

Immediate financing solution

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.¹ 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**

We're here to help.™

¹ The lesser of the net cost of pure insurance (NCPI), or the policy premiums may be deductible in certain cases.

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