

January 2023

FOR POLICIES ISSUED AFTER DECEMBER 31, 2016

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BACKGROUND

We, Gordon B. Lang & Associates Inc. ("GBL"), have been retained to calculate the income tax impact, if any, of having Policy XXXXXXX come under the purview of the Canadian Income Tax Act (ITA) and the Regulations thereto as regulated by the Canada Revenue Agency (CRA).

The Policy, issued on January 1, 2023 by ABC Life, is a universal life insurance policy insuring the life of John Smith. The Policy provides a sum insured of \$1,000,000 USD plus cash value on the death of the insured. Premiums are flexible.

RESULTS

The Policy is expected to remain exempt at all future policy anniversaries. For more information please see the attached Appendices.

Should the Policy fail to pass the exempt status test in future years, the Policy would become subject to Canadian income tax in the hands of the policyholder. The tax on investment income would then apply on each subsequent policy anniversary. As well, on the death of the policyholder of a non-Exempt Policy, any untaxed income in the Policy becomes taxable.

Regardless of exempt status, benefits paid when a life insurance policy matures on death are not subject to taxes in Canada. Notwithstanding this, taxes could apply on the surrender or sale of the Policy in instances where the Cash Surrender Value exceeds the Adjusted Cost Basis.

Our calculations do not constitute income tax advice but rather provide results based on the exempt status of the Policy in accordance with the ITA and the Regulations thereto.

ASSUMPTIONS & DATA

The data upon which this calculation is based was provided by the insured and/or the agent representing the insured. The data was not tested to ensure its reasonability, sufficiency, and reliability. We did not audit or otherwise verify the information supplied to us in connection with this engagement. Consequently, our results are based on the data provided and our best knowledge at the time of this report.

If the actual policy experience does not match the values shown on the illustration provided to our office, then the results shown in this report will not apply. A new valuation would be needed to test if the policy is still exempt.

If additional data or other relevant information was to become available, it could have an impact on our results. A summary of data is provided in Appendix A.

OTHER

All dollar amounts shown are in Canadian Dollars unless indicated otherwise.



Appendix A – Policy Details

Policy Features	
Name of Insured:	John Smith
Age Nearest at Issue:	50
Gender	Male
Health Rating:	Nonsmoker
Insurer:	ABC Life
Policy Number:	XXXXXXX
Policy Date:	January 1, 2020
Coverage:	Universal Life Face + Fund
Face Value:	\$1,000,000 USD
Monthly Mortality Cost:	\$1,000 USD
Assumptions	
Life Insurance Policy Interest Rate:	3.50%
Life Insurance Policy Mortality:	1986-92 CIA
Exempt Test Policy Interest Rate:	3.50%
Exempt Test Policy Mortality:	1986-92 CIA
Valuation Summary	
Valuation Date:	January 16, 2023
Tax Status:	Exempt Policy
Date of Canadian Residency:	Prior to January 1, 2023



Appendix B – Expected Exempt Test Results

To be considered an Exempt Policy under the ITA and the Regulations thereto, on each policy anniversary, including future policy anniversaries, the Accumulating Fund of the Policy must be less than the Accumulating Fund of an Exempt Test Policy with similar attributes to the Life Insurance Policy.

The Accumulating Fund of the Exempt Test Policy is calculated according to the rules set forth in the ITA and the Regulations thereto.

The Accumulating Fund of the Life Insurance Policy is the greater of its Cash Value and the net premium reserve of the Policy calculated according to the rules set forth in the ITA and Regulations thereto, less the balance of any outstanding loans.

The estimated Cash Value, the estimated Accumulating Fund of the Policy, and the estimated Accumulating Fund of the Exempt Test Policy as at each future policy anniversary are as follows:

		Life Insurance Policy	Exempt Test Policy	_
Anniversary	Cash Value (\$)*	Accumulating Fund (\$)*	Accumulating Fund (\$)*	Policy Status
1	X,XXX	X,XXX	X,XXX	Exempt
2	X,XXX	X,XXX	X,XXX	Exempt
3	X,XXX	X,XXX	X,XXX	Exempt
4	X,XXX	X,XXX	X,XXX	Exempt
5	X,XXX	X,XXX	X,XXX	Exempt
6	X,XXX	X,XXX	X,XXX	Exempt
7	X,XXX	X,XXX	X,XXX	Exempt
8	X,XXX	X,XXX	X,XXX	Exempt
9	X,XXX	X,XXX	X,XXX	Exempt
10	X,XXX	X,XXX	X,XXX	Exempt
11	X,XXX	X,XXX	X,XXX	Exempt
12	X,XXX	X,XXX	X,XXX	Exempt
13	X,XXX	X,XXX	X,XXX	Exempt
14	X,XXX	X,XXX	X,XXX	Exempt
15	X,XXX	X,XXX	X,XXX	Exempt
16	X,XXX	X,XXX	X,XXX	Exempt
17	X,XXX	X,XXX	X,XXX	Exempt
18	X,XXX	X,XXX	X,XXX	Exempt
19	X,XXX	X,XXX	X,XXX	Exempt
20	X,XXX	X,XXX	X,XXX	Exempt
21	X,XXX	X,XXX	X,XXX	Exempt

^{*}Values have been converted from U.S. Dollars to Canadian Dollars using the exchange rates at each respective policy anniversary. Exchange rates were obtained from the Bank of Canada and Statistics Canada websites.



		Life Insurance Policy	Exempt Test Policy	
Anniversary	Cash Value (\$)*	Accumulating Fund (\$)*	Accumulating Fund (\$)*	Policy Status
22	X,XXX	X,XXX	X,XXX	Exempt
23	X,XXX	X,XXX	X,XXX	Exempt
24	X,XXX	X,XXX	X,XXX	Exempt
25	X,XXX	X,XXX	X,XXX	Exempt
26	X,XXX	X,XXX	X,XXX	Exempt
27	X,XXX	X,XXX	X,XXX	Exempt
28	X,XXX	X,XXX	X,XXX	Exempt
29	X,XXX	X,XXX	X,XXX	Exempt
30	X,XXX	X,XXX	X,XXX	Exempt
31	X,XXX	X,XXX	X,XXX	Exempt
32	X,XXX	X,XXX	X,XXX	Exempt
33	X,XXX	X,XXX	X,XXX	Exempt
34	X,XXX	X,XXX	X,XXX	Exempt
35	X,XXX	X,XXX	X,XXX	Exempt
36	X,XXX	X,XXX	X,XXX	Exempt
37	X,XXX	X,XXX	X,XXX	Exempt
38	X,XXX	X,XXX	X,XXX	Exempt
39	X,XXX	X,XXX	X,XXX	Exempt
40	X,XXX	X,XXX	X,XXX	Exempt
41	X,XXX	X,XXX	X,XXX	Exempt
42	X,XXX	X,XXX	X,XXX	Exempt
43	X,XXX	X,XXX	X,XXX	Exempt
44	X,XXX	X,XXX	X,XXX	Exempt
45	X,XXX	X,XXX	X,XXX	Exempt
46	X,XXX	X,XXX	X,XXX	Exempt
47	X,XXX	X,XXX	X,XXX	Exempt
48	X,XXX	X,XXX	X,XXX	Exempt
49	X,XXX	X,XXX	X,XXX	Exempt
50	X,XXX	X,XXX	X,XXX	Exempt

^{*}Values have been converted from U.S. Dollars to Canadian Dollars using the exchange rates at each respective policy anniversary. Exchange rates were obtained from the Bank of Canada and Statistics Canada websites.

Appendix C – Additional Information

The expected Maximum Adjusted Cost Basis and the Adjusted Cost Basis on December 31 for each future calendar year are as follows. Please note, these values are estimates based on the illustration provided to our office. If policy experience deviates from the provided illustration, these values will change:

	Maximum Adjusted	Adjusted Cost Basis as
Year	Cost Basis (\$)	at Dec 31 (\$)
2023	X,XXX	X,XXX
2024	X,XXX	X,XXX
2025	X,XXX	X,XXX
2026	X,XXX	X,XXX
2027	X,XXX	X,XXX
2028	X,XXX	X,XXX
2029	X,XXX	X,XXX
2030	X,XXX	X,XXX
2031	X,XXX	X,XXX
2032	X,XXX	X,XXX
2033	X,XXX	X,XXX
2034	X,XXX	X,XXX
2035	X,XXX	X,XXX
2036	X,XXX	X,XXX
2037	X,XXX	X,XXX
2038	X,XXX	X,XXX
2039	X,XXX	X,XXX
2040	X,XXX	X,XXX
2041	X,XXX	X,XXX
2042	X,XXX	X,XXX
2043	X,XXX	X,XXX
2044	X,XXX	X,XXX
2045	X,XXX	X,XXX
2046	X,XXX	X,XXX
2047	X,XXX	X,XXX
2048	X,XXX	X,XXX
2049	X,XXX	X,XXX
2050	X,XXX	X,XXX
2051	x,xxx	x,xxx
2052	x,xxx	x,xxx
2052	X,XXX	X,XXX
2053	X,XXX	X,XXX
2055	X,XXX	X,XXX
2056	X,XXX	X,XXX
2030	7,777	7,7777



	Maximum Adjusted	Adjusted Cost Basis as
Year	Cost Basis (\$)	at Dec 31 (\$)
2057	X,XXX	X,XXX
2058	X,XXX	X,XXX
2059	X,XXX	X,XXX
2060	X,XXX	X,XXX
2061	X,XXX	X,XXX
2062	X,XXX	X,XXX
2063	X,XXX	X,XXX
2064	X,XXX	X,XXX
2065	X,XXX	X,XXX
2066	X,XXX	X,XXX
2067	X,XXX	X,XXX
2068	X,XXX	X,XXX
2069	X,XXX	X,XXX
2070	X,XXX	X,XXX
2071	X,XXX	X,XXX
2072	X,XXX	X,XXX