

Your Company Name Corporate Buyout

(current date)

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"Pay the cost of your Corporate Buy-Sell Insurance from your company bank account and create a substantial tax-free payout of proceeds at death!"

Many people are unaware that:

- * Your private corporation can pay the premiums on an insurance policy on you or any of the other shareholders, and typically a large percentage of the death benefit can flow into the Capital Dividend Account (CDA) tax-free to fund the Buy-Sell Agreement.
- * The remaining shareholders can simply issue promissory notes to the estate of the deceased, and use the tax-free funds from the Capital Dividend Account, to repay the promissory notes issued.
- * If the Adjusted Cost Basis (ACB) portion of the policy proceeds paid at death is kept in the corporation then it remains tax-free and is credited to retained earnings.

A life insurance policy that qualifies under section 148 of the Income Tax Act is an excellent planning tool that can be used to create a growing tax-advantaged account. This account is accessible and under the corporation's control while the shareholder is alive, and is paid out to the company as the designated beneficiary at death. Any additional cash flow available due to tax savings using your corporate tax rate can accumulate in the "tax-exempt" policy, allowing you to grow the death benefit.

The illustration compares the effectiveness of accumulating the cash to fund the buyout inside the company using traditional accumulation methods with a Universal Life policy.

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A popular way of planning for the continuation of a small corporation in case one of the shareholders dies is through a Buy-Sell Agreement between shareholders funded with life insurance policies owned by the corporation.

The corporation is the owner and beneficiary of policies on each shareholder's life. When one of the shareholders dies, the life insurance proceeds in excess of the policy's Adjusted Cost Basis (ACB) are credited to the corporation's Capital Dividend Account (CDA). Before the corporation pays out the balance of the CDA as a tax-free dividend to the surviving shareholders they purchase the deceased's shares through promissory notes. The notes are redeemed with the tax-free dividends and the surviving shareholders end up owning all the shares. The estate of the deceased ends up with cash for the shares.

The following illustration compares accumulating the fund, for buyout purposes, within the company through periodic deposits in an Alternative Investment and creating the contingency fund through life insurance using the same periodic deposits.

The illustrated values in the Alternative Investment take into account that earnings of the fund are considered investment income and are not subject to the small business deduction; they are taxed at the high corporate rate. The Income Tax Act requires that an extra refundable tax on investment income be collected. The extra rate is 6 2/3% on income from investments and taxable gains. Income from investments in the form of dividends is subject to 33 1/3% tax. The tax is credited to a notional tax account called the Refundable Dividend Tax On Hand (RDTOH) account. When the corporation pays taxable dividends to its shareholders, the tax is refunded at a 3:1 rate, regardless of what rate the RDTOH was collected.

Due to favourable tax treatment of life insurance in the corporation and the tax-free nature of capital dividends, a significantly larger amount is available for buyout purposes if this approach is used. An added advantage is that life insurance creates the funds needed at precisely the moment they are needed for an investment known in advance.

The arrangement of a Buy-Sell Agreement is complex. There are many issues to consider that are beyond the scope of this illustration. The advice of an accountant and/or lawyer should be sought.

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NOTE: The dividend tax rate is calculated as follows:

$$\text{Dividend Tax Rate} = 1.25 \times (\text{MarginalTaxRate} - 0.2)$$

Withdrawals from the policy may be subject to income tax, depending on the Adjusted Cost Basis (ACB) of the policy, at the time of withdrawal. However, the proceeds of a life insurance policy upon death of the insured are received tax free in the hands of the beneficiaries.

This is an illustration only and NOT a Contract. Rates of return and values contained within are projections only and are not guarantees or forecasts of future performance. It must be read in conjunction with a policy illustration from the Life Company.

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CONCEPT ASSUMPTIONS

Insureds

Insured: Business Owner,
Male Age 40 Non-Smoker

Prepared By:

Name: Agent / Broker

Product

Name: Universal Life
Policy Type: Single Life
Face Amount: \$200,000
Payment Method: Planned Deposits (20 Years)
Projected Annual Growth Rate: 6.000%

Alternative Investment

Growth Breakdown: 100% Interest
Effective Tax Rate On Interest: 54.67%
Projected Annual Growth Rate: 6.000%

Other Details

Corporate Tax Rate: 48.00%

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ACCUMULATING FUNDS WITHIN A COMPANY THROUGH PERIODIC DEPOSITS FOR A BUYOUT BY SHAREHOLDERS

Pol Yr	Age	Per. Deposit	Annual Growth	Tax			Refund of RDTOH	Total Dividend	Shareholder	
				Due on Growth	Unrealized Capital Gains (if any)	Due on Fund Available For Shareholder Buyout			Dividend Payable	After-Tax Value to Shareholder
1	41	1,414	85	46	0	1,452	23	1,475	461	1,014
2	42	1,414	172	94		2,944	46	2,990	934	2,056
3	43	1,414	262	143		4,477	70	4,547	1,421	3,126
4	44	1,414	353	193		6,051	94	6,145	1,920	4,225
5	45	1,414	448	245		7,668	119	7,788	2,434	5,354
6	46	1,414	545	298		9,329	145	9,475	2,961	6,514
7	47	1,414	645	352		11,035	172	11,207	3,502	7,705
8	48	1,414	747	408		12,788	199	12,987	4,059	8,929
9	49	1,414	852	466		14,588	227	14,816	4,630	10,186
10	50	1,414	960	525		16,438	256	16,694	5,217	11,477
11	51	1,414	1,071	586		18,337	286	18,623	5,820	12,803
12	52	1,414	1,185	648		20,288	316	20,604	6,439	14,165
13	53	1,414	1,302	712		22,293	347	22,640	7,075	15,565
14	54	1,414	1,422	778		24,351	379	24,731	7,728	17,002
15	55	1,414	1,546	845		26,466	412	26,878	8,399	18,479
16	56	1,414	1,673	915		28,638	446	29,084	9,089	19,996
17	57	1,414	1,803	986		30,870	481	31,351	9,797	21,554
18	58	1,414	1,937	1,059		33,162	517	33,678	10,524	23,154
19	59	1,414	2,075	1,134		35,516	553	36,069	11,272	24,798
20	60	1,414	2,216	1,211		37,935	591	38,526	12,039	26,486
25	65		2,534	1,385		43,382	676	44,057	13,768	30,289
30	70		2,898	1,584		49,611	773	50,384	15,745	34,639
35	75		3,314	1,812		56,735	884	57,618	18,006	39,613
60	100		6,482	3,544		110,969	1,729	112,698	35,218	77,480

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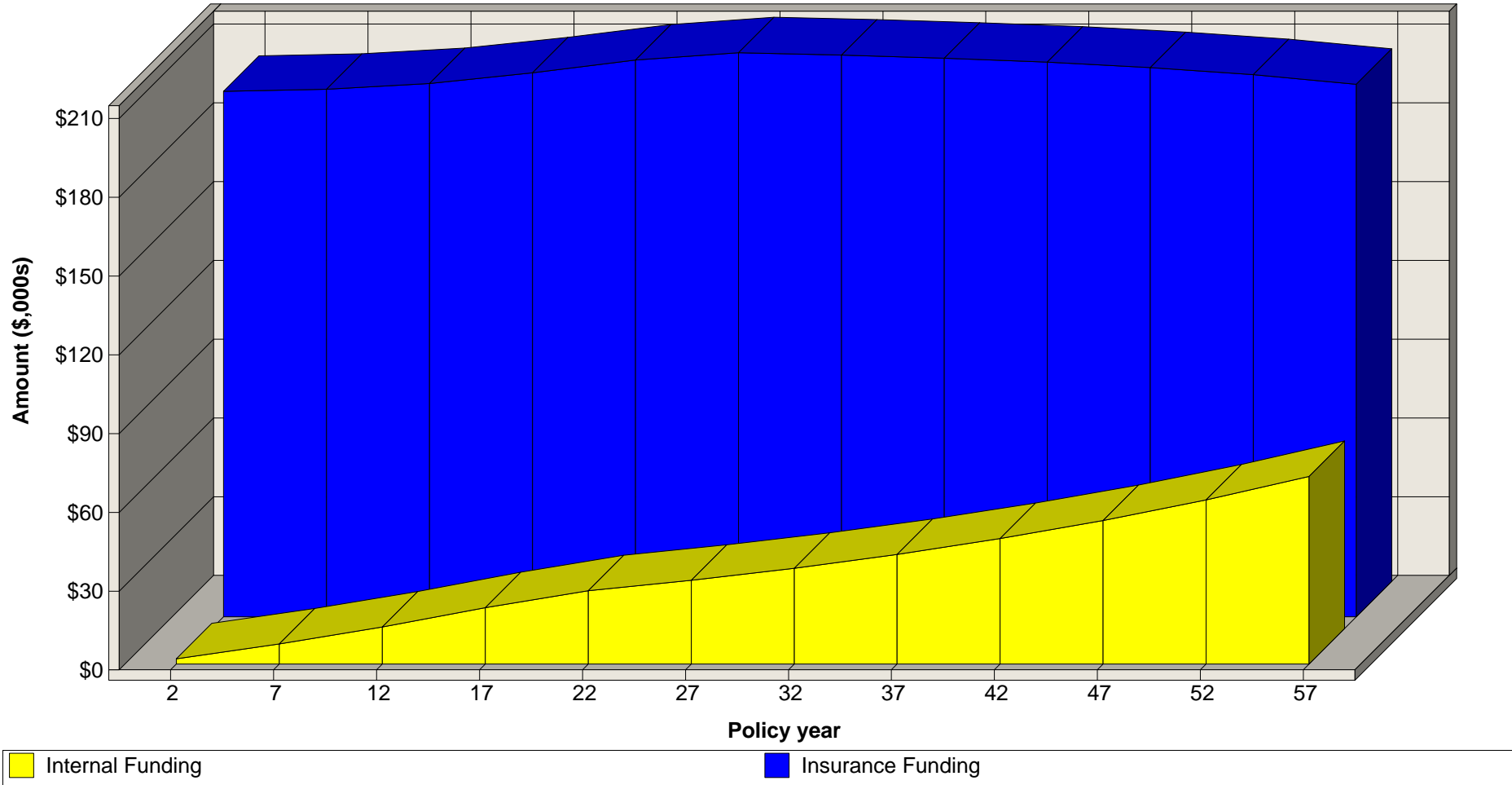
CREATING FUNDS THROUGH PERIODIC DEPOSITS IN A LIFE INSURANCE POLICY FOR A BUYOUT BY SHAREHOLDERS

Pol Yr	Age	Periodic Deposit	Life Insurance Corporate Asset Builder			Comparison		
			Insurance Proceeds	Credit to Capital Dividend Account	ACB	After Tax Value for Buyout	Value of CAB less AI Value	Percent Increase Using Corporate Asset Builder
1	41	1,414	200,425	199,147	1,278	200,026	199,012	19624%
2	42	1,414	200,875	198,342	2,533	200,083	198,028	9633%
3	43	1,414	201,352	197,589	3,763	200,176	197,050	6304%
4	44	1,414	201,858	196,894	4,964	200,307	196,082	4641%
5	45	1,414	202,394	196,260	6,134	200,477	195,123	3644%
6	46	1,414	202,963	195,698	7,265	200,693	194,179	2981%
7	47	1,414	203,565	195,212	8,353	200,955	193,250	2508%
8	48	1,414	204,204	194,818	9,386	201,271	192,342	2154%
9	49	1,414	204,881	194,515	10,366	201,642	191,456	1880%
10	50	1,414	205,599	194,310	11,289	202,071	190,594	1661%
11	51	1,414	206,359	194,204	12,155	202,561	189,757	1482%
12	52	1,414	207,165	194,212	12,953	203,117	188,952	1334%
13	53	1,414	208,020	194,356	13,664	203,750	188,185	1209%
14	54	1,414	208,926	194,654	14,272	204,466	187,464	1103%
15	55	1,414	209,886	195,125	14,761	205,273	186,794	1011%
16	56	1,414	210,904	195,833	15,071	206,194	186,199	931%
17	57	1,414	211,983	196,737	15,246	207,219	185,665	861%
18	58	1,414	213,127	197,847	15,280	208,352	185,198	800%
19	59	1,414	214,339	199,176	15,163	209,601	184,803	745%
20	60	1,414	215,625	200,746	14,879	210,975	184,489	697%
25	65		215,056	212,489	2,567	214,254	183,964	607%
30	70		214,294	214,294		214,294	179,655	519%
35	75		213,275	213,275		213,275	173,662	438%
60	100		200,005	200,005		200,005	122,525	158%

Your Company Name

Proposal For: Business Owner Prepared By: Agent / Broker

Corporate Buyout



Male 40 NS. PRODUCT: Universal Life. FACE AMOUNT: \$200,000. TAX RATE: 45.00%

AI RATE SPREAD: 0.00%.

NOTE: F.V. shown as portion of D.B. Must accompany a policy illustration. E.&O.E.