FUNDING SHARE REDEMPTION 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 may be tax-free if shares are grandfathered for purpose of stop-loss rules in Income Tax Act (ss 112(3.2)).
5. If stop-loss rules do not apply, income taxes deferred on first death.
6. Insurance premiums paid with corporate vs. personal after-tax dollars.
7. Insurance premiums shared by shareholders proportionate to ownership.
8. 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. Deceased shareholder cannot take advantage of available capital gains exemption.
3. No step-up in adjusted cost base of shares for surviving shareholder(s).
4. Corporate solvency tests need to be met in order to make dividend payments.
5. Potential for double taxation if stop-loss rules apply unless agreement properly structured to reduce/eliminate impact of rules.

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