Corporately Owned Life Insurance: A Decision Framework

How to decide whether your corporation should own permanent life insurance, and when it shouldn't

Who This Guide Is For / Who It's Not For

This guide is for you if:

- You own shares in a Canadian private corporation (often a CCPC).
- Your corporation has retained earnings that are not needed for near-term growth, payroll stability, or operating runway.
- You are hearing about corporate-owned life insurance from banks, insurers, accountants, or other owners and want to decide with clarity.
- You want to understand the real trade-offs: flexibility vs certainty, simplicity vs complexity, optionality vs long-term constraints.
- You want a decision that your accountant and lawyer can support because the structure is coordinated and clean.

This guide is not for you if:

- Your business is early-stage, volatile, or you need maximum capital flexibility.
- You anticipate selling, restructuring, or taking on partners soon and you want to keep the balance sheet clean and simple.
- You are looking for a short-term tax move or an "investment replacement."
- You want a recommendation without doing the thinking.

This guide exists to help you understand and decide. Implementation comes later, with your professional team.

How to Use This Guide

Use this guide like a decision tool.

1) Read once for clarity. Understand the decision and why it's even a question.

2) Read again for fit. Highlight the parts that match your situation and the parts that don't.

3) Use the checklists. They are designed to make your accountant and lawyer conversations productive.

4) Decide before you design. Do not start with product or structure. Start with purpose.

Reality Check

Most business owners do not buy corporate life insurance because they love insurance.

They buy it because they are trying to resolve one of these tensions:

- "We have retained earnings, but we don't know what this capital is for."
- "If I die, the tax bill and the family's liquidity needs could force the wrong decisions."
- "I want to leave more to my family without selling the business under pressure."
- "Passive income inside the corporation is creating tax friction, and the math feels less attractive."
- "I want to equalize my estate fairly, but the business is not easily divisible."

> Corporate-owned permanent life insurance is one way to convert corporate capital into future liquidity.
>
> But this is not primarily an insurance decision.
>
> It is a capital allocation decision.

And the only way it works well is if the capital has a clear job, the time horizon matches the tool, and the constraints are understood before you commit. This guide is designed to help you decide whether corporately owned life insurance deserves consideration at all - not to justify its use.

The Decision at Hand

You are deciding between two imperfect paths.

Path A: Keep Capital Flexible

The corporation preserves optionality through:

- Retained earnings
- Corporate investment portfolios
- Debt repayment
- Dividends to shareholders
- Reinvestment into growth, systems, staff, or acquisitions

Strength: Flexibility.

Risk: The plan may rely on future discipline that never happens, and liquidity at the wrong time can trigger forced decisions.

Path B: Convert Some Capital Into a Long-Term Insurance Asset

The corporation commits capital to a permanent policy so that:

- A death benefit is paid to the corporation when the insured dies.
- That benefit creates liquidity inside the corporation.
- In many cases, some of that value can be distributed to shareholders tax-effectively, generally through the Capital Dividend Account when properly elected.

Strength: Certainty and predictable future liquidity.

Risk: Reduced flexibility and higher complexity.

This guide helps you decide whether Path B fits, and if it does, what “good” looks like.

The Cost of Doing Nothing

Doing nothing is still a strategy. It's just one you didn't choose.

Common outcomes when owners delay this decision for too long:

- Liquidity gap at death: family or estate needs cash, but the corporation's value is mostly illiquid.
- Forced sale or forced financing: the wrong buyer, the wrong timing, or expensive borrowing.
- Family conflict: unequal inheritances or unclear expectations become disputes.
- Tax surprises: the liability shows up at the same moment capacity is lowest.
- Value erosion: stress decisions pull money from operations, disrupt staff, or break lender confidence.

The point is not to scare you.

It is to name the real risk: Lack of liquidity at the exact moment you will not be able to solve it personally. Doing nothing may also be a valid decision, especially when flexibility or future uncertainty matters more than certainty.

What Corporately Owned Life Insurance Actually Is (Plain Language)

Corporate-owned permanent life insurance is a long-term asset held by the corporation.

It has two "value lanes":

1) The death benefit lane (the main lane):

- The corporation receives a death benefit when the insured dies.
- That liquidity can help settle taxes, support the family, fund transitions, or protect the business.

2) The living value lane (secondary lane):

- Some permanent policies build cash value.
- That cash value may be accessed under certain conditions, but access is never identical to cash in an investment account.

If you take nothing else from this guide, take this:

Corporate-owned insurance is a long-duration capital decision.

It works best when the purpose is clear and the time horizon is long.

When Corporately Owned Life Insurance Often Fits

This section describes common patterns of fit, not rules. It is meant to help you recognize whether this decision framework applies to your situation, before you move into a more structured self-assessment later in the guide. These conditions are necessary for consideration — but none of them on their own justify implementation yet.

This approach often fits when most of the following are true:

- Stable business: predictable cash flow and strong operating runway.
- Surplus capital: retained earnings are genuinely excess to operational needs.
- Long horizon: you can commit for 10–20+ years without regret.
- Clear purpose: the capital has a job (tax liquidity, fairness, continuity, legacy).
- High value of certainty: you prefer predictable future outcomes over maximum flexibility.
- Coordination-ready: your accountant and lawyer will coordinate, and you will respect their roles.

Example (fit): A professional corporation has consistent profitability and retained earnings. The owner expects a meaningful estate tax liability and wants to avoid selling corporate investments or the business under pressure. They can commit to a long horizon.

Common Applications (and the Trade-Offs Behind Them)

This section is not a list of recommendations. It describes common ways corporately owned life insurance is used, what each application is trying to solve, and the trade-offs that tend to be underestimated.

The goal is to help you recognize why this tool shows up in your situation, not to tell you which option to implement.

Application 1: Estate Tax Liquidity Inside the Corporation

The situation: A significant tax liability is expected at death, often tied to corporate shares or other illiquid assets. The family wants to avoid selling assets quickly or under pressure.

What this application does well:

- Creates predictable liquidity at death.
- Reduces reliance on asset sales or last-minute borrowing.
- Gives the estate time and options.

What it does not solve:

- It does not reduce the tax liability itself.
- It does not simplify estate administration on its own.

The trade-off most owners miss: Liquidity arrives at death, not before. This is a solution to a future problem, not a source of living flexibility.

Application 2: Family Fairness and Estate Equalization

The situation: One child is expected to inherit the business, while others will not. The owner wants fairness without breaking the company.

What this application does well:

- Creates a separate pool of value to support non-business heirs.
- Reduces pressure to divide or sell the business.
- Can lower the odds of future resentment or disputes.

What it does not solve:

- It does not replace communication or expectation setting.
- It does not eliminate the need for a clear estate plan.

The trade-off most owners miss: Equalization is emotional as much as financial. Insurance can support fairness, but it cannot repair unclear intentions or unspoken assumptions.

Application 3: Long-Term Corporate Capital Container

The situation: The corporation has retained earnings with no clear operating purpose. The owner wants a long-term plan for that capital that reduces ongoing tax drag and supports a future legacy.

What this application does well:

- Converts corporate capital into a long-duration asset.
- Can reduce annual tax friction inside the corporation.
- Creates a known future outcome rather than relying on discipline alone.

What it does not solve:

- It does not provide near-term liquidity.
- It does not adapt easily if business plans change.

The trade-off most owners miss: This application trades flexibility for certainty. Once capital is committed, reversing course can be difficult and costly.

Application 4: Owner-Centric Business Continuity Liquidity

The situation: The business is highly dependent on the owner. If the owner dies, the company may need liquidity to stabilize operations, retain staff, or manage transition decisions.

What this application does well:

- Buys time during a period of disruption.
- Reduces pressure on the business to self-fund uncertainty.

What it does not solve:

- It does not replace leadership or management capacity.
- It does not create a succession plan.

The trade-off most owners miss: Insurance can provide money, but continuity still requires planning, people, and governance.

When It Usually Does Not Fit (Red Flags)

This structure is often a poor fit when one or more of these are true:

- You may need capital soon: for growth, acquisitions, hires, debt reduction, or volatility.
- Your exit path is unclear: sale vs succession vs wind-down is still unknown.
- Your business is unstable: revenue is lumpy, margins are thin, or cash flow is unpredictable.
- The decision is tax-first: "This saves tax" is not a purpose.
- You want simplicity above all: this is a complex, multi-professional structure.

Example (no-fit): A founder is considering a sale within 3-5 years and wants maximum balance-sheet flexibility. Corporate insurance may become friction, not freedom.

The Trade-Offs & Tensions You Must Understand

This section is the heart of the decision.

1) Flexibility vs Certainty	If you value optionality, corporate insurance can feel restrictive. If you value certainty, corporate insurance can feel stabilizing.
2) Liquidity vs "Looks Like Liquidity"	Cash value is not the same as cash. Access may involve policy loans, collateral strategies, or surrender decisions. Each has consequences.
3) Tax Efficiency vs Complexity	Tax outcomes depend on mechanics that must be tracked and executed properly over time. This is where accountants are essential.
4) Simplicity Today vs Constraints Tomorrow	Corporate reorganizations, new partners, holding companies, divorces, and business sales can stress-test the structure. A plan must work in the future, not just on day one.
5) Solving Death Problems vs Living Problems	Permanent insurance is designed to deliver its main value at death.

The Bottom Line

It works well for known future liabilities such as estate taxes or family liquidity needs, but it is poorly suited for opportunities or needs that arise while you are alive, such as acquisitions, business reinvestment, or unexpected capital demands.

If your real concern is living liquidity or business flexibility, do not pretend this tool is something else.

Tactical Examples (How This Plays Out in Real Life)

These are not recommendations. They are examples to help you see the decision more clearly.

Example A: "The Liquidity Bridge" (Estate Tax)

- Owner dies.
- Corporation receives a death benefit.
- Liquidity allows the estate to avoid a forced sale of corporate assets.
- The family has time and options.

Why it works: The capital was committed for a clear purpose, and the timing matched the tool.

Example B: "The Fairness Plan" (Equalization)

- Child A inherits the business.
- Child B and C inherit other assets.
- Insurance value helps reduce resentment and future disputes.

Why it works: The plan was communicated, documented, and coordinated with the estate plan.

Example C: "The Trap" (Tax-First Decision)

- Owner buys corporate insurance mainly because "it's tax efficient."
- Years later, they need capital for a business opportunity.
- Access is possible, but it is complex, conditional, and emotionally frustrating.

What went wrong: The tool was chosen before the purpose was defined.

A Common Question: Should Personally Owned Insurance Be Moved Into the Corporation?

This question comes up frequently, especially when an owner already has permanent life insurance personally and later becomes incorporated or accumulates corporate capital. This option should only be evaluated after confirming the original policy still aligns with current objectives.

At a high level, owners consider this because:

- Premiums might be paid from corporate dollars.
- They want better alignment between the corporation and their estate plan.
- They are told it will be "more tax efficient."

What matters most is understanding that this is not a simple administrative change.

Transferring a personally owned policy into a corporation can trigger tax consequences, including a taxable policy gain, valuation issues, and long-term constraints that are difficult to unwind. The outcome depends heavily on facts, structure, and timing.

Key decision-level considerations include:

- A transfer may be treated as a disposition for tax purposes.
- The value of the policy at transfer matters, not just what you originally paid.
- There may be shareholder benefit or attribution issues if not structured correctly.
- Once the corporation owns the policy, control and flexibility change.

The most important thing to understand:

Moving personal insurance into a corporation is a restructuring decision, not a strategy.

It should only be considered after modeling, professional review, and confirmation that it aligns with both your corporate and personal plans.

This guide does not provide instructions on how to do this. If the question is relevant in your situation, it should be reviewed carefully with your accountant and lawyer before any action is taken.

What "Good" Looks Like When the Answer Is Yes

When corporately owned life insurance is used well, these standards are usually present:

1) Clear purpose statement

- One sentence. Plain language.
- Example: "We are committing corporate capital to create liquidity at death so the family is not forced to sell assets."

2) Time horizon match

- You are comfortable committing long-term capital.

3) Accountant-confirmed tax mechanics

- How the policy will be treated, and what needs to be tracked.

4) Lawyer-confirmed legal alignment

- Ownership, beneficiary design, estate integration, and governance fit.

5) Stress-tested against change

- Sale, reorg, new partners, new holding company, divorce, disability, retirement.

6) Implementation discipline

- This is not "set and forget." It requires periodic review.

The Professional Team (Stay in Our Lane)

This decision crosses professional boundaries.

Accountant: tax modeling, corporate tax position, tracking requirements, and confirming assumptions over time.

Lawyer: corporate ownership, beneficiary structure, estate integration, governance, shareholder issues.

Certified Financial Planner: decision framing, scenario work, coordinating the team, and ensuring the plan remains coherent as life evolves.

A strong plan makes each professional more effective.

A Simple Fit Test (Decision Tool)

Use this as a quick filter.

If you answer "yes" to most of these, corporate-owned insurance may be worth exploring:

- We have surplus retained earnings beyond operational and growth needs.
- Our business is stable and we can commit long-term capital.
- We have a clear purpose for the capital (liquidity, fairness, continuity, legacy).
- We are comfortable trading flexibility for certainty.
- We are willing to coordinate accountant + lawyer + advisor.

If you answer "yes" to any of these red flags, slow down:

- We may need this capital in the next 3-7 years.
- Our exit plan is unclear.
- The decision is mainly driven by tax savings.
- We want something simple and reversible.

The Natural Next Step

The next step is not to buy a policy.

The next step is to improve decision quality.

That usually means:

1) Define the purpose for corporate capital.

2) Confirm your horizon and flexibility needs.

3) Run a coordinated review with your accountant and lawyer.

4) Only then evaluate implementation options.

Appendices

Appendix A: The 12 Questions That Decide Fit

1) What problem are we solving, in one sentence?

2) How stable is the business cash flow?

3) How much capital is truly surplus?

4) What is our likely exit path (sale, succession, wind-down, unknown)?

5) What is our realistic time horizon?

6) What liquidity might we need while alive?

7) What is the estimated estate tax exposure?

8) Are there multiple shareholders? What are the governance realities?

9) Are there children or beneficiaries with different needs?

10) What would we regret if we committed this capital?

11) What changes are likely in the next 10 years?

12) Are we prepared to review and maintain this structure over time?

Appendix B: What to Bring to Your Accountant

- Corporate structure (operating company, holding company, professional corporation).
- Share structure summary.
- Retained earnings and investment account statements.
- Known or estimated future tax liabilities.
- Existing insurance details (if any).
- A one-paragraph purpose statement for the capital.

Appendix C: What to Confirm With Your Lawyer

- Ownership and beneficiary structure.
- Estate integration: will, shareholder documents, governance.
- Potential conflicts between corporate strategy and personal estate intentions.
- If there are multiple shareholders: alignment and documentation.

Appendix D: Common Terms (Plain Language)

- Permanent insurance: life insurance designed to last for life (if funded appropriately), usually with a long-term objective.
- Death benefit: amount paid when the insured dies.
- Cash value: value that may accumulate in some permanent policies.
- Capital dividend: a form of dividend that may be paid tax-free to Canadian-resident shareholders when properly elected.
- Adjusted cost basis (ACB): a policy-related value used in certain tax calculations.

This guide is designed to help you understand and decide. It is not a recommendation to purchase insurance or to take action without professional advice.

Your Next Steps

Build Your Plan

Coordinate Your Team

Review Regularly

Protecting What Matters

Corporate owned life insurance is not just a tax strategy. It is a long-term commitment of capital designed to provide certainty when it matters most. Success comes from matching purposes with the right tools.

Educational information only. This guide is not tax, legal, or investment advice.
Personal circumstances vary and professional advice should be obtained before acting.