

Life Insurance Shares: Equalizing an Estate Without Splitting the Business

A share class built to carry insurance proceeds to the people who aren't getting the company.

THE PROBLEM IT SOLVES

- One child runs the business and the others don't — or a blended family means a spouse needs control while adult kids still need to see value.
- Splitting operating shares to keep everyone happy either dilutes control or breaks up something that shouldn't be broken up.

HOW IT WORKS

- A new class of shares — non-voting, non-participating, redeemable — is created through a section 86 share reorganization, issued at nominal value (typically \$1) before the corporation buys the policy.
- The corporation owns and pays for a policy on the key shareholder's life.
- On death, the death benefit funds a capital dividend that flows specifically through that share class — its redemption value tracks the policy's cash surrender value / death benefit, without inflating the value of the common shares.
- Typical uses: estate freezes (freeze shares to the active child, insurance shares to the others), blended-family equalization, or funding a departing shareholder's buyout.

WATCH-OUTS

- CRA hasn't confirmed the nominal issuance value holds in every case — the valuation position needs to be documented.
- TOSI can still apply to a taxable (non-capital) dividend on these shares, even though the capital dividend portion is exempt.
- Family law treatment on marriage breakdown is unsettled — worth flagging where relevant.
- The share class needs to exist before the policy is purchased. Retrofitting after the fact is far harder than building it in at incorporation or the next reorg.

WHERE YOU COME IN

- This sits right at the intersection of share structure and insurance — exactly the conversation that comes up when you're incorporating a client or running an estate freeze. Loop me in while the share terms are still being drafted.

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For discussion with your professional advisors — not tax, legal, or accounting advice. Happy to work alongside whoever's already in the file.

