CORPORATE PREFERRED RETIREMENT SOLUTION®
CHECKLIST

Review this checklist to ensure you understand the *Corporate* Preferred Retirement Solution and how it can impact you and your business.

I (the shareholder/borrower) may obtain a personal loan from a third party lending institution (bank) that is guaranteed by the corporation. The corporation will be required to pledge a life insurance policy as collateral for the guarantee.

- The bank uses the cash surrender value of the corporately-owned life insurance policy as collateral for the loan guarantee.
- With a collateral bank loan, the lender will be a third party lending institution.
- Availability of a loan from the third party lending institution is not guaranteed by Equitable Life® and is not part of the life insurance contract.
- The borrower must apply for and meet the third party lending institution's loan qualification requirements. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third party lending institution at the time of the loan and are subject to change at any time.
- Proper documentation regarding the loan and guarantee is required to minimize taxable shareholder benefits. You should consult your accountant, legal and tax professionals before implementing this strategy.

The lending limit is specified by the financial institution.

- This limit varies by policy type and the investments in the policy.
- You may be able to borrow an amount up to 100% of the policy's cash value. Loan minimums vary by financial institution. Some financial institutions require a minimum collateral loan of $250,000.
- Loans may be made as a lump sum or as a stream of payments over time depending on your needs. May vary by financial institution. The loan stream in this illustration is only one example. Your insurance advisor can show you different types of loan streams or amounts.

CRA may assess a taxable benefit to the borrower based on the value of the guarantee provided by the corporation for the personal loan.

- The corporate guarantee with the life insurance policy pledged as security for a personal loan may result in CRA assessing a taxable benefit.
- A guarantee fee should be paid by the borrower to the corporation to minimize the taxable benefit.
- This guarantee fee will be considered taxable income to the corporation.
- Ask your insurance advisor to include this fee in the illustration.

On death of the borrower, CRA may assess a taxable benefit if the personal loan is paid directly from the proceeds of a corporately-owned life insurance policy.

- The financial institution, corporation, life insured's estate, and their respective professional tax and legal advisors should work together to implement a strategy to repay the loan using the life insurance proceeds without triggering a shareholder benefit or negatively impacting the addition to the corporation's capital dividend account. It is advisable that:
  - The corporation approaches the life insurance company to delay payment of the death benefit proceeds directly to the financial institution until appropriate arrangements can be made with the financial institution.
  - The executor or estate trustee of the life insured's estate requests the financial institution to accept alternative collateral until the life insurance proceeds are received by the corporation.
  - The life insurance proceeds are paid tax free to the corporation.
  - Amounts in excess of the policy's adjusted cost basis (ACB) are credited to the capital dividend account.
  - From the capital dividend account, tax-free capital dividends are paid to the shareholders, including the deceased shareholder's estate.
  - The deceased shareholder's estate pays off the loan and keeps any remaining balance.

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Terms of the loan will be similar to other secured loans available in the marketplace.

- This is a bank loan with current loan terms.
- There may be conditions, fees and costs associated with arranging the collateral bank loan. Be sure to read the terms specified in the bank loan agreement carefully.
- Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments.
- Using the policy as collateral for a bank loan will restrict certain policy owner's rights. These may include but may not be limited to accessing cash surrender value through policy loans or withdrawals, surrendering the policy, changing coverage amounts, changing ownership, or converting the policy.
- If the terms of the loan are not met, the bank may have the right to demand immediate payment. If the bank seizes the cash surrender value of the corporately-owned life insurance policy in order to honour the corporation's guarantee to repay the personal loan, CRA may assess a taxable benefit. The result could be:
    - Full taxation for the corporation on the amount of the policy's cash surrender value that exceeds the adjusted cost basis.
    - Taxation of the amount of the loan repaid by the policy as a shareholder benefit in the hands of the shareholder.
    - Loss of the life insurance coverage.
- See the "Net Cancellation Value" column in the illustration.

Economic fluctuations may impact the amount and timing of loan advances when borrowing against the cash surrender value of the life insurance policy.

- This illustration assumes historically reasonable rate assumptions; however, actual bank interest rates and policy return rates fluctuate:
    - Lower loan interest rates reduce the cost of borrowing. Higher policy return rates may increase the cash surrender value in the policy. Both of these together may increase the amount available for the loan.
    - Higher loan interest rates increase the cost of borrowing. Lower policy return rates decrease the cash surrender value in the policy. Both of these together may decrease the amount available for the loan.
- Refer to the "Loan Rate Impact Comparison" page to see the impact of higher interest rates.
- Ask your insurance advisor to illustrate different loan interest rates and policy return rates.

It is possible for the loan to exceed the bank lending limit.

- This illustration is based on historically reasonable assumptions for things like life expectancy, payments into the policy and loan advances. To the extent that reality differs from these assumptions, the lending limit may be exceeded. If this happens, depending on the terms of your loan, the bank may give the borrower the follow options:
    - Personally paying the loan interest.
    - Personally paying an amount to bring the loan back within the lending limit.
    - The corporation paying amounts into the policy to increase cash surrender value.
    - Providing the bank with additional collateral either personally or through the corporation.
- Your insurance advisor can illustrate using different assumptions.

Laws and regulations under the Income Tax Act (Canada) and other statutes may apply to this arrangement and may change.

- Using the cash surrender value of a corporately-owned life insurance policy as collateral for a loan is a well-established strategy. Currently, the Income Tax Act specifically excludes "an assignment of all or any part of an interest in the policy for the purpose of securing a debt or a loan other than a policy loan" from the definition of a taxable disposition of an interest in a life insurance policy.
- Any changes to legislation or interpretations to the current legislation could impact the information in this checklist and the ability to obtain a personal loan using a corporately-owned life insurance policy as collateral for the loan guarantee.

The loan cannot be part of a retirement benefit that the corporation is obligated to make.

- If a corporation purchases a life insurance policy to fund an obligation to provide benefits to an employee on a change in services or retirement, CRA may deem a Retirement Compensation Arrangement (RCA) to exist.
- This would result in significantly different tax consequences for the corporation and you.

I understand that the *Corporate* Preferred Retirement Solution is a concept. It is not a product or a contract. This checklist is not a substitute for tax or legal advice. I need to consult with my financial, legal and tax advisors about the risks and benefits of this concept. Equitable Life of Canada® is not providing tax, insurance or loan advice.

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