DSI ESTATE PLANNING INC.

LIFE INSURANCE FOR WEALTH HOLDERS

BY RENNAY CRAATS

Don Smith started DSI Estate Planning Inc. in 1979 to provide knowledgeable financial advice and estate planning to Calgary clients. Over the past four decades, he has established himself as an authority in the field of life insurance for wealth holders, guiding some of Calgary's most successful entrepreneurs, professionals and family enterprises to meet their estate planning needs while minimizing their tax liabilities.

Despite Smith's impressive knowledge base and experience, he continues to invest in advancing his knowledge and skills to serve his clients even better. He recently completed a 400-hour, year-long program leading to a Family Enterprise Advisor designation to bring another level of service to his clients.

BIC: Why is having life insurance important to wealth holders?

DS: My clients have more than enough assets to take care of their families and businesses in the event of their death. What life insurance does for wealth holders is it acts as a financial tool that helps them preserve their assets in a very cost-effective, tax-effective way.

When life insurance is viewed as a tax-free financial instrument, it becomes something different. You can draw the analogy between life insurance and a tax-free savings account: the money invested is not deductible, the income inside the plan accumulates tax-sheltered, and when the plan matures all the investment income is paid out as tax-free insurance proceeds.

BIC: Why do your clients buy life insurance?

DS: It adds flexibility and optionality to their estate planning. An example is succession planning. Typically you have two or more shareholders who own a business and they have an agreement to buy out the shares of a deceased shareholder. But where do you get the money to buy those shares? Life insurance is a cost-effective tool for providing liquidity when it is needed. The company buys policies on both shareholders and upon death of the first, money comes into the company's

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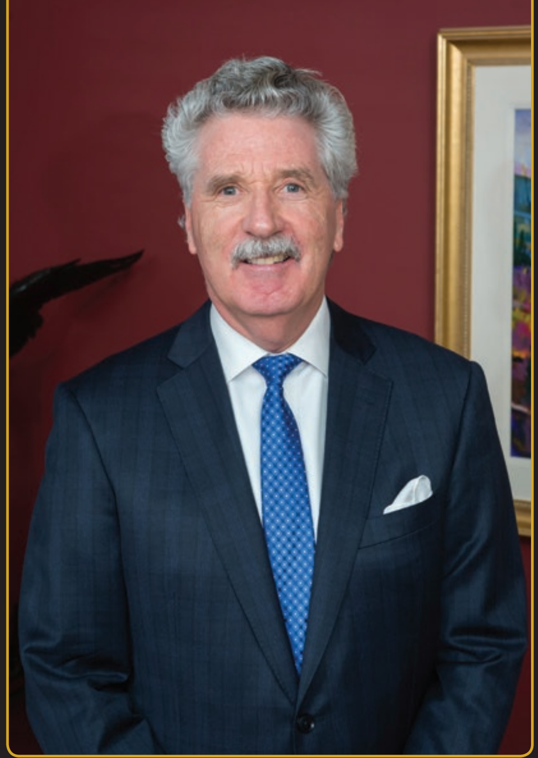

capital dividend account and is paid out on a tax-preferred basis to redeem the shares.

BIC: What are some other uses of life insurance?

DS: Oftentimes business owners want to leave the company to the next generation that is involved in the business but also want to provide for their spouse and children who are not involved. Instead of putting a line of credit on the business we can create insurance trusts to fund a spouse's, children's and grandchildren's capital requirements independent of the business. This can be done in a private, creditor-exempt manner if structured properly.

DON WORKS WITH ENTREPRENEURIAL FAMILIES AND WEALTH HOLDERS TO STRUCTURE INSURED ESTATE PLANS THAT MAXIMIZE THE PRESERVATION OF CAPITAL AND MINIMIZE THE IMPACT OF TAX.

Clients also use life insurance to cover lines of credit and debt as they build their wealth. If the policy is assigned to the bank, a portion of the premiums are tax deductible.

BIC: What about tax on retained earnings and the fair market value of a private corporation?

DS: Many clients have built up significant wealth in holding companies and profits accumulate in the form of retained earnings. As long as that company is intact, those retained earnings aren't taxed but the day of reckoning is when the shareholder dies. Capital gains tax is due and payable on the market value of those shares. A private corporation in Canada can buy life insurance on its shareholders and the premiums are not a taxable benefit to the shareholder as long as the corporation is the beneficiary. On death of the shareholder, the proceeds go into the company's capital dividend account and can be paid out to the estate tax-free providing the necessary funding to pay the capital gains tax.

BIC: A basic principle behind estate planning is preserving capital. How does life insurance help achieve this?

DS: The concept is keeping in place everything that wealth holders have invested a lifetime building and not having the tax system erode the value of that wealth. Life insurance is an excellent tool for delivering the money to pay the tax so that the assets do not have to be sold or financed. In that way it is a capital preservation tool.

BIC: Is there a way to use life insurance to help wealth holders fund philanthropic interests?

DS: Yes, our clients are looking for strategies to enhance their philanthropic interests and bequests. We have put a number of substantial insurance programs in place for clients to multiply the value of their gift. If the policy is assigned to the charity at the outset, the premiums are eligible for a 50 per cent charitable tax credit, or clients can use the charitable tax credit to offset the estate tax that would otherwise be payable. Clients then have the peace of mind knowing their philanthropic interests will be secured and endowed and the rest of the estate stays intact for their family.

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BIC: Why do wealth holders come to you?

DS: Wealth holders are smart. They don't want to be sold – they just want to understand their options. We go through a process, with a typical plan taking 12 months from start to finish. I work in concert with the client's other advisers – the CA, CFO and tax lawyer – so it's a multidisciplinary approach to bring together the plan. At the end of the day, the magic is how the insurance is integrated into the plan. It's not just a product out there by itself. It's always part of a master plan. The clients understand how it fits, where it fits and why it fits, which is why they implement it.

BIC: Why is it a great time for wealth holders to set up a life insurance plan?

DS: I think as confidence in the economy grows, people take a longer-term view and when they do that, estate planning makes more sense. It resonates with wealth holders as they are determined, optimistic and plan for the future.

Also a negative becomes a positive for my business. As tax rates continue to increase on wealth holders' estates, the need for liquidity also increases and the value of tax- exempt insurance as a funding vehicle becomes even more important.

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