Corporate vs. personally-owned life insurance

A common question for owners of private corporations is, "Should the owner of the life insurance policy be the corporation or the individual?" The answer depends on a number of factors unique to your situation. To begin determining your needs, you can ask yourself these questions:

- What is the purpose of the life insurance?
- Who'll need the death benefit or cash surrender value of the policy?
- Will the policy be transferred in the future?
- Who has the cash flow to pay the policy premiums, the individual or the company?
- Will creditor protection be a consideration?
- What will be the tax consequences of corporate or personal ownership?

Remember that there is no wrong answer to the question of life insurance ownership. Reviewing some of the advantages and disadvantages of corporate and personal ownership should help you, together with your financial security advisor, decide the best solution to your situation:

Personal ownership
Advantages

- The policy and its proceeds may be creditor protected if a family beneficiary named
- Any beneficiary(ies) can be named
- Cash surrender value will not affect the enhanced capital gains exemption
- Personal access to policy cash value may be easier and may be taxed at a lower rate than accessing and obtaining the proceeds from a corporately owned policy

Disadvantages

- More pre-tax dollars may be required to pay the premium if the personal tax rate is greater than the corporate tax rate

Corporate ownership (operating company)
Advantages

- Ease of administration if multiple policies are required
- Fewer pre-tax dollars may be required to pay the premium if the corporate tax rate is less than the personal tax rate
- All or part of the premium may be deductible for tax purposes if the policy is required to be assigned as collateral for a loan and the loan interest is deductible as a business expense for tax purposes
- The death benefit less any adjusted cost basis can flow through the corporation’s notional capital dividend account by way of capital dividend and be received tax-free by any remaining shareholders and/or the shareholder’s estate

Disadvantages

- Not protected from corporate creditors
- The corporation is generally the only beneficiary of the policy to avoid taxable shareholder benefits
- Cash surrender value could affect the qualified small business corporation status for purposes of the enhanced capital gains exemption

- Policy gains and taxable income may arise on future transfers of ownership of the policy

Holding company ownership
Advantages

- Policy ownership may not have to be transferred on sale of an operating company
- Cash values in a holding company may be available to supplement retirement income
- Potential for creditor protection from creditors of operating company

Disadvantages

- Cash surrender value could affect the qualified small business corporation status for purposes of the enhanced capital gains exemption
- Policy gains and taxable income may arise on future transfer of ownership of the policy

For help to determine whether you should be considering corporate-owned or personally-owned life insurance as part of your financial security plan, please consult with your financial security advisor.

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