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Trifecta on sale of an insurance policy

Sell your life insurance policy to your corporation. Receive the sale price tax-free and have future premiums paid by your corporation with its corporate income to save a lot of money!

Did you know that an insurance policy that you may have taken out many years ago could now have a substantial market value? You could sell this policy to your corporation on a tax-free basis (in most cases) and receive substantial tax-free dollars.

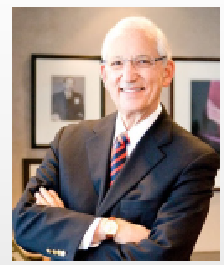
Most whole life policies, including level premium term to 100 policies, can have a market value which you can monetize with your corporation and receive during your lifetime without affecting the face amount of the policy or death benefit that will be payable on your passing.

Here is a simple example:

An individual who is 47 years old in 1987 purchases a $310,000 term to 100 life policy on his own life. The annual premium to age 100 is $2,043. In 2014, the fair market value of the policy ("FMV") is approximately $170,000, the cash surrender value ("CSV") is 0 dollars and the adjusted cost base ("ACB") is 0 dollars.

The owner of the policy could sell the policy to his company (subject to creditor issues and risks) for $170,000. His company would then pay him $170,000 or issue a promissory note to him for $170,000 and pay him when funds are available. Generally, no tax would be payable by the owner of the policy on the sale proceeds so long as the CSV of the policy is less than its ACB, which is the case in this example. The CSV and ACB are available from the insurer. Also, there are no negative tax consequences for the corporation on the acquisition of this policy.

The receipt of $170,000 from your corporation will also be tax free. Normally, the owner would pay a tax on dividends of approximately 39% and a tax on salary of approximately 50% (highest marginal tax rate).



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In this example, the person is saving tax anywhere from approximately $66,300 to $85,000 on receiving the $170,000.

Furthermore, on a going-forward basis, his company would own the policy and pay the annual premium with its after-tax dollars. Contrast this with the individual owner of the policy that pays the premium out of his after-tax dollars. What this means is that before the policy was transferred to his company, he would have to pay himself a dividend of approximately $3,349 or a salary of approximately $4,086 so that he would have, on an after-tax basis, the $2,043 to pay the premium. On the other hand, his company is merely paying out $2,043 of its after-tax income.

Upon the decease of the individual, his company will receive the $310,000 tax free, assuming a nil or negligible ACB.

Beyond that, his company will be able to pay to his estate or any other shareholders of the company $310,000 out of its capital dividend account which was created by the company's receipt of the $310,000 and no tax will be paid on this sum.

As you can appreciate, there are significant benefits to selling to your corporation a life insurance policy that has appreciated in value. An actuary must determine the FMV of any policy that you wish to sell to your corporation to ensure that the selling price stands up to scrutiny by the fisc.

The reason why these types of policies may have significant market values is because the cost of replacing a similar policy at your current age, relative to your age when the policy was taken out, is substantially more. The cost will be even greater if you are not as healthy as you were when the policy was taken out.

It should be pointed out that, at the present time, the foregoing transaction can be carried out on a tax-free basis. The government has hinted that it may take steps in the future to make this transaction far less attractive from a tax perspective.

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