
# Capital Dividend Account

**Introduction**
The taxation of private corporations in Canada is based upon the fundamental principle of tax integration. Under this principle, income earned by a private corporation and distributed to its shareholders should be subject to approximately the same amount of tax as if the income had been earned by the shareholders directly. Integral to the principle of tax integration is the recognition that an amount which would have been tax-free if received directly by a shareholder should not be subject to tax if received by a private corporation and then flowed through to the shareholder.

The capital dividend account ("CDA") is a notional tax account created as a means of tracking these tax-free amounts for income tax purposes and passing these amounts through to shareholders by means of a tax-free capital dividend. The CDA includes for example, proceeds received by a private corporation as a death benefit from a life insurance policy under which the corporation is a beneficiary.

**The Capital Dividend Account**
The purpose of the CDA is to track certain tax-free surpluses accumulated by a private corporation. These surpluses may be distributed in the form of tax free capital dividends to the shareholders of the corporation.

All private corporations resident in Canada qualify for a CDA. There is no requirement that the corporation be Canadian-controlled. Public corporations do not qualify for the this same right.

The CDA is a notional tax account and is not an account that is recorded in the accounting records or on the financial statements of the corporation. The balance in the CDA may be reported in the notes to the financial statements for information purposes only. Some mistakenly expect to see an actual bank account and/or a financial statement account because of the CDA's name.

The calculation of the CDA is described in the definition of "capital dividend account" in subsection 89(1) of the Income Tax Act (the "Act").

The calculation of the CDA involves the following amounts:

- The excess of the non-taxable portion of capital gains over the non-deductible portion of capital losses (including business investment losses) incurred by the corporation since 1971; plus
- Capital dividends received from other corporations; plus
- The non-taxable portion of gains resulting from the disposition of eligible capital property (e.g. goodwill); plus
- The non-taxable portion of capital gains distributed by a trust to the corporation in respect of capital gains of the trust; plus
- The excess of the proceeds of a life insurance policy (including foreign life insurance policies) received by the corporation in consequence of the death of any person over the adjusted cost basis ("ACB") of the policy to the corporation immediately before the time of death; and
- Certain distributions made by a trust and received by the corporation in respect of non-taxable capital gains realized by the trust and capital dividends received by the trust; less
- Capital dividends paid by the corporation.

It is important to note that the actual calculation of the CDA balance is more complex than illustrated previously. Certain timing issues related to the inclusion of trust distributions, differing historical capital gains inclusion rates and changes in a corporation's status or control may impact the ability of the corporation to pay capital dividends.

The Canada Revenue Agency's ("CRA") views on the CDA and capital dividends are contained in Archived Interpretation Bulletin IT-66R6, "Capital Dividends", dated May 31, 1991. Note that the bulletin also deals with what was known as the life insurance capital dividend account ("LICDA") which was repealed effective 1985. References in IT-66R6 to the LICDA may generally be ignored. Any credit that existed in the corporation's LICDA was transferred automatically to the corporation's CDA following the 1985 changes. See Archived Interpretation Bulletin IT-430R3 (Consolidated) "Life Insurance Proceeds Received by a Private Corporation or a Partnership as a Consequence of Death", dated February 10, 1997, for CRA's views on life insurance proceeds received because of death.

**Life insurance proceeds received by a private corporation**

Individuals receive tax-free proceeds from exempt life insurance policies on death. Including life insurance proceeds in the private corporation's CDA preserves the tax-free character of life insurance proceeds and achieves integration by allowing the corporation to pay out a tax-free dividend to the shareholder.

As was mentioned previously, a private corporation's CDA is credited by an amount equal to the excess of the proceeds of a life insurance policy over the ACB of the policy immediately before death received by the corporation following the death of the life insured. The reduction of the credit to the CDA for the ACB of the policy is intended to account for the fact that, if the corporation had distributed amounts to the shareholders to pay for life insurance, such amounts would have been taxable to the shareholders.

The calculation of the ACB of a life insurance policy is detailed in the definition of "adjusted cost basis" in subsection 148(9) of the Act. Briefly, premiums or deposits made into the policy (including premiums for term riders) increase the ACB of the policy. The ACB is reduced by taking policy loans, paying dividends under a participating policy and partial dispositions. The ACB is increased by repaying policy loans, purchasing paid-up insurance, purchasing term enhancements and policy gains.

Generally, when the terms of a life insurance policy state that following the death of the insured, the beneficiary is entitled to receive a death benefit that is net of the policy loan at death, the credit to the CDA equals the death benefit proceeds less the policy loan outstanding minus the ACB (immediately before death) (CRA Technical Interpretation #2004-0089141C6).

For example, the credit to the CDA is calculated as follows:

| | |
|---|---|
| ACB | $200,000 |
| Outstanding policy loan | (150,000) |
| ACB immediately prior to death | $50,000 |
| Death benefit | $1,000,000 |
| Credit to CDA (Death benefit proceeds – policy loan – ACB immediately before death) | $800,000 |

For policies last acquired after December 1, 1982, the ACB is reduced by the net cost of pure insurance ("NCPI") for calendar years ending in a taxation year commencing after May 31, 1985. The NCPI, as the name suggests, is the pure mortality cost under the policy each year. The NCPI is calculated in accordance with Regulation 308 of the Act. The NCPI calculations are based on mortality factors obtained from the Canadian Institute of Actuaries 1969-1975 mortality tables, applied to the net amount at risk. The net amount at risk is the difference between the total death benefit and the accumulating fund or the cash surrender value ("CSV") of the policy, depending on the method regularly followed by the life insurer. The accumulating fund is defined in Regulation 307 of the Act. Generally, the CSV is used in determining the net amount at risk.

The NCPI increases each year after a policy is issued, primarily because of the increase in mortality factors as the life-insured ages. The NCPI has a profound effect on the calculation of the ACB of the policy and, by definition, the credit to the CDA. The lower the ACB, the higher the CDA credit. Note that Federal Budget 2014 proposed changes effective January 1, 2017, to the calculation of NCPI. The draft legislation mandates a newer mortality table be used to determine NCPI in the calculation of the ACB of a policy. It also mandates that the new reserve calculation for the determination of the savings component of a policy be used in determining the net amount at risk in the calculation of the NCPI of a policy. As the new reserve calculation will generally produce smaller net amounts at risk than the current legislation, and the new NCPI rates are generally lower than under the current legislation, NCPI's will generally be lower under the draft legislation, resulting in higher ACB's that remain positive for a longer period of time. Higher ACB's will generally be advantageous to policyholders with respect to withdrawals and other policy dispositions but will generally be disadvantageous to the CDA credit available to corporate-owned policies in the event of premature death of an insured person. (For a detailed discussion of the ACB of a life insurance policy, refer to the Tax Topic entitled, "Dispositions of Life Insurance Policies".)

Attached to this Tax Topic are two examples showing the change in the ACB each year as the NCPI increases and the resulting credit to the CDA of the corporation should a death occur. Both examples are based on Manulife's universal life insurance plan and assume the life insured is a 50-year-old male, non-smoker.

In order to obtain a credit to the CDA, the recipient corporation must be the beneficiary under the policy and not simply the policy owner. The life insurance proceeds should not be flowed through a trust. CRA indicated in a 1986 technical letter that proceeds received by a trust (other than a bare trust) and flowed through to a corporation (e.g., in cases where there may be a concern about the ability of the corporation to obtain a release of an assignment of the policy from lenders) are not credited to the corporation's CDA because the funds do not represent proceeds of a life insurance policy. Instead, the proceeds represent distributions of property from the trust in satisfaction of an interest in the trust. Therefore, the proceeds are not credited to the corporation's CDA. CRA recently confirmed this position in Technical Interpretation, 2011-0399771C6, dated May 20, 2011.

In certain circumstances, one corporation (e.g., a holding company) may own the insurance policy and another corporation (e.g., an operating company) may be the beneficiary. On receiving the insurance proceeds, the beneficiary corporation is not required to reduce the CDA for the ACB of the policy. Technically, the credit to the CDA is not reduced for the ACB of the policy because the ACB belongs to the policy owner, not the beneficiary. This maximizes the credit to the CDA. However, care should be taken if the structure is undertaken for no reason other than to maximize the CDA credit. CRA has indicated that structuring the ownership and beneficiary designations in this manner without an identified business purpose could be challenged as an avoidance transaction. In any structure where the beneficiary of a corporate owned policy is not the owner, there is also potential for CRA to assess a taxable benefit to the recipient corporation or its shareholder. For a detailed discussion of these issues, refer to the Tax Topic entitled, "Corporate Owned Life Insurance – Tax Considerations". Although the "life insurance policy" for purposes of the capital dividend account must be within the meaning of subsection 138(12) of the Act, the residence of the insurer or the insured person is irrelevant. However, the challenge of a life insurance policy issued by a non-resident insurer is in determining the ACB of the policy. CRA indicated that it is the corporation's responsibility to demonstrate that the ACB for the policy is being calculated in accordance with the definition of that expression in subsection 148(9) of the Act (see Technical Interpretation, 2005-0132331C6, dated October 7, 2005).

**Payment of a capital dividend**

A dividend (including a capital dividend) is declared by the directors of the corporation and is made payable to the shareholders of record as of a certain date. The resolution of the directors declaring the dividend is recorded in the minutes of the corporation.

Typically, dividends paid by a corporation are taxable dividends. However, if a credit balance exists in the CDA prior to the declaration of the dividend and the directors elect in prescribed manner and form, an otherwise taxable dividend will be a tax free capital dividend pursuant to subsection 83(2) of the Act.

Note that even though the individual components of the CDA calculation cannot be negative, because of the cumulative nature of the calculation it is possible to have a negative CDA balance. Consider the following scenario. A Corporation realizes a $1,000,000 capital gain in year one resulting in a $500,000 credit to the CDA. At the end of the year, a capital dividend of $500,000 is declared and paid. The balance of the CDA at the end of year one is zero (+$500,000–$500,000). In year two, the corporation realizes a capital loss of $400,000. The CDA balance at the end of year two is now negative $200,000 (+$500,000–$500,000–$200,000). Although a negative CDA has no immediate tax consequences, it may prevent the distribution of all of the CDA credit arising from a subsequent receipt of life insurance by A Corporation. Continuing the example above, if in year three, the corporation receives a death benefit of $500,000 from a life insurance policy with a nil ACB, the credit to the CDA will be $500,000, but only $300,000 may be paid out as a capital dividend. The CDA balance is calculated as follows:

| | |
|---|---|
| Excess of non-taxable portion of capital gains over non-deductible portion of capital losses (+$500,000-$200,000) | $300,000 |
| Excess of life insurance proceeds over the ACB of the policy | $500,000 |
| Less capital dividends paid by the corporation | ($500,000) |
| CDA Balance | $300,000 |

In order to qualify as a tax-free capital dividend under subsection 83(2) of the Act, certain steps must be followed concurrent with the declaration of the dividend and prior to payment of the dividend to the shareholders. The steps are set out in Regulation 2101 of the Act, which provides that the election must be made on a prescribed form (CRA Form T2054, "Election in respect of a capital dividend under subsection 83(2)") and lists the various documents that must be filed with the election including the directors' resolution authorizing the election and schedules showing the amount of the corporation's CDA.

The election must be filed with CRA no later than the day on which the dividend becomes payable or the first day on which any part of the dividend is paid, whichever is earlier. Late-filed elections will generally be accepted by CRA subject to filing the proper forms and paying a late filing penalty. It is extremely important to calculate the CDA correctly; an election that exceeds the corporation's CDA credit can result in a harsh 60% penalty assessed to the corporation calculated on the excess amount.

## Non-resident shareholders

A capital dividend paid to a non-resident shareholder is subject to a flat withholding tax of 25% under paragraph 212(2)(b) of the Act. The withholding tax rate may be reduced if paid to a shareholder resident in a country with which Canada has a tax treaty. For example, dividends paid to a shareholder resident in the U.S. will be subject to a withholding tax of 5%, if the recipient is a corporation and owns at least 10% of the corporation paying the dividends or 15% in all other cases. The dividend would most likely be taxable to the non-resident under the tax laws of their resident country.

**Collateral assignment of corporate owned insurance policies**

When an insurance policy has been assigned to a lending institution as collateral for a bank loan or is the subject of a hypothecary claim by a creditor and a death occurs, the insurer generally makes a payment to the lending institution in satisfaction of the collateral assignment and to the extent of any excess proceeds, to the named beneficiary under the policy.

If the beneficiary of the policy is a private corporation, the full amount of the proceeds are included in the calculation of the CDA under subsection 89(1) of the Act, notwithstanding the fact that a portion of the proceeds may be paid directly to the lending institution.

It had long been CRA's administrative policy that a private corporation was not entitled to a credit to its CDA when proceeds of a life insurance policy were paid directly to a creditor as a beneficiary under life insurance to repay the debtor's business loans (i.e., commonly referred to as "creditor insurance").

This long-standing position was successfully challenged in the case of Canadian Motivel Inc. v. The Queen ("Motivel"), dated March 18, 2008. Motivel was an out-of-court settlement in which the CRA allowed the taxpayer to receive a CDA credit where creditor insurance repaid the corporation's debt to the lender. The lender was the owner and beneficiary of the insurance and the taxpayer paid the insurance premiums.

At the Association de Planification Fiscale et Financiere conference on October 10, 2008, CRA was asked to comment on the impact Motivel had on its existing practice. CRA confirmed its administrative policy at that time. In order for a CDA credit to arise in respect of business loan coverage, the company must be the beneficiary or policyholder under the policy that has been collaterally assigned to the lender. As a result, CRA was not willing to allow a CDA credit for the constructive receipt of life insurance proceeds where the creditor is the owner and beneficiary of the policy. CRA stated that the settlement arrived at in Motivel was case specific.

CRA's position was successfully challenged again in the case of Innovative Installation Inc. v. The Queen (2009 TCC 580) ("Innovative"). In Innovative, the corporate taxpayer borrowed $220,000 from the Royal Bank of Canada ("RBC") and obtained key person insurance on the life of the founder from Sun Life Financial. The insurance was not a condition for the loan; however, in the event of the founder's death, the death benefit would first be applied towards the loan. When the founder died, Sun Life paid the $196,000 insurance proceeds to RBC, who applied $175,500 to pay off the loan and paid the remaining balance to the corporation's bank account. The taxpayer added the proceeds to its CDA and paid a capital dividend of $160,000. CRA reassessed on the basis that the dividend was in excess of the corporation's CDA.

The Tax Court dismissed the minister's position and contrasted the situation of creditor insurance to collateral insurance as follows:

> A corporation that purchases a life insurance policy independent of a bank and uses the proceeds to pay off its bank loan would not be denied from adding the proceeds to its capital dividend account. Both scenarios are identical in substance. The decision to grant a subsection 83(2) election should not rise and fall on the form of the transaction but rather the substance of the transaction.

The Minister appealed the Tax Court's decision to the Federal Court of Appeal. In The Queen v. Innovative Installation Inc., (2010 FCA 285), the Federal Court of Appeal upheld and confirmed the Tax Court of Canada's finding that the debtor corporation (Innovative) should receive a capital dividend account credit for creditor insurance paid on the death of a key person to retire the corporation's business loan. The court stated that: "Paragraph 89(1)(d) does not require that corporation receive the proceeds directly from the insurer or that it be named as the beneficiary of the policy. It only had to have 'received' them in consequence of … death."

In Technical Interpretations 2011-0401431C6 (May 3, 2011) and 2011-0401991E5 (July 4, 2011), CRA has agreed that in similar creditor insurance situations, it will follow the decision in Innovative, allowing a CDA credit to the debtor corporation. Paragraph 6 of Archived IT-430R3 was updated to reflect this.

In a technical interpretation (#2012-0447171E5 dated March 25, 2013) the CRA confirmed that the full amount of the death benefit would be added to the debtor's CDA, without a reduction for the adjusted cost basis (ACB). The rationale for this conclusion was as follows:

> …creditor's group life insurance products are generally 'pure' insurance products, in that they are generally term and non-participating insurance products with no cash surrender value, typically designed to pay the outstanding balance of a loan upon death of the life insured. Moreover, it is our understanding that premiums payable with respect to a particular debtor for this type of products are generally calculated to cover the cost of insurance over the term of the certificate, that is, the term of the loan. It is therefore our understanding that if an ACB calculation was effected with respect to each particular certificate holder, the result would generally be a very low figure, if not nil.

A similar response was received to the same question at the 2012 APFF Conference in October of 2012. The CRA also confirmed (APFF Q 7) in situations where a debtor names a creditor as an irrevocable beneficiary under an individual insurance policy in addition to making a collateral assignment of the policy to the creditor, the debtor would be permitted an addition to its CDA. (This is a common practice amongst lenders in Quebec because of differences in the law under the Civil Code.) An unofficial translation of the response stated as follows:

> …we are of the opinion that the same position could reasonably be applied in such circumstances, provided that the debtor corporation is able to demonstrate that the life insurance proceeds paid directly to the lending institution were used to reduce the debt owed by the corporation to the lending institution, as per the contractual relationship between the parties.

The CRA also stated that the CDA credit would be reduced by the debtor's ACB, if any, as owner of the insurance policy. It is clear that CRA comments about not having to reduce the CDA by ACB are confined to creditor insurance products as described.

In technical interpretation No. 2014-0555581E5, dated June 5, 2015, the corporation was both the owner and beneficiary of the life insurance policy. The corporation had assigned the policy to a financial institution as collateral for a loan. The purpose of the loan was to generate business or rental income. Following the insured's death, a portion of the proceeds payable under the life insurance policy was used to pay off the loan.

The CRA indicated that the condition whereby the life insurance proceeds were payable following the insured's death was met when the proceeds were received by the corporation as beneficiary of the life insurance policy. When the life insurance policy is assigned to a financial institution as collateral for the corporation's loan and the corporation remains the beneficiary, the life insurance proceeds are deemed to be received by the corporation even if paid directly to the financial institution. The CRA determined that under these circumstances and provided that all of the conditions set out in subsection 89(1) are met, the corporation could have increased its CDA by the amount of the death benefit minus the ACB.

**Multi-life Policies and Fund Values Paid on First death**

Where a corporation owns a multi-life policy, the policy has only one ACB. Thus, at the death of a life insured under the policy, the full amount of the ACB is deducted from the proceeds receivable by the corporation as a consequence of the death of a life insured. Further, since there is no adjustment to the ACB in respect of a death benefit paid under a life insurance policy, the ACB continues to be calculated as defined in subsection 148(9) of the Act and will be deducted against future death proceeds in determining the credit to the CDA. The ACB calculation also applies for joint last-to-die life insurance policies that include a feature that pays out fund values in consequence of the first death of an insured person. Note that Federal Budget 2014 proposed changes effective January 1, 2017, to the treatment of the ACB of an exempt policy in relation to joint and multi-life policies. The amendments provide for the ACB of multi-life policies to be reduced as death benefits are paid. The payment of account value on first death from these policies will be treated as a partial disposition where that payment exceeds what could have been paid had the coverage giving rise to the death benefit been a stand-alone exempt insurance policy. The reduction of the ACB on each death will maximize the CDA received.

**Conclusion**

A corporation may own life insurance for any number of reasons, including funding a buy-sell agreement, business loan protection, key person protection, etc. Life insurance proceeds received by a private corporation create a credit to the CDA of the corporation that may be distributed as tax-free dividends to the shareholders. The credit to the CDA is often a fundamental component of the overall plan, and represents a key advantage of life insurance strategies over alternative strategies that might be considered.

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# Example 1:

**Male, age 50, non-smoker**
**$500,000 initial coverage (MUL universal life plan)**
**Increasing death benefit, 0% investment rate, $6,700 annual deposit for life**

| Year \| Age | Annual Deposit | NCPI | Adjusted Cost Basis | Cash Value | Total Death Benefit | CDA Credit |
|---|---|---|---|---|---|---|
| 1 \| 51 | 6,700 | 805 | 5,895 | 0 | 500,000 | 494,105 |
| 2 \| 52 | 6,700 | 945 | 11,649 | 0 | 500,000 | 488,351 |
| 3 \| 53 | 6,700 | 1,115 | 17,234 | 0 | 500,000 | 482,766 |
| 4 \| 54 | 6,700 | 1,330 | 22,604 | 0 | 500,000 | 477,396 |
| 5 \| 55 | 6,700 | 1,585 | 27,719 | 0 | 500,000 | 472,282 |
| 6 \| 56 | 6,700 | 1,880 | 32,538 | 0 | 500,000 | 467,462 |
| 7 \| 57 | 6,700 | 2,185 | 37,053 | 0 | 500,000 | 462,947 |
| 8 \| 58 | 6,700 | 2,525 | 41,228 | 0 | 500,000 | 458,773 |
| 9 \| 59 | 6,700 | 2,900 | 45,027 | 0 | 500,000 | 454,973 |
| 10 \| 60 | 6,700 | 3,330 | 48,397 | 0 | 500,000 | 451,603 |
| 11 \| 61 | 6,700 | 3,815 | 51,282 | 1 | 500,001 | 448,719 |
| 12 \| 62 | 6,700 | 4,400 | 53,582 | 1 | 500,001 | 446,419 |
| 13 \| 63 | 6,700 | 5,100 | 55,181 | 1 | 500,001 | 444,819 |
| 14 \| 64 | 6,700 | 5,930 | 55,951 | 1 | 500,001 | 444,050 |
| 15 \| 65 | 6,700 | 6,865 | 55,786 | 1 | 500,001 | 444,215 |
| 16 \| 66 | 6,700 | 8,750 | 53,736 | 1 | 500,001 | 446,265 |
| 17 \| 67 | 6,700 | 9,770 | 50,665 | 1 | 500,001 | 449,336 |
| 18 \| 68 | 6,700 | 10,840 | 46,525 | 1 | 500,001 | 453,476 |
| 19 \| 69 | 6,700 | 11,995 | 41,230 | 1 | 500,001 | 458,771 |
| 20 \| 70 | 6,700 | 13,290 | 34,639 | 1 | 500,001 | 465,362 |
| 21 \| 71 | 6,700 | 14,775 | 26,564 | 1 | 500,001 | 473,437 |
| 22 \| 72 | 6,700 | 16,440 | 16,824 | 1 | 500,001 | 483,177 |
| 23 \| 73 | 6,700 | 18,250 | 5,274 | 1 | 500,001 | 494,727 |
| 24 \| 74 | 6,700 | 20,175 | 0 | 1 | 500,001 | 500,001 |
| 25 \| 75 | 6,700 | 22,185 | 0 | 1 | 500,001 | 500,001 |
| 26 \| 76 | 6,700 | 24,205 | 0 | 1 | 500,001 | 500,001 |
| 27 \| 77 | 6,700 | 26,360 | 0 | 1 | 500,001 | 500,001 |
| 28 \| 78 | 6,700 | 28,795 | 0 | 1 | 500,001 | 500,001 |
| 29 \| 79 | 6,700 | 31,580 | 0 | 1 | 500,001 | 500,001 |
| 30 \| 80 | 6,700 | 34,705 | 0 | 1 | 500,001 | 500,001 |
| 31 \| 81 | 6,700 | 38,195 | 0 | 1 | 500,001 | 500,001 |
| 32 \| 82 | 6,700 | 42,085 | 0 | 1 | 500,001 | 500,001 |
| 33 \| 83 | 6,700 | 46,430 | 0 | 2 | 500,002 | 500,002 |
| 34 \| 84 | 6,700 | 51,325 | 0 | 2 | 500,002 | 500,002 |

**Note: This is only an illustration. Future values cannot be guaranteed**

This example assumes annual deposits of $6,700 are made into the insurance policy for life. The cash values are minimal. The illustration indicates the ACB of the policy will initially increase each year, reach a maximum in about 14 years and then decrease each year thereafter. The ACB is equal to the difference between the deposits and the NCPI. In the example, the ACB reduces to nil after about 24 years. At this time, the NCPI fully offsets the premium deposits.

The CDA credit increases and decreases through time as the ACB increases and decreases through time until the ACB of the policy reaches zero. At that point, the full amount of death benefit would be available to be credited to the CDA.

# Example 2:

**Male, age 50, non-smoker**
**$500,000 initial coverage (MUL universal life plan)**
**Increasing death benefit, 2.5% investment rate, $18,000 annual deposit for 20 years**

| Year \| Age | Annual Deposit | NCPI | Adjusted Cost Basis | Cash Value | Total Death Benefit | CDA Credit |
|---|---|---|---|---|---|---|
| 1 \| 51 | 18,000 | 806 | 17,194 | 10,855 | 511,427 | 494,233 |
| 2 \| 52 | 18,000 | 947 | 34,247 | 22,214 | 523,1394 | 488,892 |
| 3 \| 53 | 18,000 | 1,117 | 51,130 | 34,090 | 535,145 | 484,015 |
| 4 \| 54 | 18,000 | 1,332 | 67,798 | 46,501 | 547,450 | 479,653 |
| 5 \| 55 | 18,000 | 1,587 | 84,211 | 59,462 | 560,063 | 475,853 |
| 6 \| 56 | 18,000 | 1,880 | 100,331 | 72,992 | 572,992 | 472,661 |
| 7 \| 57 | 18,000 | 2,185 | 116,146 | 86,243 | 586,243 | 470,098 |
| 8 \| 58 | 18,000 | 2,525 | 131,621 | 99,826 | 599,826 | 468,206 |
| 9 \| 59 | 18,000 | 2,900 | 146,721 | 113,749 | 613,749 | 467,028 |
| 10 \| 60 | 18,000 | 3,330 | 161,391 | 128,020 | 628,020 | 466,629 |
| 11 \| 61 | 18,000 | 3,815 | 175,576 | 142,647 | 642,647 | 467,072 |
| 12 \| 62 | 18,000 | 4,400 | 189,176 | 157,640 | 657,640 | 468,465 |
| 13 \| 63 | 18,000 | 5,100 | 202,076 | 173,008 | 673,008 | 470,933 |
| 14 \| 64 | 18,000 | 5,930 | 214,146 | 188,761 | 688,761 | 474,615 |
| 15 \| 65 | 18,000 | 6,865 | 225,281 | 204,907 | 704,907 | 479,62685 |
| 16 \| 66 | 18,000 | 8,750 | 234,531 | 221,457 | 721,457 | 486,926 |
| 17 \| 67 | 18,000 | 9,770 | 242,761 | 238,420 | 738,420 | 495,660 |
| 18 \| 68 | 18,000 | 10,840 | 249,921 | 255,808 | 755,808 | 505,888 |
| 19 \| 69 | 18,000 | 11,995 | 255,926 | 273,631 | 773,631 | 517,705 |
| 20 \| 70 | 18,000 | 13,290 | 260,636 | 291,899 | 791,899 | 531,263 |
| 21 \| 71 | 0 | 14,775 | 245,861 | 292,543 | 792,543 | 546,682 |
| 22 \| 72 | 0 | 16,440 | 229,421 | 293,203 | 793,203 | 563,782 |
| 23 \| 73 | 0 | 18,250 | 211,171 | 293,879 | 793,879 | 582,708 |
| 24 \| 74 | 0 | 20,175 | 190,996 | 294,572 | 794,572 | 603,577 |
| 25 \| 75 | 0 | 22,185 | 168,811 | 295,283 | 795,283 | 626,472 |
| 26 \| 76 | 0 | 24,205 | 144,606 | 296,011 | 796,011 | 651,406 |
| 27 \| 77 | 0 | 26,360 | 118,246 | 296,758 | 796,758 | 678,512 |
| 28 \| 78 | 0 | 28,795 | 89,451 | 297,523 | 797,523 | 708,073 |
| 29 \| 79 | 0 | 31,580 | 57,871 | 298,308 | 798,308 | 740,437 |
| 30 \| 80 | 0 | 34,705 | 23,166 | 299,112 | 799,112 | 775,946 |
| 31 \| 81 | 0 | 38,195 | 0 | 299,936 | 799,936 | 799,936 |
| 32 \| 82 | 0 | 42,085 | 0 | 300,780 | 800,780 | 800,780 |
| 33 \| 83 | 0 | 46,430 | 0 | 301,646 | 801,646 | 801,646 |
| 34 \| 84 | 0 | 51,325 | 0 | 302,534 | 802,534 | 802,534 |

**Note: This is only an illustration. Future values cannot be guaranteed**

This example assumes the policy owner pays annual deposits of $18,000 into the same insurance policy for a 20-year period resulting in a dramatic increase in cash values, total death benefit and the ACB, relative to Example 1. The annual deposits also increase the amount available to be credited to the CDA in all years of the policy. The actual dollars credited to the CDA are high relative to Example 1 primarily because of the excess funding.

The amount available to be credited to the CDA decreases until year 10, and then increases each year as the ACB has been reduced to zero and the death benefit continues to increase.