Future Keys
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Charitable Giving Ideas
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# INSURANCE - A VALUABLE TAX TOOL

You have got to love insurance. Seriously. You see, life insurance is an amazing tax and estate planning tool.

The hardest part about buying life insurance is trying to find good – and objective – advice on whether it makes sense in your planning, how to best use it, how much is enough, and what type to buy.

Insurance is a great tool for four key reasons. First, the death benefit will pay out tax-free when the insured dies. Tax-free is always good. Second, certain policies allow you to accumulate investments on a tax-sheltered basis. The policy can act similar to, but not identical to, a registered retirement savings plan (RRSP) – and the investments are paid out tax-free along with the death benefit when the insured dies. Third, insurance can offer protection from creditors. Accumulation inside the policy can be beyond the reach of creditors when certain beneficiaries are named.

Finally, the amount of the insurance proceeds paid on death (net of the adjusted cost base of the policy) will be added to the "capital dividend account" (CDA) of a corporation, if the corporation is the named beneficiary. The CDA is very valuable because a positive CDA balance can be paid out by the corporation as tax-free dividends to a shareholder. If you own a corporation, you'll often have the choice to own the policy personally, or in your corporation. In many cases it makes sense to have your company own and pay for the policy. But, if you don't do this right, you could end up paying tax unnecessarily.

The corporation should ideally be named the owner and beneficiary of a policy. The company cannot deduct the premiums, and there is no taxable benefit to the life insured. Upon the death of the shareholder life insured, the corporation can receive the insurance proceeds tax-free and could use the CDA of the corporation to pay some or all of the proceeds out to a spouse or other heirs, tax-free.

It is worth your while to consider the benefits of using life insurance as either a tax-planning estate planning tool, or for charitable gifting, which we will cover next time.

**Next Issue: "Insurance – A Valuable Tax Tool"**

**Questions? Ask Rhona**

Please talk with a professional advisor to see what options are best for you.