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TAX MATTERS

Life insurance isn't taboo. It's a creative tool

TIM CESTNICK
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Trust is not easily earned these days. There's no place where this is more true than in the financial services industry. Take banks, for example. I walked into my bank this week. "Why do you chain your pens to the counter?" I asked the teller. "I trust you with my money. Shouldn't you trust me with your pens?" I reasoned.

Now take life insurance as another example. Who trusts a life insurance adviser? If you're on a plane and the person next to you wants to chat while you want to sleep, just tell him you sell life insurance for a living when he asks what you do. End of conversation.

It's too bad that we're not more open to trusting what our life insurance advisers are suggesting. The truth is that life insurance is an extremely valuable tool in tax and estate planning. Here are some reasons why.

- **Provides liquidity when it's needed.** If you're primarily invested in real estate, a private company, or other illiquid assets, where's the cash going to come from to pay taxes owing when you're gone? Life insurance can solve that problem.
- **Provides income when you can't.** Are you the primary bread-winner in the family? If you're no longer around, life insurance can create an investment portfolio to replace that income that may be important to the security of your family.
- **Shelters investments from tax.** If you invest in a permanent (not term) life insurance policy, then a portion of your premiums will go into an accumulating pool of investments. Those investments will grow tax-sheltered, which can allow for greater accumulation over time.
- **Eliminates debt at an important time.** If you have debt, do your loved ones a huge favour and provide them with greater financial security by paying off your debt with life insurance proceeds when you're gone.
- **Transfers assets tax-free.** When life insurance pays out upon your death, both the face value of the policy and the accumulating investments are paid tax-free to your beneficiaries. If you grow those investments outside an insurance policy, the growth will be taxed upon your death (when someone other than your spouse inherits the assets). So, life insurance can eliminate that tax.
- **Leaves a legacy of value.** Some of my clients have purchased life insurance on the lives of their children – because it's cheaper than on their own lives. Once the kids are 18 or older, they can transfer ownership of those policies – including the assets in the policy and all the growth – to their kids, free of tax. The beneficiary of the policy can be the grandkids. This provides a tax-free legacy for future generations.
- **Provides cash in retirement.** You don't have to die for the benefits of life insurance to be realized. As you grow tax-sheltered investments inside a policy, they can be used to provide cash in retirement. You can make direct withdrawals from the policy (which are taxable), or you can borrow against the value accumulated in the policy. These loans can be used to meet cash needs in retirement, and are paid off using some of the insurance proceeds when you're gone.
- **Equalizes an estate for your heirs.** What are you going to leave the kids when you're gone? Are you leaving assets of equal value to each of them? If you'd like to treat them equally but are leaving certain assets of value to one and not the others, life insurance can be used to provide cash to equalize things.

- **Helps to make meaningful donations.** If you have a desire to help a specific charity or cause, and want to do more than your cash flow or assets will allow today, consider making a donation after you're gone using the proceeds of a life insurance policy.
- **Ensures the continuity of your business.** If you own a business that would be greatly affected by your death, give your employees, management and family an opportunity to see the business thrive even in your absence. Life insurance can provide a cash infusion that could help stabilize the business.
- **Enables tax-free withdrawals from your corporation.** If your company owns and is the beneficiary of a life insurance policy on your life, your company will receive a tax-free payment when you die. These proceeds will increase something called the "capital dividend account" of the company, which will allow for tax-free dividends to the surviving shareholders.

Think about life insurance not as an unnecessary cost, but as an investment to accomplish some important and beneficial things – both during your lifetime and when you're gone.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author and founder of WaterStreet Family Offices.