

Using life insurance to unlock trapped assets

If you've worked hard to build up a successful business, you certainly don't want to lose the company's assets to corporate and estate taxes, but without adequate planning that is what may happen. However, there is a powerful financial strategy available that can help you maximize the value of your company's assets, and transfer them to the next generation with a minimum of taxation.

The tax trap

Here's the situation: you have investment assets inside a holding company that you do not anticipate needing during your lifetime. These assets are simply being invested, and will eventually be funneled out of the corporation and passed on to your heirs.

However, there's a "tax trap" to consider. The growth of your corporately-owned investments is taxed at an even higher rate than if you owned the investments personally. However, if you take the money out of the corporation, it will be taxed again, most likely as a personal dividend. Finally, your company's investment assets could be taxable in the hands of your heirs, significantly diminishing the value of your estate.

Fortunately, there is a way to unlock these trapped assets and minimize the tax liability, all through the use of life insurance.

Here's how it works

This strategy begins by using the assets in your holding company to purchase a tax-exempt life insurance policy in the name of the holding company. Your life is insured by the policy, and your holding company is the beneficiary that will receive a tax-free death benefit when you pass away.


There are several benefits to this strategy. First, in addition to the life insurance premiums your holding company pays into the policy, you can deposit excess funds which may be invested either by you in a variety of investment options – ranging from guaranteed deposits to equity-based funds and complete asset allocation portfolios – or by professional money managers, much like within a mutual fund. These investments are allowed to grow on a tax-deferred basis, which can maximize the growth of the assets.

When you pass away, the holding company receives the tax-free death benefit, and some or all of it may be passed to your heirs as a tax-free capital dividend.

The bottom line

In the end, this strategy can maximize the growth of your company's assets, and help you pass them to the next generation with as little tax as possible. In fact, the net value of your estate could more than double compared to simply continuing to own taxable investments within your holding company.





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