CORPORATE STRATEGY SERIES — NO. 02

The Estate & Wealth Transfer Guide

How to pass your business and personal wealth to the next generation without triggering unnecessary tax at death — covering estate freezes, trusts, insurance funding, and probate.

READING TIME
~15 minutes

BEST FOR
Business Owners Planning Succession

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SECTION 01

Why estate planning starts with your corporation

For most business owners, the corporation isn't just a source of income — it's the single largest asset in the estate. That changes how estate planning works. Under the Income Tax Act, death is treated as a "deemed disposition": your shares, and most other capital property, are considered sold at fair market value immediately before death, whether or not anything actually changed hands.

If your company has grown significantly in value, that deemed disposition can create a large tax liability payable by your estate — due within months, not years. Without planning, that bill often forces a rushed sale of assets, a forced sale of the business, or a strain on the very family members the estate was meant to support.

100%	~6 mo.	1x
DEEMED DISPOSITION AT FMV	TYPICAL TAX PAYMENT WINDOW	CHANCE TO PLAN AHEAD OF TIME

The good news: nearly every tool in this guide exists to give you control over that moment — capping the liability, funding it in advance, and deciding today how the business transitions, rather than leaving it to be sorted out under pressure.

SECTION 02

Wills, beneficiaries & the documents that matter

Before any advanced structure makes sense, the basics need to be right — and for business owners, "basic" estate documents are more involved than a standard will.

- **A current will** that specifically addresses your shares, not just personal assets — including who can vote and manage the business if you're incapacitated, not only after death.
- **A secondary will**, used in several provinces to hold private company shares and other assets separately from assets that must pass through probate — reducing probate fees and keeping business ownership details out of the public probate record.
- **Beneficiary designations** on registered accounts and insurance policies, which pass outside your will entirely — and are worth checking every few years, since they're easy to forget after a divorce, remarriage, or new policy.
- **A shareholder agreement** that spells out what happens to your shares if you die, become disabled, or want to exit — ideally funded by insurance, covered in Section 05.

These documents don't need to be complicated, but they do need to be current. The most common estate planning failure isn't a missing strategy — it's a will that hasn't been updated since before the business existed in its current form.

SECTION 03

The estate freeze, revisited

An estate freeze is the core structural tool for managing the tax exposure described in Section 01. You exchange your common shares — which carry all future growth — for fixed-value preferred shares. New common shares, carrying everything the business earns from that point forward, are issued to your children, a family trust, or another successor.

> WHAT A FREEZE ACTUALLY DOES
>
> Your tax liability is capped at today's value of the business. Every dollar of growth after the freeze belongs to the next generation, and is taxed in their hands — not yours — when it's eventually realized.

A freeze doesn't hand over control. You can retain voting preferred shares and stay fully in charge of the business, while the economic growth shifts to the next generation on paper. It's a timing and structuring decision, not a retirement decision — many owners freeze a business a decade or more before they plan to step back from it.

SECTION 04

Family trusts: flexibility with rules

Rather than issuing the new growth shares directly to your children, many estate freezes route them into a discretionary family trust instead. The trust holds the shares on behalf of a group of beneficiaries — typically a spouse and children — and the trustees decide, within the terms of the trust, how and when income or capital is eventually distributed.

- **Flexibility.** You don't have to decide today exactly how much each child eventually receives — the trust can adapt as circumstances change.
- **Income splitting, within limits.** Trusts can allow income to be distributed among family members, though rules around this — particularly the "tax on split income" (TOSI) regime — are strict and require careful structuring.
- **The 21-year rule.** Most family trusts are deemed to dispose of their capital property every 21 years, which needs to be planned for well in advance rather than discovered too late.

Trusts are powerful, but they're not a set-and-forget structure — they require annual filings, active trustee decisions, and periodic review as tax rules around them continue to evolve.

SECTION 05

Funding the tax bill with insurance

Freezing the value of your shares caps the liability — it doesn't pay it. Life insurance is the most common way business owners fund the eventual tax bill without forcing a sale of the company or other assets.

Corporate-owned permanent life insurance is particularly well suited to this. The death benefit is paid to the corporation, and — as covered in our Tax Planning Guide — a significant portion typically flows through the capital dividend account, allowing that money to reach shareholders or the estate tax-free, at exactly the moment it's needed.

A SIMPLE WAY TO THINK ABOUT IT

The freeze fixes the size of the bill. The insurance makes sure the cash to pay it exists — without touching the operating business, real estate, or investments you intended to pass down intact.

SECTION 06

Probate: what it is, and reducing it

Probate is the court process that validates a will and confirms an executor's authority to act. It comes with provincial fees — calculated as a percentage of the estate's value — and, more importantly for many business owners, it makes certain estate details part of the public record.

STRATEGY	WHAT IT DOES
Secondary will	Keeps private company shares out of the probated estate in eligible provinces
Beneficiary designations	Registered accounts & insurance pass directly to named beneficiaries
Joint ownership	Can pass certain assets outside the estate — but carries its own risks and should be reviewed carefully
Trusts	Assets already held in trust generally bypass probate on the settlor's death

Reducing probate exposure is worthwhile, but it's a secondary consideration next to the deemed disposition tax discussed earlier — the two are often confused, and it's worth being clear on which problem each strategy is actually solving.

SECTION 07

Succession: family, employees, or sale

Every business eventually transitions to someone. The three broad paths — a family succession, a sale to management or employees, or a sale to a third party — each carry different tax treatment, different timelines, and very different emotional weight.

- **Family succession** pairs naturally with an estate freeze and trust structure, but only works if the next generation is genuinely willing and capable — a conversation worth having honestly, and early.
- **Management or employee buyouts** often rely on structured financing over several years, sometimes supported by an individual pension plan or retirement compensation arrangement for the departing owner.

- **Third-party sale** may qualify for the lifetime capital gains exemption on qualifying small business shares, which can shelter a substantial amount of the sale proceeds from tax — but only if the corporation meets specific eligibility tests well before the sale.

The path you choose changes which of the tools in this guide matter most — which is exactly why succession planning should happen years, not months, before you intend to step back.

SECTION 08

Building your estate plan

Estate planning for an incorporated business isn't a single document — it's a coordinated set of decisions across your accountant, a corporate/estate lawyer, and your financial and insurance plan. A reasonable starting sequence:

1. Update your will (and secondary will, where applicable) to reflect the business as it exists today
2. Get a current valuation of the company to understand the size of the eventual tax liability
3. Decide whether an estate freeze and family trust fit your succession goals
4. Put insurance in place to fund the liability the freeze locks in
5. Have the direct conversation about who takes over — family, management, or a future sale

This is the coordination Canadian Allied Services is built around — making sure your lawyer, accountant, and insurance strategy are working from the same plan, instead of three separate ones.

Ready to build your estate plan?

Book a no-obligation discovery call and we'll walk through where these strategies could apply to your business and family.

Book a Discovery Call

This guide is provided for general educational purposes only and does not constitute tax, legal, or financial advice. Estate and probate rules vary significantly by province and are subject to change. Please consult a qualified accountant, estate lawyer, or financial advisor before acting on any strategy described here.