CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Is it cheaper to have your business pay for your personal coverage?

In my article, Corporate owned insurance for personal estate planning, I asked the question; Is it actually cheaper to have a corporation pay for personal coverage instead of paying out a higher dividend or bonus to the owner and have the owner purchase and own the coverage personally?

We met Francine, who believes, like many people, that having their corporation pay for the premiums and taking advantage of the qualified small business tax rates is the best and least costly way to go. What considerations come to mind?

The tax consequences of having a corporation pay for insurance on a family member with no connection to the business gives rise to a taxable benefit for the amount of the policy premium paid each year. The Canada Revenue Agency has access to several provisions of the Income Tax Act (Canada), to confer a benefit such as assess a shareholder benefit under Subsection 15(1) ITA, assess a benefit conferred on a person under Subsection 246(1) ITA, or assess a benefit under other subsections.

Let us look at an alternative. The following is a comparison of the amount of pre-tax corporate income required to pay an insurance premium of $1,000 assuming all funds are derived from a corporation subject to the small business rate.

Corporate small business tax rate: 12%

	Mid tax rate	High tax rate
Personal taxable benefit tax rate:	35%	50%
Personal non-eligible dividend tax rate:	25%	45%

Peter A. Wouters,
Director, Tax Retirement & Estate Planning Services

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Empire Life

	Corporately owned mid personal tax rate ($)	**Personally owned** mid personal tax rate ($)	**Corporate owned** high personal tax rate ($)	**Personally owned** high personal tax rate ($)
pre-tax income required	1136.36		1136.36	
corporate tax at 12%	-136.36		-136.36	
insurance premium	**1000.00**		**1000.00**	
taxable benefit to shareholder	1000.00		1000.00	
personal tax on benefit	-350.00		-500.00	
additional dividend required	466.67	1333.33	909.09	1818.18
tax on dividend	116.67	333.33	409.09	818.18
net to individual	**350.00**	**1000.00**	**500.00**	**1000.00**
insurance premium	**-**	**1000.00**	**-**	**1000.00**
corporate pre-tax income required to generate dividend	530.31	1515.15	1033.06	2066.11
corporate tax at 12%	63.64	181.82	123.97	247.93
dividend to individual from line 6	**466.67**	**1333.33**	**909.09**	**1818.18**
total pre-tax income (line 1 + 10)	**1666.67**	**1515.15**	**2169.42**	**2066.11**

In this example, it requires less net income to fund a personally owned life insurance policy than a corporately owned policy if the corporate premium payment triggers a taxable benefit. Results will vary when applying different corporate (small business or investment) or personal (dividend or salary) tax rates. The principal behind tax integration is that income earned by a private corporation and distributed as a dividend or a salary to its shareholder should be subject to approximately the same amount of tax as if the income had been earned by the shareholder directly.

Integration is never perfect because so many variables come into play. For example: the source of income contemplated, the different tax rates, the Refundable Dividend Tax on Hand, the Capital Dividend Account, etc...

Though one may think at first that a corporate owned life insurance policy is more cost effective using corporate dollars versus a personally owned life insurance policy, it is important to review the alternative tax consequences and consider all the variables on a case-by-case basis. Your Tax Retirement & Estate Planning team can help you determine the most cost effective ownership structure to meet your needs.

Updated February, 2024

The Empire Life Insurance Company
259 King Street East, Kingston, ON K7L 3A8

Insurance & Investments – Simple. Fast. Easy.®
empire.ca   info@empire.ca   1 877 548-1881

Empire Life®