



Turning Business Value Into Estate Liquidity: A Manufacturing Succession Planning Case Study

Client Profile

David and Priya Mehta are the founders of a 28-year-old Ontario-based manufacturing company specializing in custom metal fabrication for industrial and infrastructure clients across Southern Ontario.

Founder age: 63

Annual revenue: ~\$3.2M

Employees: 18

Children: Two children, one active in operations, one not involved in the business

Assets: Majority of family wealth tied to the operating company and retained earnings

Asset Structure

- Principal Residence (Personally Held)
 - Fair market value: \$2.4M
 - Fully protected by the principal residence exemption
- Operating Company (OpCo)
 - Enterprise value: ~\$4.8M
 - Significant retained earnings accumulated over time
 - Equipment-heavy business with strong cash flow
- Holding Company (Holdco)
 - Invested surplus from OpCo
 - Portfolio of marketable securities
 - Fair market value: ~\$2.1M



Projected Estate Tax Exposure

Upon death, David and Priya's shares in OpCo and Holdco would be deemed disposed of at fair market value.

Modeled capital gains and corporate tax exposure resulted in an estimated estate tax liability of approximately \$2.9M.

The issue was not asset value. It was liquidity.

The Challenge

1. Significant Tax Exposure

The majority of the family's wealth was embedded in productive assets:

- Growth in enterprise value of the manufacturing business
- Accumulated retained earnings and investment portfolio inside Holdco
- Low adjusted cost base on shares due to long-term ownership

2. Cash Flow and Working Capital Constraints

The business required:

- Ongoing investment in equipment and production capacity
- Working capital for large contracts
- Flexibility to navigate economic cycles

Selling assets or using retained earnings would:

- Reduce operational flexibility
- Limit reinvestment into growth
- Weaken long-term business value

3. Legacy and Family Continuity

- One child active in the business, one not involved

The founders' objective were:

- Maintain control with the active child
- Ensure fairness across both children
- Avoid forced sale or external ownership



The IFA Solution

After modeling multiple scenarios, the advisory team implemented a corporate-owned permanent life insurance strategy structured as an Immediate Financing Arrangement (IFA).

Structure Overview

- The life insurance policy was owned by Holdco.
- A permanent participating policy was selected to provide long-term stability and growth of cash value.
- Annual premiums were funded using corporate cash flow.
- A third-party lender provided collateralized financing secured by the policy's cash value.
- Borrowed funds were deployed for income-producing purposes within the Holdco real estate portfolio.

Because borrowed funds were used to earn income, the loan interest was structured to be tax-deductible.

At Death

Upon David and Priya's passing:

- Insurance proceeds paid tax-free to Holdco
- CDA credited
- Tax-free capital dividends paid to the estate
- \$2.9M tax liability funded without selling the business
- Loan repaid using insurance proceeds

The operating company remains intact.

Why the IFA Was the Ideal Strategy

1 - Preserved Corporate Liquidity

- Maintained working capital
- Reinvestment capacity
- Operational flexibility

2 - Enabled Fair Estate Distribution

- Created liquidity outside the business to balance outcomes between children.

3 - Maintained Capital Efficiency

- Interest deductibility + continued investment growth inside Holdco.

4 - Avoided Forced Sale of the Business

- Preserved control, continuity, and long-term family wealth.



The Traditional Alternatives

These are always the 3 default options for paying estate tax:



Pay the tax with cash on hand

Most estates are not liquid, and large cash positions carry a high opportunity cost



Borrow the funds to pay the tax

Borrowing is not guaranteed. Creditworthiness, lending conditions, and interest rates may be unfavorable when needed.



Liquidate assets to pay the tax

Forced liquidation often leads to poor timing, lower valuations, and loss of family assets intended to stay in the family.

Working with EstateLy Wealth

EstateLy Wealth partners with Canadian accountants and advisors to design and implement advanced insurance-based planning strategies for business owners and professionals.

We support the planning process with technical expertise, structured analysis, and clear documentation, helping ensure complex strategies like IFAs are implemented correctly and integrated into the broader tax and estate plan.

Expertise in IFA Planning & Implementation

More than 20 years of combined experience designing and implementing IFA strategies across a wide range of client situations.

Licensed Across Canada

We work with all major insurance carriers, allowing us to compare options and recommend the most appropriate solution for each client.

Branded Client Presentations

Upon request, we prepare clean, professional, accountant-ready and client-ready presentations that reflect the accountant's brand and planning approach.

Case Consultations on Your Schedule

Accountants can book case consultations at their convenience, allowing us to walk through planning options and answer any technical questions.

Prompt Response Time

We value you and your client's time and we respond to accountant inquiries promptly to keep the planning process moving smoothly.

Secure Document Repository

We provide a secure environment for uploading, sharing, and reviewing client documents throughout the planning process.

Annual Accounting Summary

We equip accountants with a structured accounting summary that includes a detailed breakdown of NCPI, interest paid and verified cash values, reducing the administrative burden on your firm.

Post-Mortem Projections & CDA Utilization

We provide projections to support your firm in executing Section 164(6) loss carrybacks and Pipeline Planning to preserve estate liquidity.

Our goal is to help accountants deliver clear, proactive, and tax efficient planning strategies that support stronger client relationships and long term continuity. We act as a planning partner, assisting both the accountant and their clients throughout the process.

