



*Vancouver Pacific Financial Group*



## Corporate Split Dollar

### **“Use a Tax Sheltered plan to enhance a Key Employee’s benefit package!”**

Yes, there is a way for a corporation to offer a significant additional benefit to one or more of their key employees; that is by cost splitting a tax sheltered Life Insurance policy!

#### **Many people are unaware that:**

- The “Fund Value” and the “Basic Death Benefit” of a tax sheltered plan can be split. This creates a situation where a company can pay for a major part of the cost of the insurance needed by a key employee.

Here is how it works in a Regular Split Dollar package. The deposit that funds the policy is split with the employee usually paying the Net Cost of Pure Insurance and the employer paying the rest up to the total deposit. The Employer owns the policy and receives the “Fund Value” portion upon the employee’s death. The Employee’s beneficiary receives the difference between the “Total Death benefit” and the “Fund Value”.

Utilizing a Life insurance policy that qualifies under section 148 of the Income Tax Act is an excellent planning tool because it creates a growing tax advantaged account. This account is totally accessible while the employee is alive and is paid out tax free on death. As long as the tax advantaged account does not cause the policy to become non-exempt, the policy could be funded with large deposits over a short period. As long as the employee can be shown to be paying a reasonable estimation of the cost of insurance coverage, there is usually no taxable benefit assessed, which adds to the attractiveness of this for key individual or shareholders.

Split Dollar Deposit is a method of splitting the cost and benefits of a life insurance policy between an employer and an employee.

In a Regular Split Dollar, the Employer owns the policy and receives the Fund Value portion upon the employee’s death. The Employee receives the difference. The Employer pays the lesser of the annual deposit and the growth in the Fund Value for the policy year. The employee pays the difference, if any.

\*Information courtesy of Transamerica Life Insurance Company of Canada E. & O. E.

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