

Life and health  
insurance

# Advisors – Universal life

Sales concepts  
Wealth notes



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# Table of contents

1. Objective of the wealth notes concepts	1
2. Description of the wealth notes concepts	1
2.1 Personal wealth note	1
2.2 Corporate wealth note	1
2.3 In brief	1
3. Illustration of the wealth notes concepts in the software	1
4. Target market	2
4.1 Personal wealth note	2
4.2 Corporate wealth note	2
5. Advantages of the wealth notes concepts	2
6. Questions and answers – Personal wealth note	2
6.1 Which tax rate should be used?	3
6.2 What is the difference between the realized capital gain and the deferred capital gain?	3
7. Questions and answers – Corporate wealth note	3
7.1 Which tax rate should be used?	3
7.2 What is the difference between the realized capital gain and the deferred capital gain?	3
7.3 Does the net estate value include the capital dividend paid?	3
7.4 Will the total amount of the death benefit paid to the corporation be payable tax-free to the beneficiaries?	3

# 1. Objective of the wealth notes concepts

Universal Life policy is an excellent financial planning tool and an effective tax shelter for investment purposes. The objective of the wealth notes concepts is to show how investing in a tax-exempt life insurance policy can be advantageous from a financial standpoint. A comparison between savings in a tax-exposed environment and investments in a universal life policy concretely illustrates the difference between the two investment options.

## 2. Description of the wealth notes concepts

### 2.1 Personal wealth note

The client purchases a universal life insurance policy with an increasing death benefit on their life and invests higher amounts than the minimum premium. With time, the cash value increases substantially since it accumulates tax-free. Upon the client's death, the total death benefit (including the fund value of the policy) will be paid tax-free to the beneficiaries.

### 2.2 Corporate wealth note

A corporation purchases a universal life insurance policy with an increasing death benefit. The corporation is both the owner and the beneficiary of the policy, and the shareholder/key person is the insured. The corporation deposits funds into the policy in excess of the minimum premium. Upon the insured person's death (shareholder/key person), the total death benefit (including the fund value of the policy) will be paid tax-free to the beneficiary of the policy (the corporation).

Furthermore, the death benefit paid to the corporation, minus the adjusted cost basis of the policy, will be credited to the corporation's capital dividend account. A tax-free capital dividend may then be paid to the corporation's shareholders.

### 2.3 In brief

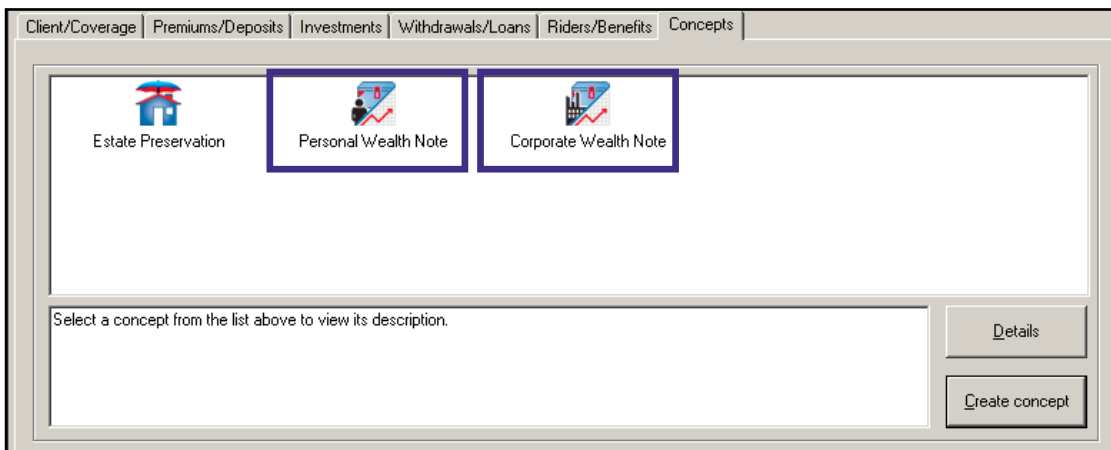
	Owner	Insured person	Beneficiary
Personal	Insured person	Insured person	Estate
Corporation	Corporation	Shareholder/Key person	Corporation

## 3. Illustration of the wealth notes concepts in the software




There are two ways to access the wealth notes sales concepts in the illustration software:

- Under the "Concepts" tab ("Universal Life" module), click on the appropriate concept image, and then click on the "Create concept" button.

To consult the PDF version of this document, click on "Details." It is also available in the Library section of our illustration software under "Universal Life" / "Sales concepts – Wealth Notes."



- From the software's main screen (direct access), click on "Sales Concepts." Then follow the same steps as above.

				What's New		Library
						
Open Proposal	Insurance Applications	Premium Comparison	Sales Concepts	Financial Calculator	FNA and Investor Profile	Electronic Application



## 4. Target market

### 4.1 Personal wealth note

- Canadian resident age 40 or older;
- An individual who wishes to leave an inheritance (to family members, loved ones or a charitable organization);
- An individual who makes regular annual investments;
- An individual with non-registered savings.

### 4.2 Corporate wealth note

- A private Canadian corporation;
- A corporation with at least one shareholder age 40 years or older;
- A holding corporation, a corporation operating with a sole shareholder or a family business;
- A corporation with net income;
- A corporation with funds available for investments;
- A corporation whose shareholders have specified heirs.

## 5. Advantages of the wealth notes concepts

- Tax-deferred growth of the fund value within the policy;
- The total life insurance earnings paid tax-free at death;
- A larger, more liquid estate upon death;
- For a corporation, the amount paid upon death can be credited to the capital dividend account.

## 6. Questions and answers – Personal wealth note

### 6.1 Which tax rate should be used?

The purpose of the concept is to compare the financial advantage of investing savings in a tax-exempt universal life policy with that of a taxable investment product.

Therefore, you should enter the tax rate on the revenue earned by the individual.

Since personal tax rates differ from province to province, you must choose the appropriate tax rate based on the client's province of residence.

You must also enter the appropriate personal tax rate for dividends, especially if the client has dividend revenue generated by savings.

### 6.2 What is the difference between the realized capital gain and the deferred capital gain?

Taxes are calculated annually on realized capital gains.

There is no annual taxation on deferred capital gains.

However, the illustration will take into account the realization or deferral of any capital gains upon the insured person's death.

## 7. Questions and answers – Corporate wealth note

### 7.1 Which tax rate should be used?

The purpose of the concept is to compare the financial advantage of investing savings in a tax-exempt universal life insurance policy with that of a taxable investment product.

Therefore, you should enter the tax rate applicable on the investment income earned by the corporation.

Since corporate tax rates differ from province to province, you must choose the appropriate corporate tax rate based on the corporation's provincial tax rate.

You must also enter the appropriate tax rate for corporate dividends.

### 7.2 What is the difference between the realized capital gain and the deferred capital gain?

Taxes are calculated annually on realized capital gains.

There is no annual taxation on deferred capital gains.

However, the illustration will take into account the realization or deferral of any capital gains upon the insured person's death.

### 7.3 Does the net estate value include the capital dividend paid?

Yes, the net estate value includes the total value to be inherited once the taxes are paid, as well as the capital dividend payment.

### 7.4 Will the total amount of the death benefit paid to the corporation be payable tax-free to the beneficiaries?

After the death of the insured shareholder, the insurer will pay the total death benefit of the policy to the beneficiary. In this concept, the beneficiary is the corporation.

The corporation can then apply a credit to its capital dividend account.

This credit amount is equal to the total death benefit minus the adjusted cost basis of the policy.

This amount can then be paid as a tax-free capital dividend to the shareholders



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This document provides a summary of an insurance product offered by Beneva Inc. It is not intended to describe all the provisions, exclusions and limitations applicable to a benefit or a specific insurance policy. For a complete description of the provisions, exclusions and limitations, check your policy.

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