

RBC Growth Insurance and RBC Growth Insurance Plus

Reducing passive income in a corporation



Insurance

Accumulate funds on a tax-deferred basis in a corporation

When passive income (e.g. interest, dividends, taxable capital gains, rent, royalties) of a small business corporation exceeds \$50,000 per year, its small business deduction limit is reduced by five times the excess – i.e. for every \$1 of passive income in excess of the \$50,000 threshold, the corporation’s small business deduction limit is reduced by \$5. For federal income tax purposes the small business deduction limit is \$500,000 per year. So if the corporation earns passive income of \$150,000 or more for the year, it loses the entire small business deduction, and all of its active business income is taxed at a higher corporate tax rate.

However, growth inside a life insurance policy with a cash value is not subject to annual taxation if the growth remains within the permitted limits. As a result, a life insurance policy with a cash value can provide valuable protection without impacting your small business deduction limit.¹

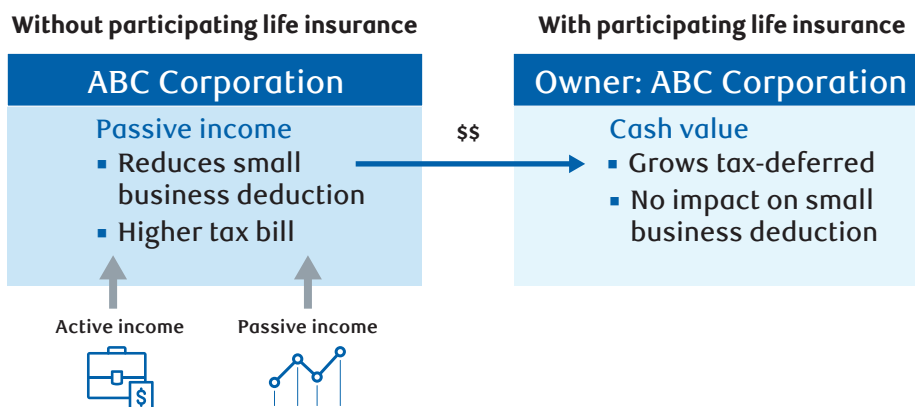
RBC Growth Insurance or RBC Growth Insurance Plus can help

Owners of small business corporations can use the annual surplus and existing savings of their corporation to purchase a participating whole life policy, which comes with a cash value that’s accessible at the end of year 5 for RBC Growth Insurance™, or at the end of year 1 for RBC Growth Insurance Plus™.

In addition to providing life insurance protection, this policy enables a corporation to accumulate funds inside the insurance policy on a tax-deferred basis, without impacting the corporation’s small business deduction limit.

Passive income erodes the small business deduction

A small business deduction is available to businesses with active business income of up to \$500,000. If the business’s passive income exceeds \$50,000, the small business deduction decreases. Companies with passive income of over \$150,000 annually lose the deduction entirely. As a result, their tax expense increases.



Holding companies are generally not eligible for a small business deduction due to the type of income they receive. The higher tax rates in the graph above apply to holding companies as well.

RBC participating life insurance is available in two options

	RBC Growth Insurance	RBC Growth Insurance Plus
Minimum coverage amount	<ul style="list-style-type: none"> Coverage starts at \$25,000 	<ul style="list-style-type: none"> Coverage starts at \$250,000
Access to cash values	<ul style="list-style-type: none"> Accessible at the end of policy year 5 	<ul style="list-style-type: none"> Accessible at the end of policy year 1
Cost of insurance	<ul style="list-style-type: none"> Pay less and get more opportunities for long-term financial growth 	<ul style="list-style-type: none"> Pay for early cash values and long-term financial growth opportunities

Choosing the right option for you

- How much surplus cash is available to pay the annual premium?** If cash is limited, then buying a policy with a lower annual premium may be the better option. RBC Growth Insurance has lower premium rates than RBC Growth Insurance Plus largely because of the difference in cash value growth.
- If multiple shareholders or key persons are being insured,** buying a policy with a lower annual premium for each life insured may be helpful.
- If the business may need to borrow funds in the initial years of the policy,** then the policy that provides a higher cash value earlier may be the better option. With RBC Growth Insurance Plus, you have access to the cash value after the first year; whereas with RBC Growth Insurance, you have access after the fifth year.
- If surplus funds are still available after paying the basic premium,** the business may consider the additional deposit option. This can be useful for both products and helps grow the cash value more quickly.

Contact your Insurance Advisor to discuss how participating life insurance can work for you.



Insurance

This brochure has been prepared for general information purposes only. Any information provided in this brochure is not intended to be relied upon as tax, legal or financial advice. You should consult your own lawyer, accountant, insurance advisor or other professional when planning to implement a strategy. Although RBC Life Insurance Company has taken all reasonable efforts to provide current and accurate information, we reserve the right to correct any errors or omissions. Please note that tax rules are subject to change. Coverage will be governed by the terms of the policy as issued, if any.

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¹ The policy gain resulting from the disposition of a life insurance policy is considered passive income, and therefore, may impact the small business deduction limit.