You own a successful private corporation that generates a significant annual surplus. You want to protect the value of your corporation, but you also want to have assets available to grow your business, if new opportunities arise. A tax-exempt insurance policy can help you grow assets within your corporation, but you aren’t sure if you want to tie your money up in an insurance policy.

**How does it work?**

Your corporation purchases a permanent life insurance policy that covers you, the key person, for a substantial death benefit. The insurance policy is then used as collateral to secure a loan or line of credit. The loan proceeds are typically reinvested in the corporation’s business to produce income, and you use your company’s cash flow or retained earnings to pay the insurance premiums. Since you’re using the loan proceeds to earn business or investment income, the interest on the loan and some or all of the policy premiums may be tax-deductible. You will need to work with your tax and legal advisors to ensure the loan and the collateral assignment of the life insurance policy meet the requirements for deductibility under the Income Tax Act.

The death benefit will grow over time due to the paid-up additional insurance dividend option and will be used to pay off the loan. Any remaining death benefit is payable to the beneficiary – usually the corporation. The full amount of the death benefit, less the policy’s adjusted cost basis, creates a credit to the corporation’s capital dividend account, which can be used to pay out tax-free capital dividends to the new shareholders or your estate. Speak with your BMO financial professional and/or tax and legal advisors to consider if this is the right strategy for your business.

---

*BMO Wealth Management provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Wealth Management cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual’s particular tax position should be obtained in respect of any person’s specific circumstances.*

*BMO Private Banking is part of BMO Wealth Management. Banking services are offered through Bank of Montreal. Investment management services are offered through BMO Private Investment Counsel Inc., an indirect subsidiary of Bank of Montreal. Estate, trust, planning and custodial services are offered through BMO Trust Company, a wholly owned subsidiary of Bank of Montreal. BMO Nesbitt Burns Inc. provides comprehensive investment services and is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. All insurance products and advice are offered through BMO Estate Insurance Advisory Services Inc. by licensed life insurance agents, and, in Quebec, by financial security advisors.*

*“BMO (M-bar Roundel symbol)” is a registered trademark of Bank of Montreal, used under licence.*

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Wealth Management.