Armstrong
Financial Services

March 5, 2024

Attn: Valued Client

Re: Exempt Policy Status Testing

An "exempt policy" under Canadian tax law refers to a life insurance policy meeting the criteria set out in section 306 of the Income Tax Regulations. Notably, it's important to recognize that the issuer of the policy does not have to be Canadian. The policy's exempt status is individually determined through actuarial certification, ensuring such policies are not subject to annual taxes on their internal earnings and are exempt from being considered taxable income upon the receipt of death benefits, in line with the Income Tax Act.

To confirm the policy's exempt status in Canada and facilitate the calculation for the Capital Dividend Account (CDA), we will provide in advance:

1. Actuarial validation from a certified Canadian actuary, confirming the policy's status as an Exempt Policy. This will be done per Act subsections 12.2(11) and Regulation 306 of the Income Tax Regulations.
2. The methodology for calculating the policy's Adjusted Cost Basis (ACB) in Canadian dollars, as per subsection 148(9) of the Act, utilizing the mortality tables from the Canadian Institute of Actuaries (CIA).

From a U.S. perspective, under Sec. 26 U.S. Code § 2105(a), life insurance proceeds for non-U.S. citizens who are nonresidents are not deemed U.S. property.

The policy, issued in the U.S., will have the Canadian Holdco (Longzone Holdings Inc.) as both the owner and the beneficiary using its Canadian registered address. Payments will be made directly from the Holdco to Protective Life.

When establishing a nexus to the U.S. for life insurance purposes, an insured needs to have a business connection (as owner or employee), have a bank or trading account, have an immediate family member residing in the U.S., or own real estate in the U.S..

Sincerely,
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