



Financial Perspectives Peer Group

# Strategies to Minimize Your Corporate Income Tax

Nima Salehi, Jan 22, 2025



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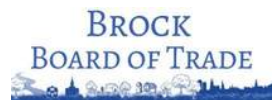
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Techpreneurs





## Our Conversation Today:

- **Active and passive income in Canada**
- **Tax-sheltered investments within a corporate**
- **Reduce corporate taxes**
- **Tax planning with life insurance with cash value**  
**(Insured Corporate Bonds)**

# Active Business Income



**Active income:** ... “generated from day-to-day operation of business that engages in providing goods and services”.

## Examples:

- “Sales revenue from operating a retail store.
- Income from providing professional services (e.g., accounting firms, law firms, or consulting companies).
- Manufacturing and production business income.”

Courtesy of SBLR

# Passive Business Income



**Passive income:** ... “earned without active involvement in the business”.

## Examples:

- “Interest from loans and bank deposits.
- Rental income from real estate (if not an active business).
- Dividends from investments.
- Capital gains from the sale of assets.”

Courtesy of SBLR



# A High Level Tax Refresher



## 2025 Ontario Tax Rates

CCPC		
Active Business Income (to \$500,000)	Investment Income	General (non-M&P)
12.20%	50.17%	26.50%

## 2025 Lifetime Capital Gains Exemption \$1.25M



## Capital Gains Inclusion Rate increased to 66.67% from 50%

(June 25, 2024)



# Small Business Benefits



Small businesses benefit from a lower tax rate (12.20%) on their active business income up to \$500,000

Passive Income (interest, dividends, rents, and royalties)	Active Business Income Eligible for Lower Tax Rate (12.20%)
\$50,000	\$500,000
\$75,000	\$375,000
\$100,000	\$250,000
\$125,000	\$125,000
\$150,000	\$0



The grind-down!

# Insured Corporate Bond (Permanent Life Insurance)

Corporation uses surplus cash to invest in **Insured Corporate Bond**

- Return on the investment is tax-sheltered
- Reduces overall taxes paid by corporation
- It can be used for **Corporate Retirement or Estate Transfer**

Key  
Person  
Protection



# Demystify the Terminology

 **Insured Corporate Bond is a marketing term.**

**It is based on a specific form of Permanent Life Insurance with Cash Value, technically known as Participating Whole Life Insurance.**

 **For the Shareholders, it can be a solution for:**

**Key Person Protection**

**Corporate Retirement Plan**

**Corporate Estate Transfer Plan**



**In USA, this is known as Infinite Banking.**



# Comparison: Insured Corporate Bond and Alternative Investment



## Insured Corporate Bond (Permanent Life Insurance)

## Alternative Investment 6% Interest Tax 50%

Year	Annual Deposit	Tax-Sheltered Cash Value	Estate Value Upon Death	Annual Deposit	Net Investment (after-tax)
10	\$36,000	\$336,128	\$1,354,751	\$36,000	\$433,556
20	\$36,000	<b>\$1,136,829</b>	\$2,291,387	\$36,000	<b>\$1,037,040</b>
Total Investment	<b>\$720,000</b>			<b>\$720,000</b>	
Age 65		<b>\$1,526,868</b>	\$2,700,597		<b>\$1,223,737</b>



# Comparison: Insured Corporate Bond and Alternative Investment



## Insured Corporate Bond (Permanent Life Insurance)

## Alternative Investment 6% Interest Tax 50%

Year	Annual Deposit	Tax-Sheltered Cash Value	Estate Value Upon Death	CDA Credit Upon Death	Annual Deposit	Net Investment (after-tax)
Age 85	-	\$4,445,021	\$5,400,338	<b>\$5,400,338</b>	-	\$2,379,569



## \$1,908,232 of Tax Saving from Capital Dividend Account

$$\begin{aligned}
 & \$5,400,338 * 66.67\% = \$3,600,438 \\
 & \$3,600,438 * 53\% =
 \end{aligned}$$

# How to Access the Cash Value?

The cash value has grown tax-sheltered!

There are several ways to access the cash value:



or



Corporate Borrowing

Shareholder Borrowing

Collateral Loan

Policy Loan

(Bank Loan)

(Direct Loan from Insurer)



- The **collateral bank loan** is tax-free in the hands of the corporation.
- It can be used to pay the shareholder in the form of dividends, a bonus, or a salary.
- The principal and interest on the loan can be repaid from the proceeds from the life insurance policy in the future.
- The interest on the loan may be tax-deductible for the business, depending on its use.

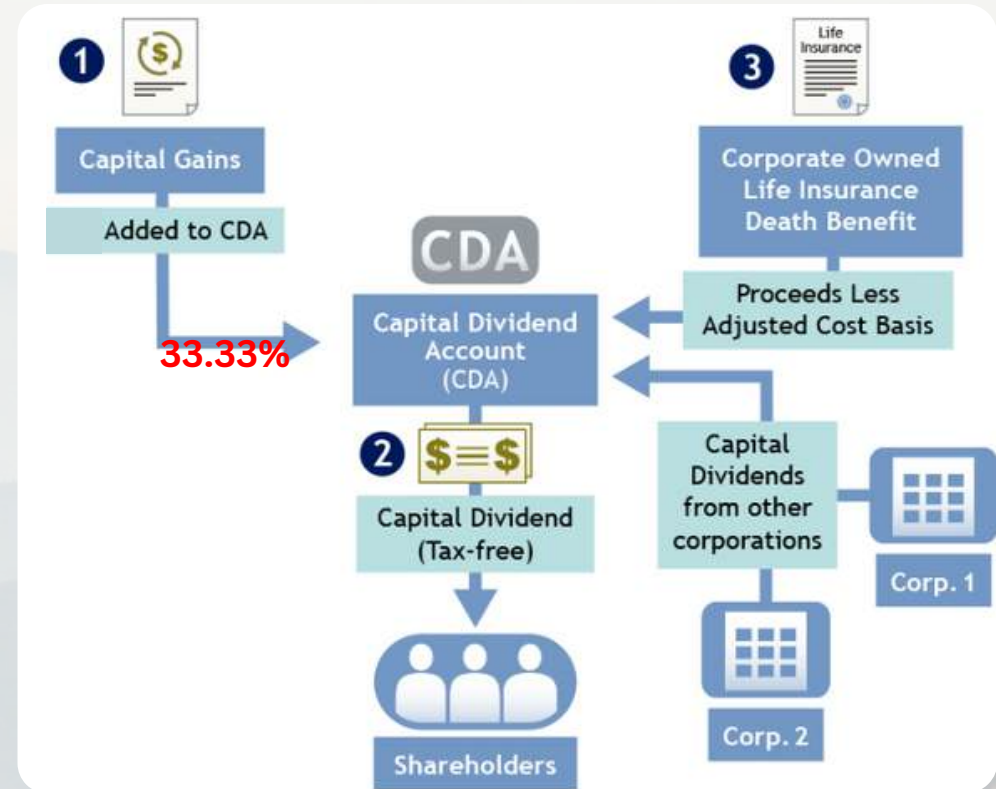


# Capital Dividend Account (CDA)

(How to Access the Death Benefit?)



A notional tax account that gives shareholders designated capital dividends tax-free!



Courtesy of PPI

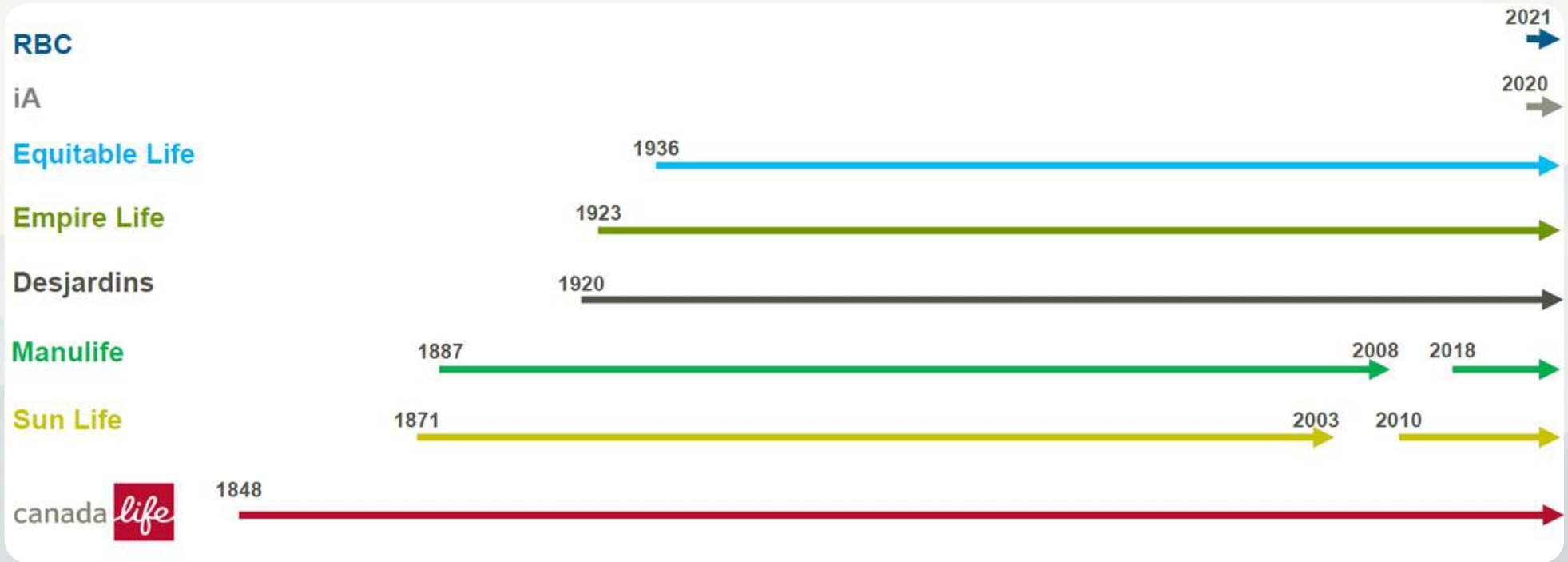
**CDA 100% tax-free = Life Insurance Proceed – Adjusted Cost Basis (ACB)**

**Taxable Payable without CDA \$1,908,232**

$$\$5,400,338 * 66.67\% = \$3,600,438$$

$$\$3,600,438 * 53\% = \$1,908,232$$

# History of Whole Life insurance in Canada



## Courtesy of Canada Life March 27, 2024

2022 Financial Facts. The asset total consists of the Canada Life combined open participating account only, including surplus.

Sun Life “has declared and paid a dividend to all eligible policy owners every year since 1877” (Facts & Figures Page 2); withdrew from Par market in 2003 and re-entered in 2010

Manulife “has been managing participating.... Policies since our founding in 1887” (Insurance Insights Page 3) withdrew from Par market in late 2007/early 2008 and re-entered in 2018. When Manulife withdrew, it introduced non-par Performax Gold which offered performance credits in lieu of dividends

Equitable Life “have credited dividends every year since we first launched participating whole life in 1936” (Understanding Participating Whole Life Insurance Client Guide, Page 4)

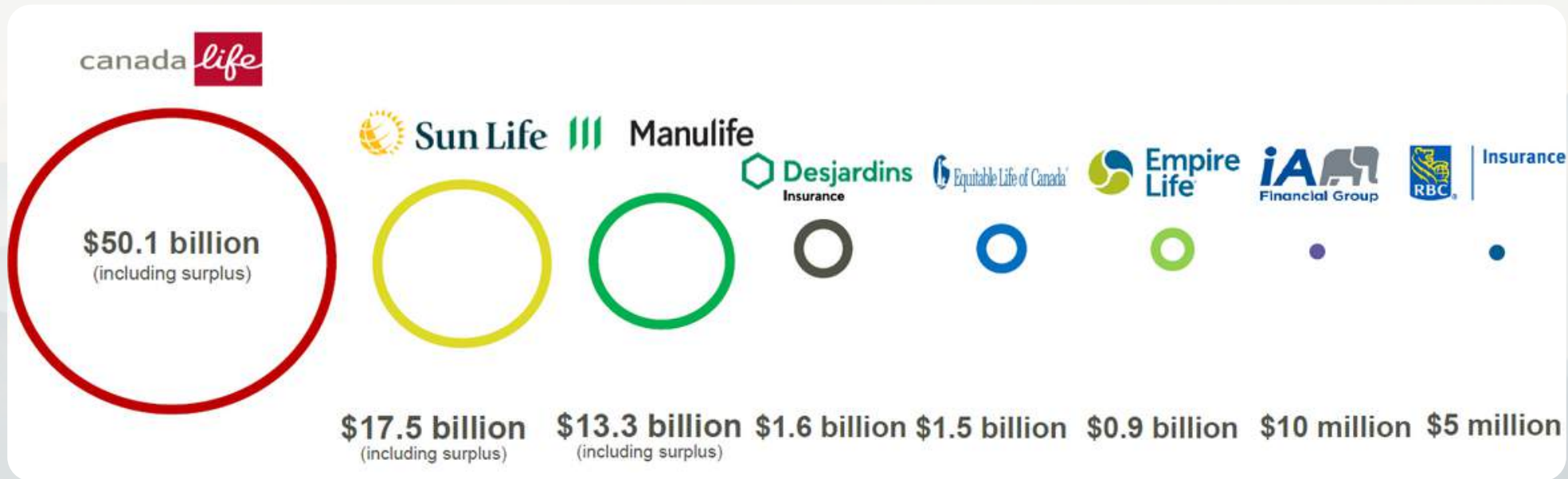
Empire Life “has a track record of paying dividends every year since 1923 when we first began offering participating life insurance”; EstateMax – The Power of Participating Life Insurance Page 4

Industrial Alliance entered Par market in 2020

Desjardins “has been offering Canadians a range of participating life insurance products for over 100 years” (refers to closed accounts tied to contracts issues 1920 to 2015 and open account for contracts issued since 2017); Desjardins Participating Life Insurance, Page 1.

RBC entered Par market in 2021.

# Canadians hold around \$85 billion dollars in cash value of Whole Life insurance



## Courtesy of Canada Life March 27, 2024

2022 Financial Facts. Canada Life combined open participating account only, including surplus.

Sun Life Participating whole life insurance Facts & Figures, Page 15; includes surplus (open block is \$8.016B as shown on page 9)

A look at Manulife's Participating Account – 2022 Annual Report, Page 2; includes surplus and represents all 12 sub-accounts comprised in the participating account Equitable Life Understanding Participating Whole Life Insurance Client Guide, Page 4.

Empire Life Participating Investments Quarterly Participating Account Summary, Page 4

Industrial Alliance Overview of the Participating Account, Page 3.

Desjardins Participating Life Insurance, total closed/open Page 1; open account only is \$22.9M as shown on page 3; as of December 31, 2022.

RBC Participating Life Insurance 2022 Financial Update; Page 4

# Immediate Financing Arrangement

**Creating a tax-free capital dividend account  
without tying up your cash flow**



# Immediate Financing Arrangement



Yr	Age M	Annual Deposit	Cash Surrender Value	Total Death Benefit	CDA Credit	Annual Loan Advance	Net Loan Interest Paid	Outstanding Loan Balance	Additional Collateral Required	Net Cash Flow	Net to Corporation at Death	Loan to CSV%
1	44	102,062	94,096	2,238,010	2,137,089	102,062	7,093	102,062	8,852	(7,093)	2,135,948	108.47%
2	45	102,062	197,084	2,481,565	2,280,218	102,062	10,614	204,125	7,823	(10,614)	2,277,440	103.57%
3	46	102,062	292,638	2,729,034	2,427,748	102,062	14,119	306,187	15,055	(14,119)	2,422,846	104.63%
4	47	102,062	399,854	2,974,967	2,574,316	102,062	17,614	408,250	9,329	(17,614)	2,566,717	102.10%
5	48	102,062	501,825	3,218,146	2,718,768	102,062	21,095	510,312	9,431	(21,095)	2,707,833	101.69%
6	49	102,062	612,593	3,459,196	2,861,852	102,062	24,562	612,375	0	(24,562)	2,846,821	99.96%
7	50	102,062	736,841	3,698,945	3,004,490	102,062	28,011	714,437	0	(28,011)	2,984,507	96.96%
8	51	102,062	865,707	3,937,886	3,147,308	102,062	31,442	816,500	0	(31,442)	3,121,386	94.32%
9	52	102,062	999,325	4,176,496	3,290,946	102,062	34,851	918,562	0	(34,851)	3,257,934	91.92%
10	53	102,062	1,137,814	4,415,228	3,435,990	102,062	38,233	1,020,625	0	(38,233)	3,394,603	89.70%

## Steps:

1. Pay \$102,062
2. Get a loan of \$102,062
3. Reinvest the loan amount of \$102,062 to earn a return elsewhere

# Immediate Financing Arrangement



Yr	Age M	Annual Deposit	Cash Surrender Value	Total Death Benefit	CDA Credit	Annual Loan Advance	Net Loan Interest Paid	Outstanding Loan Balance	Additional Collateral Required	Net Cash Flow	Net to Corporation at Death	Loan to CSV%
36	79	0	3,107,751	4,595,498	4,526,836	0	31,067	1,020,625	0	(31,067)	3,574,873	32.84%
37	80	0	3,222,237	4,638,375	4,638,375	0	31,106	1,020,625	0	(31,106)	3,617,750	31.67%
38	81	0	3,341,125	4,683,260	4,683,260	0	31,146	1,020,625	0	(31,146)	3,662,635	30.55%
39	82	0	3,464,366	4,730,138	4,730,138	0	31,187	1,020,625	0	(31,187)	3,709,513	29.46%
40	LE 83	0	3,590,878	4,779,010	4,779,010	0	31,230	1,020,625	0	(31,230)	3,758,386	28.42%
41	84	0	3,719,705	4,829,862	4,829,862	0	31,273	1,020,625	0	(31,273)	3,809,237	27.44%
42	85	0	3,850,523	4,882,652	4,882,652	0	31,317	1,020,625	0	(31,317)	3,862,027	26.51%
43	86	0	3,983,009	4,937,344	4,937,344	0	31,362	1,020,625	0	(31,362)	3,916,719	25.62%
44	87	0	4,116,825	4,993,908	4,993,908	0	31,408	1,020,625	0	(31,408)	3,973,283	24.79%
45	88	0	4,251,525	5,052,318	5,052,318	0	31,454	1,020,625	0	(31,454)	4,031,693	24.01%

Create a Tax-Free CDA to the family of \$4,779,010  
 Saving a total of **\$1,672,653** in tax

# Right solution for you if you:



**Retirement Plan**

**Estate Plan**

- ✓ **Want your family to receive the CDA 100% Tax-Free**
- ✓ **Want to take advantage of tax-sheltered growth**
- ✓ **Want to reduce overall corporate taxes paid**

**Key Person Protection**

# Can we personally own and benefit from a Whole Life Insurance?

**Yes!, Indeed.**

- It is both a great protection and tax strategy when you own the policy personally.
- It pays a survival benefit tax-free to the beneficiaries.
- The cash value grows tax-sheltered (similar to a TFSA, FHSA, or RRSP).
- The cash value can be accessed tax-free (similar to a TFSA).
- ★ • It may be gifted to children and grandchildren!



# **Our Products and Services Catalogue**

**Life, Living Benefits, Saving and Investments**

**Right Decision, Bright Future**



VALID Insurance Services  
Right Decision, Bright Future



## Financial Planning Services

- Strategic Tax Planning
- Retirement Planning
- Estate Planning
- Charity Planning

We are a family boutique office of independent brokers and advisors, operating since 1981, now serving the fourth generation of our clients.

### Our Specialties:

- Families and Individuals
- Business Owners
- Technology Founders and Professionals



### Risk Management Insurance Products



Life Insurance



Critical Illness Protection



Disability Insurance



Health & Group Benefit Plan



Travel Insurance



### Savings and Investments Products



TFSA



FHSA



RRSP



RESP



LIRA and non-Registered



## Our Team

Right Decision, Bright Future



**Mohsen Salehi**

President

Lifetime member of MDRT

**Right Decision, Bright Future**

# Meet Our Team

## Life and Financial Services



**Mohsen Salehi**  
President



**Nima Salehi**  
Co-Founder  
Insurance and Financial Advisor



**Babak Rahmani**  
Insurance and Financial Consultant



**Advisors in Training**



We collaborate closely with your trusted network of professionals, including accountants, CPAs, and lawyers, to ensure the best results for you!

## Right Decision, Bright Future



# Right Decision, Bright Future



VALID Insurance Services Inc.

A family business since 1981

Serving the forth generation of our clients

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