

Your Company Name

Employee/Shareholder Arrangement

(current date)

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"Use a tax sheltered plan to enhance a Key Employee's benefit package!"

Yes, there is a way for a corporation to offer a significant additional benefit to one or more of their key employees. By funding a tax sheltered life insurance policy, the protection is available when you need it.

Many people are unaware that:

- * A substantial fund value can be created in tax-advantaged policies, that can be made available to an employee on retirement, or used to create a growing estate asset for an employee on death.
- * The growth of that fund value is not subject to accrual taxes as long as the policy qualifies as an exempt plan.
- * Proceeds of the insurance policy at death are payable tax-free to the corporation and most or all of it can be paid out tax-free to the employee's estate.

Utilizing a life insurance policy that qualifies under section 148 of the Income Tax Act is an excellent planning tool because it creates a growing tax-advantaged account. This account is accessible while the employee is alive, and is paid out tax-free to the corporation as beneficiary on the employee's death. The funds received by a private corporation in excess of the Adjusted Cost Basis (ACB), can be added to its Capital Dividend Account and then be paid out tax-free to the employee's estate.

As long as the tax-advantaged account does not cause the policy to become non-exempt, the policy can be funded with large deposits over a short period.

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Small corporations sometimes offer shares and future benefits to attract and retain valuable employees. Retirement income and death benefits are among the more important incentives offered. Share ownership and life insurance make for a good combination to provide those benefits in a tax effective way. The following illustrations compare accumulating funds for an employee/shareholder within the company through periodic deposits in an Alternative Investment and creating the 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. Earnings on accumulated funds in an exempt life insurance policy are not subject to corporate tax as long as the funds remain in the policy.

At retirement, the funds may be paid out as a special dividend and as such are subject to the dividend tax credit. The illustration shows what is left for the shareholder/employee after taxes have been paid.

The second illustration shows the results if the same amount of money is deposited in a life insurance policy. Interest on accumulated funds in an exempt life insurance policy is not subject to corporate tax as long as the funds remain in the policy. If access to the fund value is required while the insured is living, a portion of the withdrawal may be subject to taxation depending on the Adjusted Cost Basis (ACB) of the life insurance policy at the time of withdrawal. In this case, it may be preferable to use the cash value as collateral for a fully secured loan from a regular financial institution. It may result in both the interest on the loan and a portion of the deposits in the insurance policy becoming tax deductible to the corporation. When the employee/shareholder dies, the proceeds of the policy are received tax-free by the corporation. Those proceeds less the ACB portion can be paid tax-free to the estate of the deceased. The first \$10,000 of the ACB portion may be paid tax-free as an employee death benefit. The balance may be paid as a regular dividend or bonus.

The last column in the second illustration shows the percent increase in the amount available to the estate of the employee/shareholder if the insurance approach is chosen.

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NOTE: The employee MUST be a company shareholder for the purposes of this concept.

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: 75% Interest
15% Dividends
10% Realized Capital Gains
Effective Tax Rate On Interest: 54.67%
Effective Tax Rate On Dividends: 33.33%
Effective Tax Rate On Realized Capital Gains: 41.00%
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 AN EMPLOYEE/SHAREHOLDER

Pol Yr	Age	Periodic Deposit	Annual Growth	Tax				Total Dividend	Employee	
				Due on Growth	Unrealized Capital Gains (if any)	Due on Fund Available For Shareholder	Refund of RDTOH		Dividend Tax Payable	After-Tax Value to Employee
1	41	1,414	85	43	0	1,456	22	1,478	462	1,016
2	42	1,414	172	86		2,956	45	3,001	938	2,063
3	43	1,414	262	131		4,501	68	4,569	1,428	3,141
4	44	1,414	355	178		6,092	92	6,184	1,933	4,252
5	45	1,414	450	226		7,731	117	7,848	2,453	5,396
6	46	1,414	549	275		9,419	143	9,561	2,988	6,573
7	47	1,414	650	326		11,157	169	11,326	3,539	7,787
8	48	1,414	754	378		12,947	196	13,144	4,107	9,036
9	49	1,414	862	432		14,791	224	15,015	4,692	10,323
10	50	1,414	972	487		16,691	253	16,943	5,295	11,649
11	51	1,414	1,086	544		18,647	282	18,929	5,915	13,014
12	52	1,414	1,204	603		20,661	313	20,974	6,554	14,420
13	53	1,414	1,325	664		22,736	344	23,080	7,213	15,868
14	54	1,414	1,449	726		24,873	377	25,250	7,891	17,359
15	55	1,414	1,577	790		27,074	410	27,484	8,589	18,895
16	56	1,414	1,709	856		29,341	444	29,785	9,308	20,477
17	57	1,414	1,845	925		31,676	480	32,156	10,049	22,107
18	58	1,414	1,985	995		34,080	516	34,597	10,811	23,786
19	59	1,414	2,130	1,067		36,557	554	37,111	11,597	25,514
20	60	1,414	2,278	1,141		39,108	592	39,700	12,406	27,294
25	65		2,640	1,323		45,323	687	46,010	14,378	31,632
30	70		3,060	1,533		52,526	796	53,322	16,663	36,659
35	75		3,546	1,777		60,874	922	61,796	19,311	42,485
60	100		7,414	3,715		127,268	1,928	129,195	40,374	88,822

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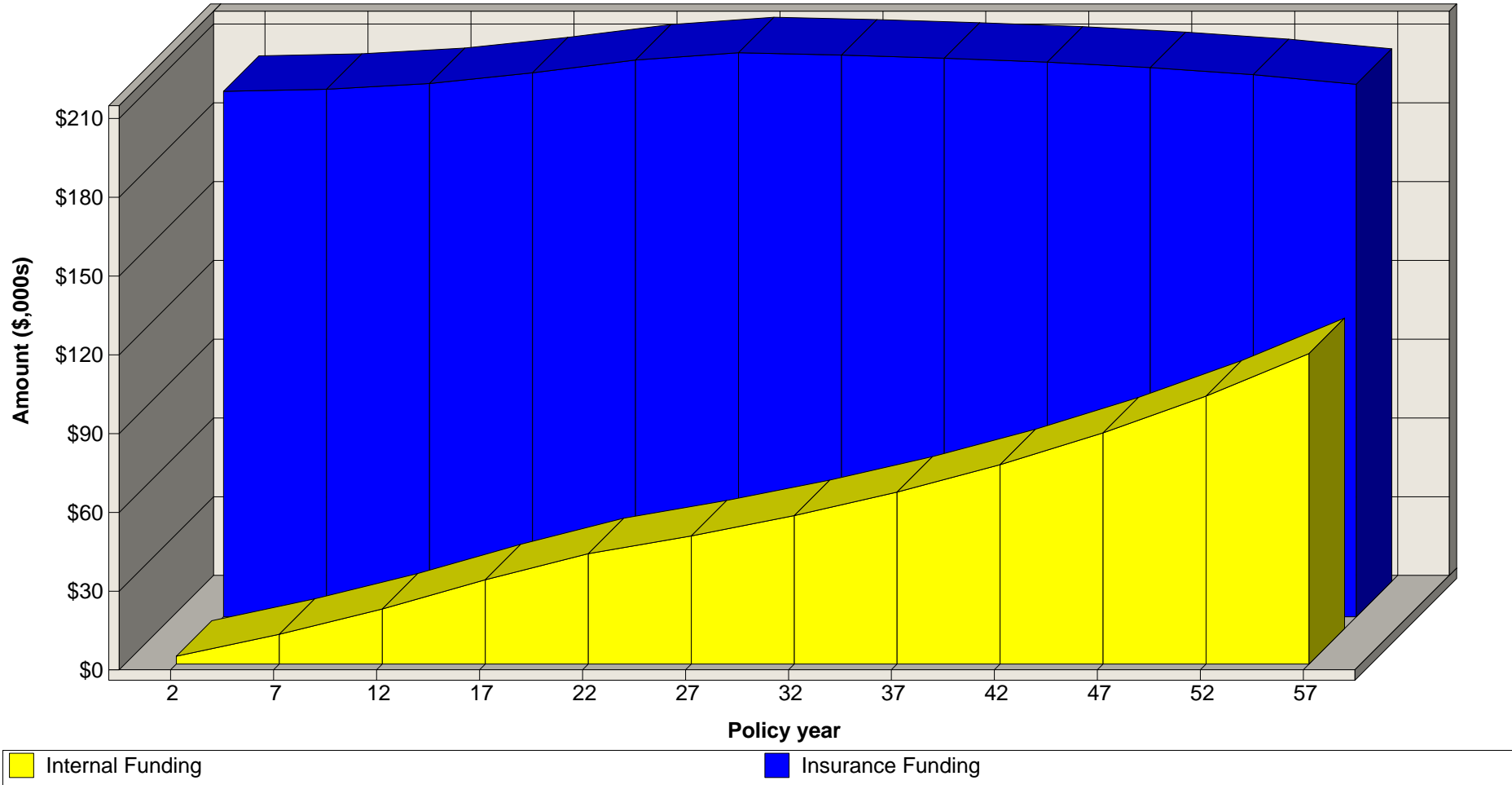
CREATING FUNDS THROUGH PERIODIC DEPOSITS IN A LIFE INSURANCE POLICY FOR AN EMPLOYEE/SHAREHOLDER

Pol Yr	Age	Periodic Deposit	Life Insurance Corporate Asset Builder				Comparison	
			Insurance Proceeds	Credit to Capital Dividend Account	ACB	After-Tax Value for Employee	Value of CAB Fund less AI Fund	Percent Increase Using Corporate Asset Builder
1	41	1,414	200,425	199,147	1,278	200,026	199,009	19580%
2	42	1,414	200,875	198,342	2,533	200,083	198,020	9598%
3	43	1,414	201,352	197,589	3,763	200,176	197,035	6272%
4	44	1,414	201,858	196,894	4,964	200,307	196,055	4611%
5	45	1,414	202,394	196,260	6,134	200,477	195,082	3616%
6	46	1,414	202,963	195,698	7,265	200,693	194,119	2953%
7	47	1,414	203,565	195,212	8,353	200,955	193,168	2481%
8	48	1,414	204,204	194,818	9,386	201,271	192,235	2127%
9	49	1,414	204,881	194,515	10,366	201,642	191,319	1853%
10	50	1,414	205,599	194,310	11,289	202,071	190,423	1635%
11	51	1,414	206,359	194,204	12,155	202,561	189,547	1457%
12	52	1,414	207,165	194,212	12,953	203,117	188,697	1309%
13	53	1,414	208,020	194,356	13,664	203,750	187,882	1184%
14	54	1,414	208,926	194,654	14,272	204,466	187,107	1078%
15	55	1,414	209,886	195,125	14,761	205,273	186,378	986%
16	56	1,414	210,904	195,833	15,071	206,194	185,717	907%
17	57	1,414	211,983	196,737	15,246	207,219	185,112	837%
18	58	1,414	213,127	197,847	15,280	208,352	184,567	776%
19	59	1,414	214,339	199,176	15,163	209,601	184,087	722%
20	60	1,414	215,625	200,746	14,879	210,975	183,681	673%
25	65		215,056	212,489	2,567	214,254	182,622	577%
30	70		214,294	214,294		214,294	177,635	485%
35	75		213,275	213,275		213,275	170,790	402%
60	100		200,005	200,005		200,005	111,183	125%

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Proposal For: Business Owner Prepared By: Agent / Broker

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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.