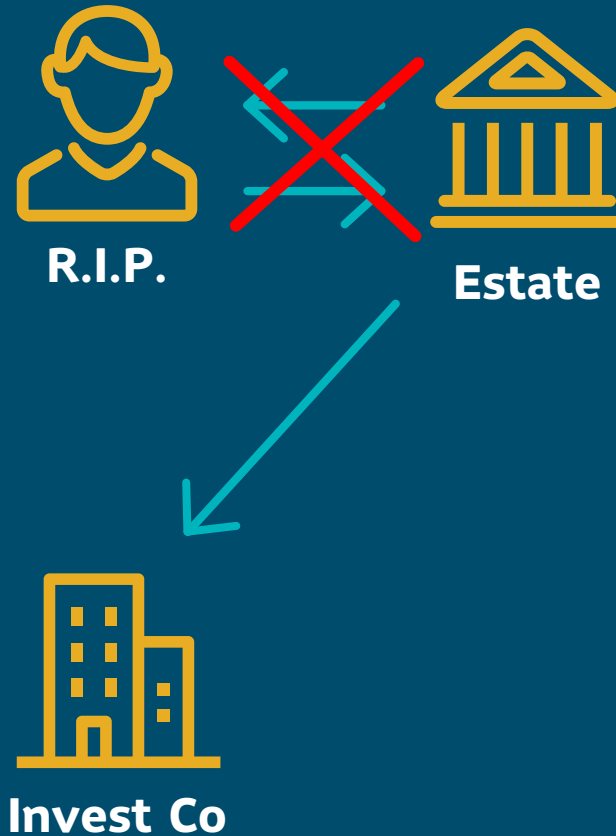
- Share redemption from the estate
- Treated as a deemed dividend
- Share redemption creates a capital loss



Sun Life

Business.
IN VIEW.

Loss Carryback Planning



Loss Carry back

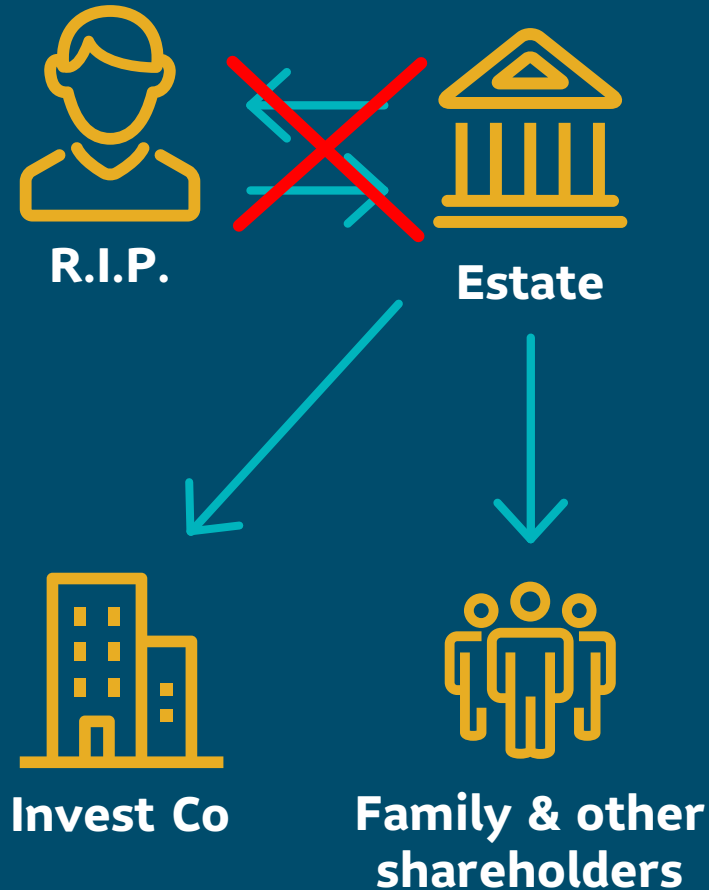
- Capital loss in the estate carried back to the Owner's terminal return to offset the capital gain
- Must be done within 1 year



Sun Life

Business.
IN VIEW.

Loss Carryback Planning



- Distribute to loved ones as a dividend

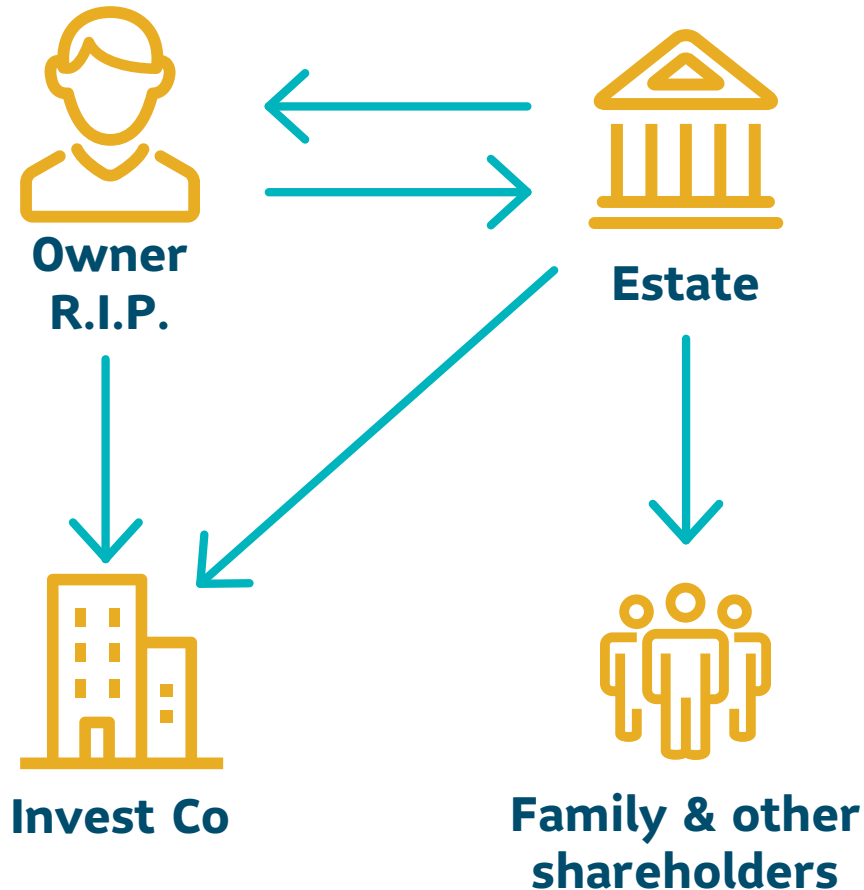


Sun Life

Business.
IN VIEW.

Only one tax

Loss carryback simplified



1. **At Death**
 - Trigger of Capital Gains taxes
2. **After Death**
 - Shares transfer to estate
 - Share redemption from the estate
 - Treated as a deemed dividend
3. **Loss Carry back**
 - Proceeds of disposition are reduced by the deemed dividend, and this creates a capital loss
 - Owner's capital gain is offset against the estate's capital loss (loss carry back)
4. **Distribute to loved ones**

**What
happens at
death?**



Owner



Invest Co

On death of owner

- Deemed disposition of shares triggering a capital gain
 - Capital gain on value of company over the adjusted cost base



Sun Life

Business.
IN VIEW.

Pipeline planning



After death shares transfer to estate

- Estate creates a new company, New Co
- New Co created in exchange for promissory note



Sun Life

Business.
IN VIEW.

Pipeline planning



Merger & Repayment

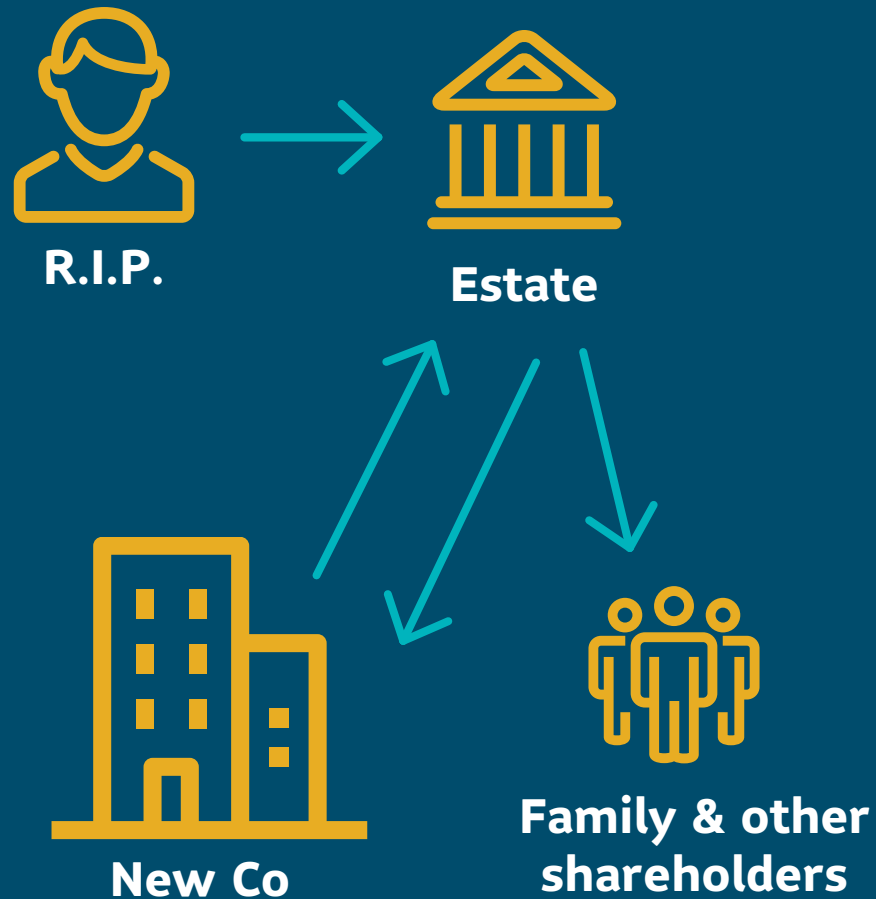
- Invest Co & New Co become one
- Repay promissory note



Sun Life

Business.
IN VIEW.

Pipeline planning



Merger & Repayment

- Distribute to loved ones free of tax

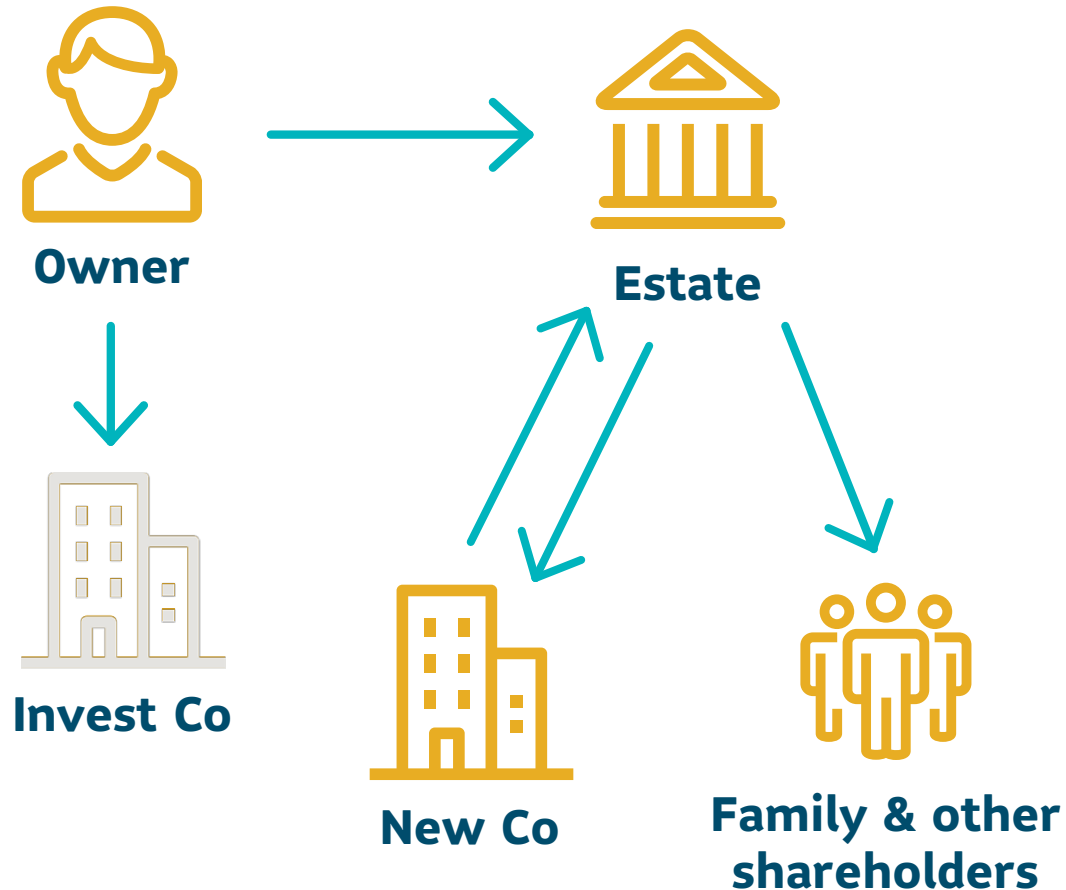


Sun Life

Business.
IN VIEW.

Only one tax

Pipeline planning simplified



1. **At Death**
 - Trigger of Capital Gains taxes
2. **After death**
 - Shares transfer to the estate
 - Estate creates a new company
 - New Co created in exchange for promissory note
3. **Merger & Repayment**
 - Invest Co & New Co become one
 - Repay promissory note (via assets from Invest Co)
4. **Distribute to loved ones**

Case Study: Christopher

Business. |  Sun Life
IN VIEW.





Meet Christopher

Corporate case study

Holding Company Owner :

- Male 55 and healthy non-smoker
- Invest Co has a zero adjusted cost base
- Assets in Invest Co expected to grow by \$100,000 per year

Goals

- Minimize taxes during lifetime and at death
- Plan for an efficient transfer of Invest Co assets to children
- Invest in a manner consistent with his relatively conservative long-term approach

The options

Corporate case study

Assumptions

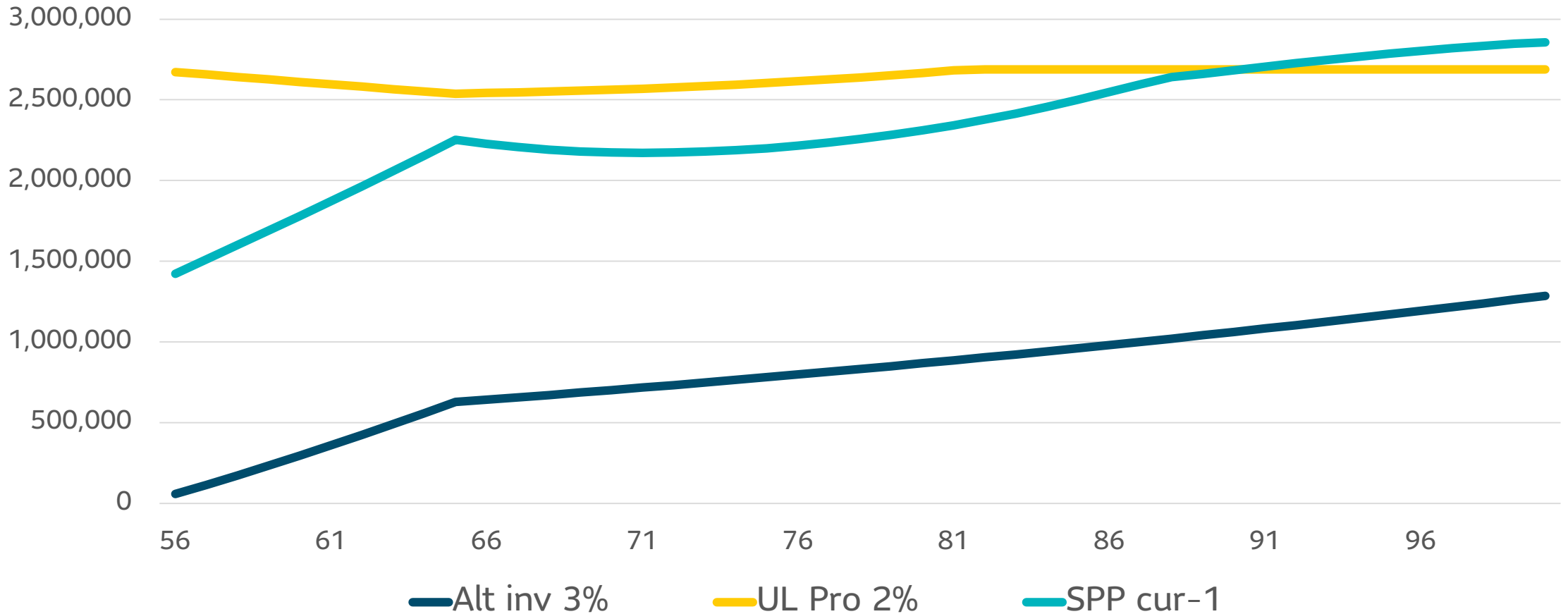
- 10 deposits of \$100,000/year
- 50% tax rate on passive corporate investment income
- 45% tax rate on corporate dividends

Solutions available to Christopher

- 1. No insurance:** Fixed income portfolio with an average return of 3%
- 2. Universal Life:** Sun Universal Life Pro, Level Face Amount, YRT 85, using an assumed rate of return of 2% (guaranteed)
- 3. Participating Life:** Sun Par Protector II, Life pay with offset, using current dividend scale – 1.0%

Net to estate goal favours UL

Both insurance solutions beat the alternate investment approach



Designed for corporate scenarios

Sun Universal Life Pro



A minimum interest rate guarantee of 2% with the Sun Life Diversified Account Pro



Adjusted Cost Basis that can hit zero earlier than most solutions on the market



Yearly Renewable Term options that optimize cash flow flexibility

A new tool to use

Determining the required alternate investment return

Prepared for:

M55N

Prepared by:

Advisor

Alternate investment rate:

10.1%

Corporate Investment tax rate: **50.00%**

Shareholder dividend tax rate: **45.00%**

Sun Universal Life Pro: **@ 2.0%**

Taxable Investment

Yr.	Age	Annual Corporate Payments	IRR on Investment Net to Corp (liquidation)	Net to Shareholder / Estate	IRR on Net to s/h / Estate
-----	-----	---------------------------	---	-----------------------------	----------------------------

	1	56	100,000	105,036	5.0%	59,468	-40.5%
	2	57	100,000	215,360	5.0%	123,630	-28.1%
	3	58	100,000	331,240	5.0%	192,722	-20.6%
	4	59	100,000	452,955	5.0%	266,991	-15.5%
	25	80	0	2,765,077	5.0%	2,103,712	3.7%
LE	30	85	0	3,534,990	5.0%	2,689,473	3.9%
	35	90	0	4,519,279	5.0%	3,438,335	4.1%
	40	95	0	5,777,636	5.0%	4,395,712	4.2%
	45	100	0	7,386,372	5.0%	5,619,662	4.3%

CIS Strategy

Policy Payment	Policy Surrender Value	Net to Corporation (Death)	IRR on Net to Corp (Death)	Net to Estate	IRR on Net to Estate	Alternate inv rate required
----------------	------------------------	----------------------------	----------------------------	---------------	----------------------	-----------------------------

100,000	38,008	2,689,473	2589.5%	2,673,304	2573.3%	6755.7%
100,000	151,415	2,689,473	371.0%	2,657,387	367.9%	874.1%
100,000	265,911	2,689,473	159.8%	2,641,683	158.0%	367.0%
100,000	356,901	2,689,473	93.4%	2,626,195	92.0%	212.2%
0	556,452	2,689,473	4.9%	2,667,660	4.9%	12.3%
0	5	2,689,473	3.9%	2,689,473	3.9%	10.1%
0	5	2,689,473	3.3%	2,689,473	3.3%	8.4%
0	5	2,689,473	2.8%	2,689,473	2.8%	7.2%
0	5	2,689,473	2.5%	2,689,473	2.5%	6.3%

Using the tool

Required investment rate inside corporation to net same to estate as insurance

Insurance solution	Annual Premiums	# of Years	LCB IRR @ 85	PP IRR @ 85
SPPII @ DSIR - 1%	\$75,055	10	9.5%	8.2%
SPPII w/enh @ DSIR - 1%	\$57,258	10	9.4%	8.1%
ULII guarantee	\$41,276	10	8.9%	8.3%
UL Pro @ 2%	\$37,182	10	10.1%	10.1%
SPPII @ DSIR - 1%	\$30,775	Life	9.5%	8.3%
ULII Level + ACB	\$19,103	Life	10.7%	10.8%
ULII	\$17,348	Life	10.9%	11.3%

Side by side

Loss carry back vs. Pipeline planning

Loss Carryback Planning		Pipeline Planning	
Pros	Cons	Pros	Cons
<ul style="list-style-type: none">✓ One tax only✓ ITA approved✓ RDTOH✓ CDA	<ul style="list-style-type: none">• Higher tax of 47%• Has to be done in year of death• Stop-loss rules may reduce CG loss	<ul style="list-style-type: none">✓ One tax only✓ No deadline✓ Potential benefits of an unused CDA credit	<ul style="list-style-type: none">• Might not be allowed in future• More complicated• Invest co and Newco can't merge for at least one year• Promissory note repayment progressive

Wrapping it up

Meeting Christopher's goals:

- ✓ Minimized taxes during lifetime and at death
- ✓ Created an efficient transfer of Invest Co assets to children
- ✓ Solution met his relatively conservative long-term approach

In summary:

Doing no planning is a costly option

Planning options are complex and subject to change

Any insurance solution can offer significant value

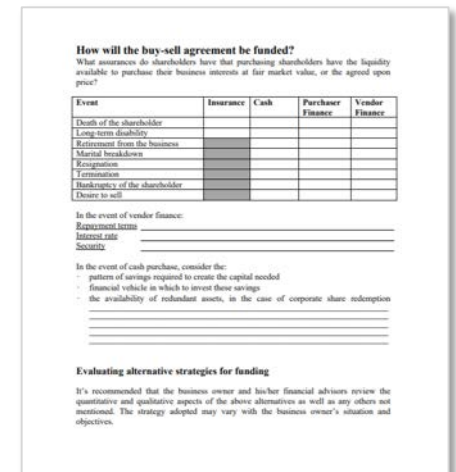
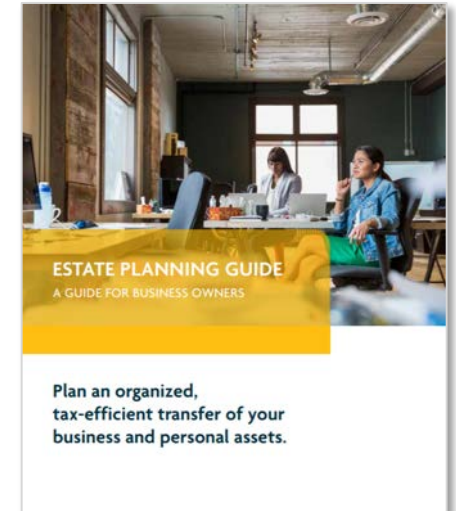
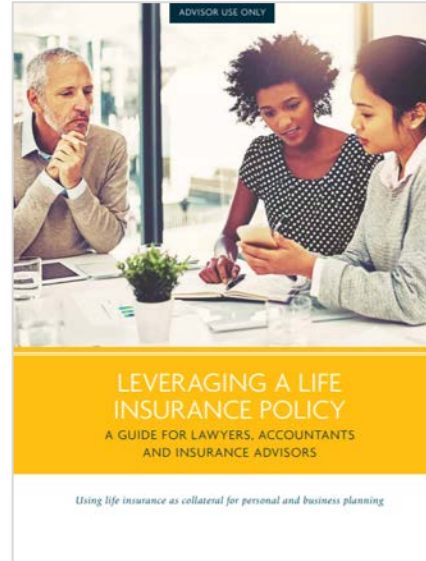
Q&A

Business.
IN VIEW.



Sun Life

Host of support for you, accountants and Clients



Which Sun Life insurance product for which Client?

One size doesn't fit all. Sun Life's suite of insurance products may be one of the most important solutions you use with Clients. The more you know the Client's needs and goals, the easier it is to find the right insurance for them. But Client's priorities, needs and goals may change over time. Schedule regular meetings to help ensure their plans continue to fit their lifestyle.

	Sun Term	Sun Permanent Life	Sun Universal Life II	Sun Universal Life Pro	Sun Par Protector II	Sun Par Accumulator II	Sun Par Accelerator
Issue ages	• 0-75	• 0-85	• 0-85	• 18-85	• 0-85	• 0-85	• 0-65
Client profile	<ul style="list-style-type: none"> • Young adults • Families • Pre-retirees • Business owners 	<ul style="list-style-type: none"> • Young adults • Families • Pre-retirees 	<ul style="list-style-type: none"> • Young professionals • Emerging affluent/affluent families • Pre-retirees • Business owners 	<ul style="list-style-type: none"> • Business owners • Professionals 	<ul style="list-style-type: none"> • Young professionals • Emerging affluent/affluent families • Pre-retirees 	<ul style="list-style-type: none"> • Young professionals • Affluent families • Pre-retirees • Business owners 	<ul style="list-style-type: none"> • High net worth families
Client need	PERSONAL <ul style="list-style-type: none"> • Temporary protection needs • Income replacement • Mortgage/debt protection • Locking in insurability BUSINESS <ul style="list-style-type: none"> • Business loan protection • Key person protection 	PERSONAL <ul style="list-style-type: none"> • Permanent protection that's easy to understand with guaranteed premium payment options, cash values and death benefit • Opportunity to have premiums paid to the beneficiary in addition to the death benefit • Create a financial foundation for children or grandchildren • Estate protection 	PERSONAL <ul style="list-style-type: none"> • Permanent, flexible protection • Maximize tax-preferred growth opportunities • Asset diversification • Hands on management • Estate maximization • Opportunity to help supplement retirement income • Create a financial foundation for children or grandchildren • Intergenerational wealth transfer BUSINESS <ul style="list-style-type: none"> • Permanent protection with cash flow flexibility • Key person protection • Succession planning 	PERSONAL <ul style="list-style-type: none"> • Permanent protection • Estate maximization BUSINESS <ul style="list-style-type: none"> • Permanent protection with cash flow flexibility • Minimum guaranteed rate of return • Key person protection • Opportunity to optimize the CDA credit • Succession planning 	PERSONAL <ul style="list-style-type: none"> • Permanent protection with stable growth • Asset diversification • Estate protection • Opportunity to supplement retirement income • Create a financial foundation for children or grandchildren 	PERSONAL <ul style="list-style-type: none"> • Permanent protection with stable growth • Early cash values with the benefits of long term growth • Asset diversification • Estate maximization • Intergenerational wealth transfer BUSINESS <ul style="list-style-type: none"> • High early cash values with death benefit growth • Immediate finance arrangements 	PERSONAL <ul style="list-style-type: none"> • Permanent protection that is guaranteed to be paid up in eight years • Estate protection solution combined with cash values they can access throughout their lifetime • Asset diversification • Intergenerational wealth transfer

Talk to your Clients today about what insurance can do to help them plan for tomorrow.
For more info on Sun Life's insurance products' features and benefits, call the Sales Desk at 1-800-800-4786.



Thank you!

