**Transferring a corporate-owned life insurance policy to an individual shareholder**

Insurance policies are valuable and useful assets. We're often asked about the financial consequences – particularly around taxation – of transferring a policy from an existing owner to a new one.

We've identified the most common transfer scenarios and answered your questions about the financial implications.

Here are some terms to know.

- **Consideration** – the cash or other assets given as a form of payment
- **ACB** – adjusted cost basis
- **FMV** – fair market value
- **CSV** – cash surrender value

A corporation owns a life insurance policy on a shareholder. The corporation no longer needs the life insurance for any number of reasons such as the shareholder selling the business, or the corporation being wound up. The shareholder wants to keep the policy.

As a result, the corporation transfers the policy to the shareholder.

Because the corporation is transferring ownership of the life insurance policy, there is a disposition for tax purposes.

The transfer is to a non-arm's-length party, which means subsection 148(7) of the Income Tax Act will apply. This subsection deems the proceeds of the disposition for the corporation to be the greatest of:

- the value of the policy (i.e. the CSV less any policy loans,
- the FMV of the consideration the shareholder is given, and
- the ACB of the policy at the time of transfer.

The difference between the FMV of the policy and the amount given as consideration for the policy is a taxable benefit to the shareholder.

The shareholder's new ACB is equal to the proceeds of the disposition plus any taxable benefit up to the FMV of the policy.

The policy's FMV is difficult to determine and would be estimated based on the facts and circumstances of the situation including:

- the CSV of the policy
- the number of years the policy has been in force
- the replacement cost
- the health of the insured

- the policy terms and riders
- the face value of the policy.

Let's assume the life insurance policy has a CSV of $125,000 and an ACB of $86,000. The FMV of the policy is determined to be $150,000.

The implications of the transfer to the corporation and the shareholder will depend on the amount of consideration given for the policy. In this case, the corporation transfers the life insurance policy to the shareholder for no consideration. The corporation will have a fully taxable policy gain for $39,000. The shareholder will have a fully taxable shareholder benefit equal to $150,000.

What you need to keep in mind:

**Shareholder benefits are fully taxable to the shareholder as ordinary income without a corresponding deduction to the corporation and should be avoided if possible.**

There is one more option to consider. The assessment of a taxable shareholder benefit can be reduced or eliminated if the life insurance is transferred as a dividend payable in kind to the shareholder. Subsection 148(7) would still apply and deem the proceeds of the disposition to the corporation to be the greatest of the CSV, the FMV of the consideration given, and the ACB.

In this case, there will be a policy gain for $39,000. The dividend amount would equal the policy's FMV or $150,000. Although the income inclusion is the same as before, the shareholder will benefit from preferential dividend tax treatment on the income created in this scenario. As well, the corporation may recover refundable dividend tax on hand in the process. The ACB of the policy to the shareholder will be $125,000.

**Always consult a tax professional before proceeding with transferring a policy.**

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