Advisor Guide

The Personal and Corporate Asset Transfer Plans

Someone is going to profit from your client's hard work. Shouldn't it be their family?

BMO Insurance

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Introduction to Personal and Corporate Asset Transfer Plans

The Asset Transfer Plans from BMO® Insurance are simple yet effective life insurance concepts that can form part of an overall financial plan for your clients. The ideas presented in this Guide are simple, yet effective and have specific applications in both the personal and corporate insurance markets. When combined with a BMO Insurance universal life policy, your clients will benefit from flexible permanent life insurance that is backed by one of Canada's leading financial services organizations.

To help support your understanding of the mechanics of both the Personal and Corporate Asset Transfer Plans, we encourage you to read this Guide and use the latest version of our Wave illustration software to help you prepare personalized proposals for your clients.

Once you have had a chance to familiarize yourself with both types of Asset Transfer Plans, test yourself on the mechanics of these concepts by taking the short quiz at the end of this guide!

The Personal Asset Transfer Plan and Corporate Asset Transfer Plan are two solutions that demonstrate to your clients how wealth can be transferred to their heirs in a tax effective manner. If you want to learn more about another asset transfer solution, check out the latest version of the ***wave*** illustration software for your copy of "The Family Asset Transfer Plan – Advisor Guide".

Note: The ideas presented in this guide should be reviewed for suitability to individual circumstances. The information contained in this guide is general in nature and should not be construed as legal or tax advice. You and your clients are encouraged to seek the advice of other professionals such as legal and tax experts to ensure that the ideas presented are appropriate for the circumstances of the individual(s) for whom this plan is being considered.

The Opportunity

Many individuals who are completing the asset accumulation phase of their lives have accumulated surplus cash flow that they would like to pass on to their heirs. Likewise, many business owners (of privately controlled Canadian corporations) have accumulated excess cash flow and are looking to transfer this money out of their businesses and into the hands of their heirs in the most tax effective manner.

Depending on the profile of your client, either the Personal or Corporate Asset Transfer Plan may be an ideal opportunity to accomplish these goals. The idea is simple: an Asset Transfer Plan allows individuals or corporations with surplus cash flow to transfer a portion of these funds into a non-taxable environment to benefit from the tax-deferred growth of a universal life policy. Then, upon death, the plan allows them to transfer these sums tax efficiently to their heirs.

Target Market

Ideally, an Asset Transfer Plan is targeted at clients in one of two markets:

- Individuals (or couples) who have accumulated significant assets and are now planning their estate OR;
- Business owners that are now in the stages of determining a succession plan

For each of these cases, the target market for an Asset Transfer Plan may be summarized as follows:

Personal Asset Transfer Plan	Profile for Business Owners
Have completed (or are nearing completion of) the asset accumulation phase of their lives.	Own a privately controlled Canadian corporation and are looking at succession planning.
Are age 50-80 and require permanent life insurance.	Are age 50-80 and require business insurance on their lives.
Are in good health and are able to qualify for life insurance.	Are in good health and are able to qualify for life insurance.
Intend on making a gift to their heirs.	Intend to pass on wealth currently “locked-in” their businesses to their heirs.
Have surplus cash flow and enough income now and in the future to meet lifestyle needs.	Have surplus cash flow in their business (perhaps held in a holding company to house passive investments) that is not required for day-to-day operations.
Are interested in a tax-sheltered, flexible investment to house a portion of their surplus investment portfolio.	Are interested in a tax sheltered, flexible investment to house a portion of their surplus corporate investment portfolio.

The Solution

The Universal Life Solution

Determining an appropriate Asset Transfer Plan is fairly straightforward:
For individuals with tax and estate planning needs, consider the Personal Asset Transfer Plan OR
For business owners with succession planning needs, consider the Corporate Asset Transfer Plan.

To implement either one of these plans, use the following as a guideline:

	Personal Asset Transfer Plan	Corporate Asset Transfer Plan
Step 1	Determine the amount of insurance your client(s) need(s), based on their individual financial objectives.	Determine the amount of insurance your client(s) need for their business, based on the corporation's financial objectives.
Step 2	Then, have your client(s) purchase and become the owner of a BMO Insurance universal life policy. In the case of individuals, the insurance policy is issued on a Single Life basis. In the case of couples, the insurance is issued on a Joint Last to Die basis. The beneficiaries of the policy are the heirs of the owner(s).	Then, have your client(s) (the business owner(s)) purchase a BMO Insurance universal life policy. The corporation owns and is the beneficiary of the policy on the life of a key person or shareholder.
Step 3	Work with your client(s) to determine how quickly and what portion of their taxable surplus investment portfolio should be transferred into the policy.	Work with your client(s) to determine how quickly and what portion of their corporate taxable surplus should be transferred into the policy.
Step 4	Have your client(s) select an investment portfolio within the policy that is best suited to their long-term objectives and risk tolerance.	Have your client(s) select an investment portfolio within the policy that is best suited to their long-term objectives and risk tolerance.

The Results

By using the ideas of an Asset Transfer Plan from BMO Insurance, your clients will benefit from the following*:

Using the Personal Asset Transfer Plan	Using the Corporate Asset Transfer Plan
The size of the individual's estate value is immediately increased.	The size of the shareholder's estate value is immediately increased.
A reduction in future taxable income, since assets are transferred into a life insurance vehicle with tax-deferred accumulation.	A reduction in the corporation's future taxable income, since assets are transferred into a life insurance vehicle with tax-deferred accumulation.
The death benefit of the policy is paid to the individual's beneficiaries tax-free.	Upon death of the insured, the life insurance benefit is paid to the corporation tax-free and a significant portion or all of the proceeds can subsequently be paid as a tax-free dividend to the shareholder's estate (see Tax Considerations below).

Note: Before proceeding with any proposal, you should determine the tax consequences of transferring assets from other investment vehicles into either the Personal or Corporate Asset Transfer Plan.

*Based on Rules and Regulations in effect at the time of writing this Guide.

The Solution

Is an Asset Transfer Plan Right for Your Clients?

When considering whether to suggest a BMO Insurance Asset Transfer Plan to any of your clients, you may want to run through the following checklist to determine if the plan is appropriate for their individual needs:

If you are contemplating...

Profile for Individuals (or Couples)	The Corporate Asset Transfer Plan
Has my client completed (or is nearing completion of) the asset accumulation phase of his/her life?	Is my client a business owner thinking about succession planning for his/her business?
Does he/she require and qualify for life insurance?	Does he/she require business insurance (ex. key person insurance)?
Does my client want to leave funds for his/her heirs?	Does my client want to leave funds for his/her heirs?
Does my client want to simplify the transfer of their estate to these heirs?	Does my client want to simplify the transfer of their estate to these heirs?
Would he/she like to transfer taxable investments into a tax-deferred investment vehicle?	Would he/she like to transfer taxable corporate investments into a tax-deferred investment vehicle?
Does he/she want to reduce personal income taxes on investment income?	Does he/she want to reduce corporate taxes on investment income?
Does he/she want to lower his/her current taxable income?	Does he/she want to lower his/her company's current corporate taxable income?
Does he/she want to minimize costly probate fees on their estate?	Does he/she want to minimize capital gains tax upon the deemed disposition of shares upon death?
Does he/she want to minimize the risk of will contestability?	Do they want to minimize the tax payable upon the withdrawal of funds from the company?

If your client answers "yes" to these questions, then an Asset Transfer Plan may be an ideal solution for them.

Tax Considerations

To have a more complete understanding of the benefits and tax consequences of both the Personal and Corporate Asset Transfer Plans, we encourage you to prepare a personalized projection for your clients using the most current version of the Wave illustration software. Also, we strongly advise that when you are working on structuring any Asset Transfer Plan and have complex personal or corporate tax and estate planning issues to resolve, you consult with legal, tax and accounting experts.

Note: with the Corporate Asset Transfer Plan and as long as the owner and beneficiary of the policy is a corporation, the portion of the death benefit in excess of the Adjusted Cost Basis of the policy may be paid to the shareholder's beneficiaries as a tax-free dividend due to the credit it creates in the company's Capital Dividend Account. Any excess amount may be paid as a taxable dividend. This means that if the entire amount of the death benefit is paid to the shareholder's estate, only the portion of the death benefit equal to the Adjusted Cost Basis will be taxed using dividend tax rates in effect at that time.

Furthermore, to minimize capital gains tax, only the policy's Cash Value is used to determine the value of his/her shares upon the death of the shareholder which is when the shareholder is deemed to have disposed of his/her shares. This could mean that a significant portion of the Death Benefit paid to the company would be excluded from the calculation of capital gains tax.

Case Study (using The Corporate Asset Transfer Plan)

Client Details:

- Sam, male age 60 and Sally, female age 60 – both business owners of S&S Opco, a privately owned Canadian corporation.
- Sam and Sally have created a holding company, S&S Holdings, to house surplus corporate investments.
- S&S Holdings currently has $250,000 of assets invested in a Balanced Fund that is taxed at a rate of 45%.
- Sam and Sally want to minimize their corporate tax bill and maximize the amount of assets that is transferred to their children, Bill and Betty.

Solution: The Corporate Asset Transfer Plan from BMO Insurance

- Insured lives: Sam and Sally on a Joint Last to Die BMO Insurance UL policy
- Owner of policy: S&S Holdings
- Beneficiary: S&S Holdings
- Death Benefit option: Sum Insured
- Cost of insurance option: YRT 100 with Investor Maximizer
- Planned deposits: $50,000 for five years
- Projected values illustrated at a 5% net return in Indexed Accounts
- Projected values illustrated at an 6% net return before-tax in an alternative taxable Balanced Fund

Comparison of Values
Corporate Asset Transfer Plan from BMO Insurance vs. the Alternative Investment Year

	Life Dimensions (Low Fees) Corporate Asset Transfer Plan (projected at a 5% annual rate of return)						Alternative Investment (Balanced Fund projected at a 6% annual rate of return)^	
Year	Cash Value	Death Benefit	Adjusted Cost Basis	Capital Dividend Account Credit	Taxable Dividend	Estate Value (net of taxes)	After-tax Account Value	Estate Value (net of taxes)
5	242,137	1,132,327	242,452	889,875	242,452	1,057,167	280,941	198,700
10	328,281	767,585	230,837	536,749	230,837	696,026	340,413	256,269
20	526,381	615,391	207,679	407,712	207,679	551,011	449,791	410,545
30	871,509	871,509	232,352	669,157	202,352	808,780	733,789	637,052
40	1,452,660	1,452,660	202,352	1,250,308	202,352	1,389,931	1,077,342	969,607

The Result:

- By using the Corporate Asset Transfer Plan, Sam and Sally will have significantly increased the value of their estate.
- Over a five year period, the $250,000 investment portfolio (net of charges) will grow tax-sheltered within the UL policy, greatly reducing Sam and Sally's corporate tax bill.
- At death, the life insurance proceeds less the Adjusted Cost Basis are paid to Bill and Betty, via tax-free dividends from the company's Capital Dividend Account credit. Any excess is payable as a taxable dividend which benefits from favourable tax treatment.
- Using the Corporate Asset Transfer Plan, capital gains would be minimized and would be assessed only on the Cash Value of the policy prior to death benefit payout. Conversely, without this Asset Transfer Plan, capital gains taxes would be payable on the entire amount of the alternative Balanced Fund.

NB: These examples are based on Life Dimensions (Low Fees) (***wave 21.0***) policy and are merely a projection of future results, using a set of assumptions that will change over time. Actual results are not guaranteed and will vary. This projection is not complete unless it is accompanied by all of the pages of a Life Dimensions (Low Fees) projection from the Wave illustration software.

^Assuming a Balanced Fund that has the following income: 50% interest, 30% dividends, 10% unrealized capital gains and 10% realized capital gains. Note: Probate Fees are not applicable in Quebec.

Case Study (using The Personal Asset Transfer Plan)

Client Details:

- If, on the other hand, Sam and Sally had the surplus cash within their personal investment portfolio, similar results could be achieved (see below). However, you may want to first review their personal insurance needs in addition to the other items under the checklist above ("Is an Asset Transfer Plan Right for Your Clients?") before coming up with a plan that is appropriate for them.

Solution: The Personal Asset Transfer Plan from BMO Insurance

- Insured lives: Sam and Sally on a Joint Last to Die BMO Insurance UL policy
- Owner of policy: Sam and Sally
- Beneficiaries: Bill and Betty
- Death Benefit option: Sum Insured
- Cost of insurance option: YRT 100 with Investor Maximizer
- Planned deposits: $50,000 for five years
- Projected values: same as above

Comparison of Values
Personal Asset Transfer Plan from BMO Insurance vs. the Alternative Investment

	Life Dimensions (Low Fees) Personal Asset Transfer Plan (projected at a 5% annual rate of return)		Alternative Investment (Balanced Fund projected at a 6% annual rate of return)^	
Year	Cash Value	Estate Value	Estate Value	Estate Value (net of taxes and charges)
5	242,137	1,132,327	280,223	276,004
10	328,281	767,585	338,403	333,281
20	526,381	615,391	498,808	487,257
30	871,509	871,509	725,371	714,238
40	1,452,660	1,452,660	1,065,251	1,048,840

The Result:

- Similar to the Corporate Asset Transfer Plan, by using the Personal Asset Transfer Plan, Sam and Sally will have significantly increased the value of their personal estate.
- Over a five year period, the $250,000 investment portfolio (net of charges) will grow tax-sheltered within the UL policy, greatly reducing Sam and Sally's personal income tax bill.
- At death, the life insurance proceeds will be paid tax-free to Bill and Betty outside of Sam and Sally's will.

NB: These examples are based on Life Dimensions (Low Fees) (***wave 21.0***) policy and are merely a projection of future results, using a set of assumptions that will change over time. Actual results are not guaranteed and will vary. This projection is not complete unless it is accompanied by all of the pages of a Life Dimensions (Low Fees) projection from the Wave illustration software.

^Assuming a Balanced Fund that has the following income: 50% interest, 30% dividends, 10% unrealized capital gains and 10% realized capital gains. Note: Probate Fees are not applicable in Quebec.

Underwriting and Administration Considerations

When proposing an Asset Transfer Plan, you should consider the following:

- Check to ensure that the amount of insurance you are proposing on any life is reasonable and justifiable; this amount will need to be approved by a BMO Insurance underwriter.
- Refer to BMO Insurance's Universal Life Underwriting Guidelines found under the Underwriting Guidelines menu of our Wave software for details on age, amount and financial underwriting requirements.
- Run a personalized illustration for your client, using the latest version of the Wave illustration software and include a signed copy with the application.
- When filling out the application for insurance, use the following as a guideline:

	For the Personal Asset Transfer Plan	For the Corporate Asset Transfer Plan
Life Insured	Your client	Key person or shareholder
Owner	Your client	Corporation
Beneficiary	Heirs of the insured	Corporation

- To ensure that the underwriter reviewing the application for insurance understands the purpose of the insurance, include a covering letter with a summary of what is being proposed.

A Quiz on The Personal and Corporate Asset Transfer Plans

Q1

What would be considered traits of a suitable candidate for the Corporate Asset Transfer Plan?

i. A business owner of a privately controlled Canadian corporation that is looking at succession planning

ii. A business owner that has surplus cash flow who depends on this money for her day-to-day operations

iii. A business owner who is in good health and is able to qualify for life insurance

iv. A business owner that has a need for corporate insurance such as key person insurance

v. An uninsurable business owner that is looking to insure their infant children

a) i only
b) ii only
c) iii only
d) i, ii and v only
e) i, iii and iv only

Q2

When implementing a Corporate Asset Transfer Plan, which of the following are true?

i. To benefit from the Capital Dividend Account credit, the owner and beneficiary of the policy must be a privately controlled Canadian corporation

ii. To benefit from the Capital Dividend Account credit, only the owner of the policy must be a privately controlled Canadian corporation

iii. The entire amount of the Death Benefit from the UL policy can be paid as a tax-free dividend to the shareholder's estate using the Capital Dividend Account credit

a) i only
b) ii only
c) iii only
d) None of the above
e) All of the above

Q3

Which of the following are some of the key benefits of the Personal Asset Transfer Plan?

i. The size of the individual's estate value is immediately increased

ii. The individual's future taxable income is reduced since assets are transferred into a life insurance vehicle with tax-deferred accumulation

iii. Only the amount of the death benefit in excess of the Adjusted Cost Basis of the policy is paid to the individual's beneficiaries tax-free

a) i and ii only
b) ii and iii only
c) i and iii only
d) None of the above
e) All of the above

Q4

When proposing either the Personal or Corporate Asset Transfer Plans, any amount of insurance can be issued for the proposed insured, as long as the amount of the first year deposit can be tax-sheltered.

a) True
b) False

Q5

When submitting an application for insurance for either the Personal or Corporate Asset Transfer Plans, it is a good idea to include a covering letter to describe the intent of the insurance as well as a signed illustration.

a) True
b) False

Answers 1 e, 2 a, 3 a, 4 b, 5 a

To find out more about BMO Insurance products, please call your MGA, contact the BMO Insurance regional sales office in your area, call 1-877-742-5244 or visit www.bmoinsurance.com/advisor.

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