



CORPORATE-OWNED LIFE INSURANCE

# A Complete Guide for *Incorporated Canadian* Business Owners

*How to redirect retained earnings into a tax-exempt asset, build wealth inside your corporation, and transfer capital to your estate — completely tax-free.*

**~50%**

TAX ON CORPORATE PASSIVE  
INCOME

**100%**

DEATH BENEFIT FLOWS TO CORP  
TAX-FREE

**\$0**

TAX ON CDA DIVIDEND TO  
SHAREHOLDERS

# Corporate-Owned *Life Insurance*

Corporate-Owned Life Insurance (COLI) is a permanent life insurance policy where your corporation — not you personally — owns the policy, pays the premiums, and receives the death benefit. It is one of the most powerful and tax-efficient planning tools available to incorporated Canadian business owners, combining asset protection, tax-exempt growth, and estate transfer into a single structure.

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## 01 Corporate Ownership

The policy is owned by your operating or holding company. Premiums are funded with pre-tax retained earnings — dollars that have only been taxed at the low corporate rate. This is a critical funding advantage over personal ownership.

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## 02 Participating Whole Life Structure

Most COLI strategies use participating whole life insurance. The policy builds guaranteed cash surrender value (CSV) over time and earns annual dividends from the insurer's participating account — both growing completely tax-exempt inside the policy.

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## 03 Capital Dividend Account Mechanics

When the insured shareholder dies, the death benefit above the policy's adjusted cost basis (ACB) flows into the corporation's Capital Dividend Account, allowing completely tax-free distribution to shareholders.

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# The Retained Earnings *Tax Trap*

If you're incorporated with retained earnings building up inside your corporation, you're already facing one of Canada's most punishing tax structures — and most business owners don't fully understand the depth of the problem until they model it out.

- Retained earnings invested passively inside your corp — in GICs, stocks, or mutual funds — are taxed at the passive income rate of roughly **50% in most provinces**.
- Once passive income exceeds **\$50,000/year**, your small business deduction (SBD) begins to phase out — pushing active business income into higher corporate tax rates.
- When you eventually extract the money personally, you pay again — as salary or dividends. This is the **double-tax trap** that silently erodes wealth.
- Capital left inside until death triggers **deemed disposition, probate, and estate taxes** before anything reaches your family.

*The result: retained earnings left unmanaged can be taxed at ~50% on the way **in**, taxed again on the way **out** personally, and taxed a third time through your **estate**. COLI is the most effective legal tool available to break that cycle.*

# Five Reasons Business Owners Use *COLI*

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01

## **Tax-Exempt Growth Inside the Policy**

Cash value inside a participating whole life policy grows tax-exempt. Unlike corporate GICs or equities, there is zero annual tax on CSV growth. Over a 20–30 year horizon, this compounding advantage is one of the most significant in Canadian tax planning.

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02

## **CDA-Sheltered Tax-Free Death Benefit**

The death benefit minus the ACB creates a Capital Dividend Account credit. The corporation pays this to shareholders as a capital dividend — completely tax-free. No personal income tax. No dividend withholding. Zero.

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03

## **Creditor Protection**

A properly structured corporate life insurance policy may offer protection from business creditors — particularly valuable for owners carrying personal guarantees, construction debt, or corporate liability exposure.

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04

## **Premium Leverage Through Corporate Dollars**

Premiums are funded with retained earnings taxed only at the low corporate rate. A \$100K annual premium costs \$100K corporate dollars — versus \$175,000–\$200,000+ in personal after-tax dollars at the top marginal rate.

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05

## **Estate Liquidity and Equalization**

The death benefit provides immediate liquidity: funding tax obligations at death, equalizing inheritances between children, or facilitating business transitions without forcing a fire sale of operating assets.

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## The CDA Flow — *Step by Step*

The Capital Dividend Account is the mechanism that makes corporate life insurance the most tax-efficient wealth transfer tool in Canada. Here is exactly how it works:

STEP	WHAT HAPPENS	TAX TREATMENT
1. Policy Issued	Corporation applies for and owns a participating whole life policy on the life of a key shareholder.	No tax event. Premiums funded with corporate retained earnings.
2. Premiums Paid	Corporation pays annual premiums. Policy builds guaranteed CSV and earns insurer dividends.	Premiums generally not deductible. CSV growth is completely tax-exempt inside the policy.
3. Insured Dies	Death benefit is paid to the corporation (named beneficiary). Amount received exceeds the policy ACB.	Corporation receives death benefit tax-free. ACB subtracted to determine CDA credit.
4. CDA Credit Created	Excess of death benefit over ACB is credited to the corporation's Capital Dividend Account.	No tax at this stage. CDA balance is notional — does not trigger corporate income tax.
5. CDA Election Filed	Corporation files a CDA election with CRA (Form T2054) to designate the capital dividend payment.	Administrative step only. No tax triggered by the election itself.
6. Capital Dividend Paid	Corporation pays a capital dividend to shareholders — spouse, children, or estate.	<b>ZERO personal tax. Shareholder receives the full capital dividend completely tax-free.</b>

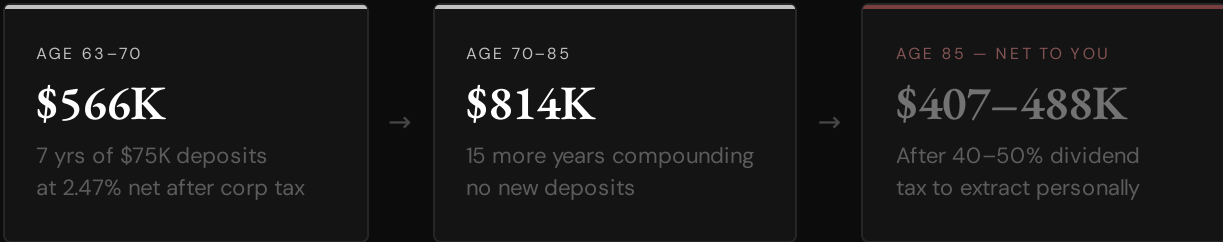
# Do Nothing — or Build Something.

Sample Client · \$75K/yr deposit · 7 years · 2.47% net corporate growth · Comparison at Age 85

STARTING AGE	ANNUAL DEPOSIT	DEPOSIT PERIOD	GROSS RETURN	CORP NET GROWTH	TAX DRAG
63	\$75K	7 Yrs	5.00%	2.47%	50.67%

COMPARISON
Age 85

## CORPORATE INVESTMENT ROUTE — GROWTH TIMELINE



## SIDE-BY-SIDE OUTCOME AT AGE 85

DO NOTHING	RECOMMENDED — IRP STRATEGY
Passive retained earnings — corporate investment	Goald & Co — Insured Retirement Plan
Pre-tax value at 85	Annual income at 85
\$814,000	\$35,081 tax-free
After div. tax at 40%	Funded for
\$488,400	14 years
After div. tax at 45%	Total income stream
\$447,700	\$491,134
After div. tax at 50%	Residual estate at 85
\$407,000	\$454,281
NET PERSONAL ESTATE (AVG)	TOTAL ECONOMIC BENEFIT
~\$448K	\$945,415+

IRP ADVANTAGE

**+\$497K**

More than 2x the net outcome

Corporate Investment

~\$448K

~\$448K

IRP Strategy

\$945K+

\$945K+

*\* Sample illustration only. IRP total includes \$491,134 in tax-free income plus \$454,281 residual estate. Corporate net uses midpoint 45% dividend tax. Individual tax rates vary. Not a guarantee of future performance.*

ELIGIBILITY

## Who Is COLI *Right For?*

### IDEAL FIT

- Incorporated business owners with \$100K+ in retained earnings
- Businesses generating \$50K+ in passive income annually
- Shareholders wanting tax-free capital to their estate
- Owners with a genuine need for permanent life insurance
- High-net-worth families using a HoldCo structure
- Professionals: doctors, dentists, lawyers, engineers
- Real estate investors and developers with corp holdings

### NOT IDEAL

- Sole proprietors (not incorporated)
- Owners with minimal or no retained earnings
- Anyone whose only need is short-term term insurance
- Business owners with no estate or succession objectives
- Individuals with uninsurable health conditions
- Those who may need capital liquid within 5 years

## The Four Most Common *COLI Mistakes*

### *Mistake 01*

#### **Personally-owned policy**

If the policy is owned personally, you lose the retained earnings funding advantage, the CDA benefit, and the ability to fund with pre-tax corporate dollars. The policy must be corporately owned from inception — this cannot be corrected retroactively without significant tax consequences.

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### *Mistake 02*

#### **Not coordinating with your accountant**

COLI intersects with ACB tracking, CDA balance, T2 corporate filings, and your corporate structure. Without your accountant's involvement, you risk a deficient CDA election or missed credits. The best COLI advisors work alongside your CPA from day one.

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### *Mistake 03*

#### **Choosing the wrong policy design**

Not all participating whole life policies are equal. Dividend scale, premium offset timing, early CSV liquidity, and paid-up addition riders vary significantly between carriers. A poorly structured policy can underperform by hundreds of thousands of dollars over a 20-year horizon.

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### *Mistake 04*





#### **Ignoring the policy's ACB**

The Adjusted Cost Basis of the policy determines how much of the death benefit flows into the CDA. Advisors who don't project ACB carefully may leave clients with an unexpected taxable component at death. ACB projections must be built into every plan from day one.

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## 2026 Carrier Comparison — *Participating Whole Life*

Goald & Co is independent and works with all major Canadian participating whole life carriers. The right carrier depends on your specific objectives, timeline, and health profile.

CARRIER	2026 DIV. SCALE (DSIR)	CSV LIQUIDITY (EARLY YEARS)	BEST USE CASE
 <b>Manulife</b>	<b>6.35%</b> Eff. Sept 1, 2025 — Manulife Par	<b>Strong early</b> Very competitive early CSV and PUA efficiency	IRP strategies, high- income professionals, tax-advantaged growth
 <b>Canada Life</b>	<b>6.00%</b> Current 2026 rate — Updated core par lineup	<b>Excellent long-term</b> Lower PUA loadings (7%), strong long-term CSV accumulation	Estate maximization, HoldCo structures, long-term wealth
 <b>Equitable Life</b>	<b>6.40%</b> Jul 1, 2025 — Jun 30, 2026 — Equimax	<b>Best early liquidity</b> Excellent early CSV, high PUA efficiency, very strong paid-up value	IFA strategies, shorter planning timelines
 <b>Sun Life</b>	<b>6.25%</b> Eff. April 1, 2026 — Sun Par	<b>Moderate</b> Solid CSV growth, improving with product enhancements	Risk-averse clients, complex underwriting

DSIR (Dividend Scale Interest Rate) is one component of participating dividend calculations and is not a guaranteed rate of return. Actual policy performance depends on mortality, expenses, taxes, and other factors.

· Source: Carrier websites, advisor bulletins, and product updates (May 2026)

READY TO MOVE FORWARD

## See What This Looks Like *for Your Corporation*

Every business owner's situation is different. A 15-minute strategy call will show you exactly what a COLI strategy could look like for your corporation — with real numbers, real projections, and no pressure.

- ✓ Review of your retained earnings and passive income situation
- ✓ High-level corporate structure assessment (OpCo / HoldCo)
- ✓ A ballpark projection built on your actual numbers
- ✓ Carrier recommendation based on your age and objectives
- ✓ Clear next steps — no jargon, no pressure to proceed

[BOOK A STRATEGY CALL →](#)

Cody Vass · Goald & Co Financial Inc. · Licensed in BC, AB & ON

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