

FUNDING HYBRID BUY/SELL WITH LIFE INSURANCE



Benefits

1. Relatively simple to establish and administer even with multiple shareholders.
2. Life insurance proceeds provide operating company (Opco) with monies to implement the buy/sell
3. Deceased's estate gets timely receipt for full value of interest/shares.
4. Proceeds to estate from shares redeemed from estate may be tax-free if shares are grandfathered for purpose of stop-loss rules in Income Tax Act (ss 112(3.2)).
5. Income tax on first death deferred by loss carryback from share redemption.
6. Deceased shareholder may be able to take advantage of available capital gains exemption.
7. Surviving shareholder(s) receive step-up in adjusted cost base of shares purchased directly from estate of deceased.

8. Insurance premiums paid with corporate vs. personal after-tax dollars.
9. Insurance premiums shared by shareholders proportionate to ownership.
10. Insurance premiums not shareholder benefit provided operating company (Opco) is owner and beneficiary.

Drawbacks

1. Life insurance proceeds may be subject to corporate creditor claims.
2. No step-up in adjusted cost base of shares redeemed by operating company (Opco) for surviving shareholder(s).
3. Corporate solvency tests need to be met in order to make dividend payments.
4. Potential for double taxation if stop-loss rules apply unless agreement properly structured to reduce/eliminate impact of rules.

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