TAX PLANNING SERIES

Insurance as an Asset Class

How incorporated business owners can shelter retained earnings, grow capital with zero volatility, and pass far more to the next generation — without taking on new risk.

The business owners described in this paper are composite illustrations created for educational purposes; names, figures and circumstances are hypothetical and do not represent any specific client. All figures are illustrative only.

For a successful business owner, the hardest tax problems are not the ones that arrive each April — they are the ones building quietly inside the holding company, and the one waiting at the very end.

This paper is written for successful business owners, entrepreneurs and incorporated medical professionals who have accumulated significant retained earnings inside a corporate holding company. For decades, the standard advice has been simple: keep excess capital at the corporate level to defer tax, rather than drawing it out personally. But between **2017 and 2019**, the federal government introduced aggressive reforms aimed squarely at holding companies — punitive "Tax on Split Income" (TOSI) rules, tighter limits on paying family members, and a reduced small-business-deduction rate for companies holding significant passive investments. The old default deserves a second look.

01 Two problems quietly eroding corporate wealth

As capital builds inside a holding company, business owners run into two large and largely invisible tax liabilities. The first is paid every year. The second is paid once — at the worst possible time.

PROBLEM 01 — EVERY YEAR

Taxation on growth

Corporate portfolios of stocks, bonds and mutual funds generate annual T3 and T5 tax slips. Passive income — foreign dividends, rental income, interest — is taxed heavily inside a corporation. Up to **half the annual growth** of an investment can be lost to tax before it ever compounds.

≈46.67% PASSIVE RATE ALBERTA

≈50.67% PASSIVE RATE BRITISH COLUMBIA

PROBLEM 02 — ONCE, AT THE END

The estate tax liability

Most owners know their gross net worth. Very few know their **net estate value** — what remains after the Canada Revenue Agency takes its final cut on personal, registered and corporate assets at death. This "death tax" can be substantial, and many traditional accounting firms never run a future estate-tax projection for their clients, so the number stays hidden until it is too late to plan around.

02 The status quo — and why it falls short

Before introducing the solution, it is worth being honest about the standard ways business owners store corporate wealth. Each has a role — and each carries a limitation that becomes more costly as the balance grows.

EXHIBIT 1

Standard wealth-storage methods — and where each falls short

METHOD	HOW IT WORKS	THE LIMITATION
Traditional corporate portfolios	Stocks, bonds and mutual funds held inside the corporation.	High passive-tax rates apply, and once passive income exceeds **$50,000** a year, the small business deduction begins to erode.
Tax-efficient mutual funds	Some funds use "return of capital" structures to defer immediate tax.	A limited, partial strategy — it softens the timing of tax, but does not remove it.
The dividend-to-RRSP strategy	Pull money out of the corporation as salary or dividends to fund a personal RRSP.	Triggers immediate, higher tax on ineligible dividends and removes deployable capital from the corporate structure.
Individual Pension Plans (IPPs)	Contributions are tax-deductible to the holding company.	Funds are locked away, highly illiquid, and fully taxable as income (T4RIF) when eventually drawn.

For general illustration only. The treatment of any strategy depends on the company's structure, income, province and individual circumstances; confirm with a qualified tax advisor.

03 Canada's last corporate tax shelter

Canada has, in practice, three prominent tax shelters left. Two are available only to individuals. **Only one is available to a corporate holding company.**

The three remaining tax shelters

Shelter 01 · Personal

Principal residence

The family home grows free of capital gains tax — but it is a personal asset, and not a place to deploy corporate capital.

Shelter 02 · Personal

The TFSA

Tax-free growth and withdrawals — but personal, and capped by modest annual contribution limits.

Shelter 03 FOR CORPORATIONS

Permanent cash-value life insurance

The only tax shelter a holding company can use — and the foundation of the strategy that follows.

How the strategy is structured

The mechanics

The holding company is the owner, payor and beneficiary of the policy; the business owner is the life insured.

Overfunding

Owners pay more than the base cost of insurance — legally "overfunding" up to government limits to build an investment block inside the contract.

The asset class

Capital is managed by tier-one Canadian carriers in non-correlated assets — real estate, private mortgages and high-quality bonds — not volatile equities.

Vesting & break-even

Growth is vested and locked in annually and generates no T3/T5 slips. Cash value typically surpasses total premiums by years **6–8**.

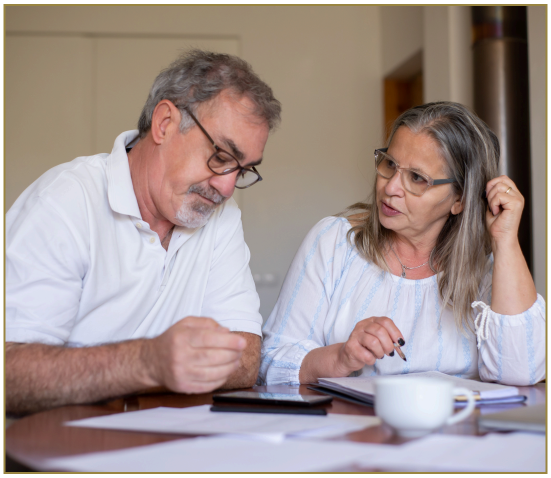
THE CORE PRINCIPLE

In plain terms: an overfunded policy grows a corporation's capital where the tax system leaves it alone — rising every year, ***never*** *falling year-over-year in these carriers' history, and* **never taxed as it grows.**

04 Application one — the "Estate Bond"

THE FAMILY AT A GLANCE · ILLUSTRATIVE

Married couple	**50s**	Total net worth	**$4.8M**
Personal assets	**$3.5M**	Corporate assets	**$1.35M**
Est. estate tax	**$1.0M**	True net worth	**$3.8M**



A current estimated estate-tax liability of roughly **$1 million** quietly reduces the couple's real net worth to about $3.8M. The strategy reallocates **$70,000 per year for ten years** — $700,000 in total — out of existing corporate investments yielding 8–10% and into an overfunded insurance policy. They are not adding new money or new risk; they are repositioning capital they already hold.

EXHIBIT 2 — ILLUSTRATIVE

Estate Bond: repositioning $700,000 over ten years

FOR THE SAME $700,000 OF CAPITAL	STATUS QUO — BALANCED PORTFOLIO	OVERFUNDED INSURANCE STRATEGY
Annual amount repositioned	$70,000	$70,000
Funding period	10 years	10 years
Annual tax on growth T3 / T5 slips on passive income	**Taxed yearly**	**None**
Ultimate value to the estate	**≈ $1.7M**	**≈ $3.6M**
Additional wealth created — same capital, repositioned	**—**	**≈ $1.9M**

Illustrative only. Compares an overfunded participating whole life strategy to a standard balanced corporate portfolio over the lifetimes of a mid-50s couple. Assumes $70,000/yr for ten years, existing corporate investments yielding 8–10%, and current tax rules. Actual results depend on age, health, policy design, carrier performance, tax rates and individual circumstances. Figures are not guarantees.

05 Application two — a pension-style income stream

The same policy is a "Swiss Army knife." For owners who would rather enjoy their wealth than leave all of it behind, it can be used for living benefits — funded identically, then drawn against later in life as a tax-efficient income stream.

$700K
funded into the policy — **$70,000 / year for 10 years.**

$1.5M
drawn later in life as a tax-efficient, **pension-style income** over 15 years.

$1.0M
still left to the estate at death — **after** drawing $1.5M to live on.

THE CAPITAL DIVIDEND ACCOUNT (CDA) — THE MULTIPLIER

The key to unlocking this wealth tax-free is the **CDA credit** *— an accounting mechanism that lets funds flow out of a corporation to the estate entirely tax-free. In the case above, the policy also generated a* **$3.5M** *CDA credit, letting large amounts of other corporate wealth pass to the next generation tax-free.*

06 Starting earlier — from caterpillar to butterfly

Younger professionals — a new dentist or physician, for example — may not yet have excess corporate capital, but they have something just as valuable: their health, and therefore their insurability. The "caterpillar to butterfly" approach protects the family now and positions the structure for later.

A three-stage path

Stage 01

Lock in insurability

Buy renewable and convertible **term insurance**, personally owned, to secure medical insurability while young and healthy.

Stage 02

Move it corporate

As debt clears, move the policy to the operating company, and eventually to the holding company where the capital lives.

Stage 03 — NO NEW UNDERWRITING

Convert to permanent

Once retained earnings build, use the **convertible** feature to switch term into participating whole life — no new medical underwriting required.

07 Five takeaways for incorporated owners

1. **A corporation has only one true tax shelter.** Permanent cash-value life insurance is the sole shelter available to a holding company — and it remains widely underused.
2. **Passive growth is taxed harder than most owners realize.** Inside a corporation, passive income is taxed at roughly 47–51%, and crossing $50,000 a year begins to erode the small business deduction.
3. **Overfunded participating whole life behaves like a corporate TFSA.** Growth is vested annually, produces no T3/T5 slips, and typically surpasses total premiums between years six and eight.
4. **The CDA turns corporate wealth into tax-free estate value.** The capital dividend account credit lets insurance proceeds — and other corporate wealth — flow to the estate tax-free.
5. **Insurability is an asset; protect it early.** Convertible term locks in coverage while you are healthy and converts to permanent insurance later without new underwriting.

How Cochrane Wealth Management can help

We start by projecting your true net estate value — the number many owners have never seen — then model whether repositioning corporate capital into an insurance-based asset class improves your after-tax outcome, coordinating with your accountant and estate advisors and our Raymond James trust, estate and tax-planning specialists.

$1.9M

additional estate value in our illustrative case — created by **repositioning capital already held**, not adding risk.