

A PRIVATE CLIENT BRIEFING · CORPORATE-OWNED LIFE INSURANCE

Why Do Corporations Own *Tax-Exempt* Life Insurance?

A practical overview for incorporated business owners and their advisors

Think of it as a way to convert corporate after-tax earnings into a larger, tax-efficient pool of capital for the next generation.

01 WHY THIS MATTERS FOR BUSINESS OWNERS AND THEIR FAMILIES

Canadian tax rules treat most investments as though they were sold at fair market value on the date of death. For spouses, this typically occurs on the second to pass. That often creates a substantial capital gains tax liability, due within a relatively short period.

Without available cash, families may be forced to:

- Sell investments and family assets at an inconvenient or unfavourable time
- Borrow money to cover the tax bill
- Trigger an additional layer of personal tax by extracting funds from the corporation

Corporate-owned permanent life insurance solves this by creating immediate liquidity exactly when it is needed most.

02 HOW IT WORKS

A corporation uses its after-tax earnings to pay premiums into a tax-exempt permanent life insurance policy held inside the corporation. Four things happen from there:

01 Tax-sheltered growth

The money inside the policy grows on a tax-exempt basis, accumulating more efficiently over time than most traditional investment alternatives.

02 Proceeds paid promptly

When the insured dies, the insurance proceeds are paid directly to the corporation, promptly and without probate.

03 Credit to the Capital Dividend Account (CDA)

Most, and often all, of the proceeds are credited to the corporation's CDA, making those funds available to shareholders and the estate as tax-free dividends.

04 A larger transfer of wealth

The net result is often a meaningfully larger transfer to the next generation compared to leaving the same dollars in traditional taxable investments within the corporation.

03 A SIMPLE, PREDICTABLE STRUCTURE

The funding model is straightforward:

- The corporation makes planned annual premium payments for a defined period, often 10 years.
- Once the policy is fully funded, no further premiums are typically required, depending on the policy design.
- At death, the proceeds are paid promptly to the corporation with a credit to the CDA, providing the liquidity the family needs precisely when it matters.

ONE COMMITMENT

The structure is predictable and designed around a single commitment: ensuring the money is there when the family needs it.

The bigger picture



This strategy is about more than life insurance. It is about protecting family wealth, preserving important assets, reducing unnecessary taxes, and ensuring that cash is available exactly when it is needed.

Rather than being forced to sell assets or make rushed financial decisions at a difficult time, the next generation has the liquidity to pay taxes, settle the estate fairly, equalize inheritances where appropriate, and carry out the parents' wishes as intended.

The most significant benefit is often the quietest: a properly structured corporate-owned policy ensures that when the time comes, the focus remains on the family, not on finding the cash to pay the tax bill. That is what we mean by enhancing family estate harmony.

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