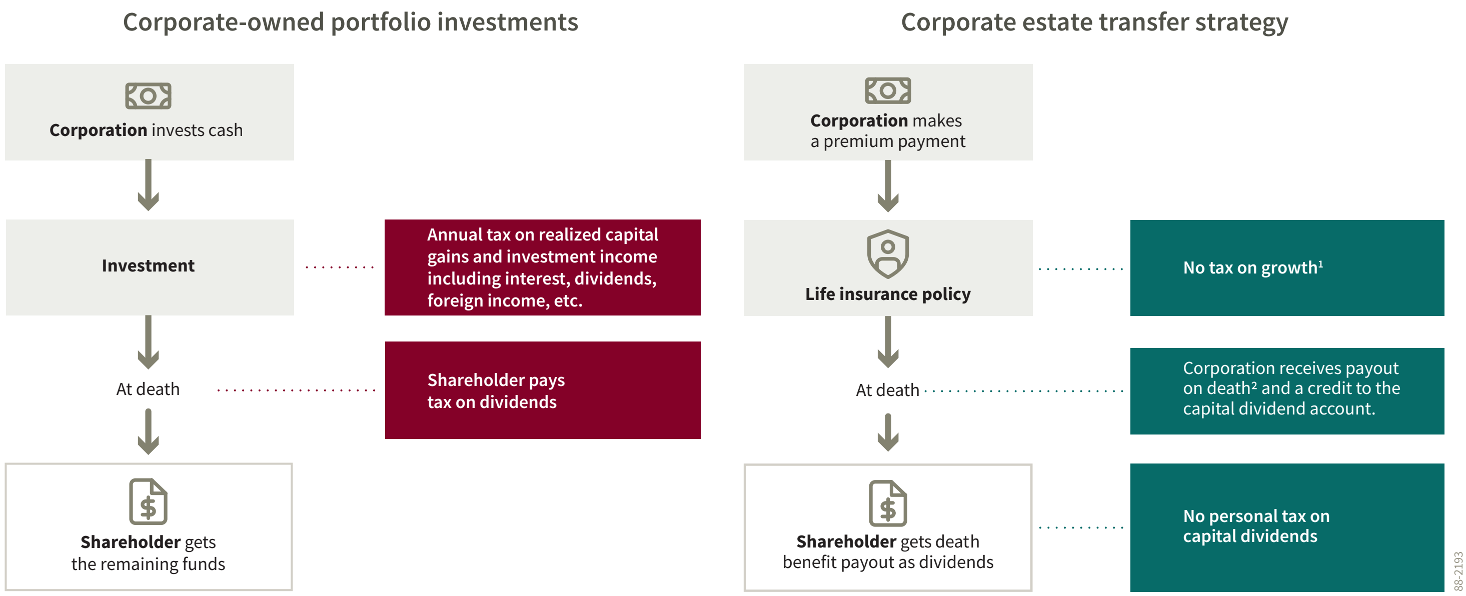
Corporate estate transfer strategy

A tax-efficient transfer of corporate wealth

The *Corporate estate transfer strategy* uses a corporate-owned permanent life insurance policy to provide insurance protection and facilitate a tax-efficient transfer of corporate wealth upon the death of the life insured. The below diagram summarizes the differences between traditional corporate investments and the use of corporate-owned life insurance.



[1]The policy's cash value grows tax-free while inside the policy, subject to legislative limits.

[2]At death, the insurance proceeds are paid to the corporation on a tax-free basis. The capital dividend account of the private corporation typically receives a credit equal to the payout on death less the adjusted cost basis of the policy. The capital dividend account credit typically allows the corporation to pay a tax-free dividend to the Canadian resident shareholders.

Corporate-owned portfolio investments

Interest, portfolio dividends and taxable capital gains from corporately held investments are taxed at the highest corporate tax rate and generally don't qualify for the small business deduction. This high rate of tax erodes the growth potential of your corporation's portfolio. Upon your death, your surviving spouse and/or heirs may want to obtain the use of the assets within your corporation.

When these assets are distributed to either your estate or to your family members (whoever is the shareholder after death) they are subject to tax again at the recipient's personal marginal tax rate (e.g. your estate, spouse, kids).

The tax on investment income within your corporation and the tax on the assets when distributed from your corporation after death can have a significant impact on your estate's after-tax value.

Corporate estate transfer strategy

With the *Corporate estate transfer strategy* your corporation is the owner and beneficiary of a permanent life insurance policy on your life. Permanent life insurance allows your corporation to accumulate cash value growth within the policy on a tax-free basis, subject to legislative limits, unless the cash value is withdrawn from the policy during your lifetime.

Upon your death, your corporation receives the death benefit, which credits its capital dividend account ("CDA") by an amount that's generally equal to the death benefit less the adjusted cost basis of the insurance policy. The CDA can be used to distribute all or a portion of the insurance proceeds on a tax-free basis to the successor shareholder of your corporation (e.g. your estate, spouse, kids).

The tax-advantaged growth within the policy and the CDA credit upon death makes the Corporation Estate Transfer a tax-efficient strategy for transferring corporate wealth to the next generation.

The information provided is based on current laws, regulations and other rules applicable to Canadian residents. It is accurate to the best of our knowledge as of the date of publication (May 2022). Rules and their interpretation may change, affecting the accuracy of the information. The information provided is general in nature, and should not be relied upon as a substitute for advice in any specific situation. For specific situations, advice should be obtained from the appropriate legal, accounting, tax or other professional advisors.

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