McIntyre & Associates
Professional Corporation

Chartered Accountants
comptables agréés

A publication for McIntyre & Associates' clients

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To learn more about McIntyre & Associates, visit us online at: www.mcintyreca.com

Questions? Call (613) 726-7788 and we will be happy to address any of your questions.

Transferring a Life Insurance Policy to a Corporation

It is possible for a shareholder of a private corporation to transfer a personally-owned life insurance policy to the corporation, and extract value from the corporation in a tax-effective manner.

Ideally, the policy should have a high fair market value and a low cash surrender value in relation to its face value. Where the individual shareholder owns a life insurance policy (either permanent or a term policy that is convertible to permanent), they may sell that policy to their corporation. As that transaction is determined to be not at arms-length, Section 148(7) of the Income Tax Act will apply and the shareholder will receive consideration from the company equal to the fair market value of the policy. A low cash surrender value is important because on a non-arm's length transfer, the policyholder will be taxed on the amount, if any, by which the cash surrender value exceeds the adjusted cost base of the policy. Since term policies have no cash surrender value, they are particularly suitable for this planning technique.

For example, let's consider an individual who is the sole owner of a private corporation. The business owner has a permanent life insurance policy with a face value of $1 million.

As a result of recent health issues, an actuary's fair market valuation of the life insurance policy results in a fair market value of $750,000. In this example, the individual can sell the life insurance policy to the corporation for $750,000, thus extracting that amount from the corporation on a tax-free basis (provided that the policy's cash surrender value does not exceed its adjusted cost base).

An additional advantage of owning the policy within the corporation is that the premiums can be paid out of corporate funds, which are generally taxed at a lower rate than income earned personally by the shareholder. Keep in mind, however, that the premiums are not a tax-deductible expense for the corporation.

Although this may be an attractive strategy for extracting funds from a corporation, consideration should also be given to the longer term implications of the strategy.

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Correspondence from Canada Revenue Agency

Please note that we don't automatically receive copies of all of your CRA correspondence.

Any non-standard correspondence from CRA may require additional action on your behalf. In order that we can assist you in a timely manner, please ensure that you bring such correspondence to our attention.

Transferring a Life Insurance Policy to a Corporation (continued)

When transferring an individually owned policy to a corporation, make sure to consider the following factors:

▪Creditor Protection – Once the policy becomes a corporate asset, it is exposed to creditors, and does not enjoy the same level of creditor protection as a personally-owned policy.

▪Capital Gains Exemption – As the policy is a passive asset of the corporation, it could potentially impact eligibility of the shares for the capital gains exemption on sale.

▪Future Transfer Out of the Corporation – if the policy is required to be transferred out of the corporation in the future, there could be significant tax consequences.

▪Cost of actuarial evaluation of the policy

If you have any questions or would like to discuss transferring a life insurance policy to your corporation, please contact us .

What's New at McIntyre & Associates

McIntyre & Associates supported Jim on the 2012 Ride the Rideau bike tour. While the ride was rained out (but not washed out!), the event raised an incredible $1.72 million to support groundbreaking cancer research at The Ottawa Hospital.

McIntyre & Associates has two Ironmen on staff! In July 2012, Mike Nazarov completed the Lake Placid Ironman. This was Mike's first Ironman competition. He had support from fellow co-worker and training advisor Larry Hasson. Larry will be participating in his fourth Ironman competition in November in Florida. We will keep you posted on Larry's results!

Our renovations are almost complete. If you were by our office this summer, you likely noticed that we are renovating. Following our move to a paperless office, we recognized that the space that was once used for filing cabinets could now be put to better use. The changes, soon to be completed, will include a restructured administration room and an additional meeting room to better serve our clients. We look forward to sharing our new space with you soon!

CRA's Prescribed Interest Rates

The prescribed interest rates for the fourth quarter of 2012 are as follows:

- 1 % to calculate a deemed interest benefit on subsidized employee and shareholder loans;
- 3 % on refunds of income tax overpayments; and
- 5 % on payments of overdue income taxes, insufficient income tax instalments, unremitted employee source deductions, CPP contributions or EI premiums, and unpaid penalties.

These rates are in effect from October 1, 2012 to December 31, 2012.

Meeting Room Furniture

As part of our renovations, we are replacing some of our meeting room furniture.

If you are interested in any of this furniture for your office, please email Elaine at: egriffin@mcintyreca.com or call her at 613-726-7788 ext 230.

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