



Passing Down Properties Without Forcing a Sale: A Real Estate Succession Planning Canada Case Study

Client Profile

Michael and Laura Russo are the founders of a 35-year-old Ontario-based construction company specializing in commercial and light industrial projects across the GTA.

Founder age: 66

Annual revenue: ~\$45M

Employees: 120+

Children: Two adult children active in senior leadership (Operations and Finance)

Assets: Majority of family wealth tied to the operating company and real estate

Asset Structure

- Principal Residence (Personally Held)
 - Fair market value: \$3.8M
 - Fully protected by the principal residence exemption
- Operating Company (OpCo)
 - Enterprise value: ~\$12M
 - Head office, yard, and warehouse property owned by OpCo
 - Low adjusted cost base due to purchase decades ago
- Holding Company (Holdco)
 - Portfolio of commercial and multi-residential rental properties
 - Fair market value: \$16.4M
 - Generates strong recurring rental income



Projected Estate Tax Exposure

Upon death, Michael's shares in OpCo and Holdco would be deemed disposed at fair market value. Modeled capital gains and corporate tax exposure resulted in an estimated estate tax liability of approximately \$7.6M.

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:

- Appreciated head office property inside OpCo
- Low-cost-base rental portfolio inside Holdco
- Growth in enterprise value of the construction business

The deemed disposition of shares at death would trigger an estimated \$7.6M tax liability.

2. Cash Flow and Working Capital Constraints

The construction business required:

- Strong retained earnings
- Bonding capacity
- Access to capital for equipment and project financing
- Stability in economic downturns

Selling assets to fund estate tax would:

- Reduce recurring rental income
- Weaken balance sheet strength
- Potentially impair bonding ratios
- Potential double taxation
- Disrupt long-term growth planning

Draining corporate liquidity to pre-fund insurance premiums using cash would also reduce capital available for operations and real estate acquisitions.

3. Legacy and Business Continuity

Both children were actively running the business.

The founders' primary objective was clear:

- No forced sale of properties
- No outside investors
- No operational disruption
- No refinancing pressure placed on the next generation

The estate plan needed to preserve control, continuity, and financial strength.



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 Michael's passing:

- The life insurance proceeds would be paid tax-free to Holdco.
- The Capital Dividend Account (CDA) would be credited.
- Tax-free capital dividends could be paid to the estate.
- The \$7.6M estate tax liability could be funded without selling properties.
- The loan would be repaid using a portion of the insurance proceeds.

The rental portfolio and operating company would remain intact.

Why the IFA Was the Ideal Strategy

1 – Preserved Corporate Liquidity

Unlike a traditional insurance strategy funded entirely with retained earnings, the IFA allowed the company to:

- a. Maintain working capital
- b. Preserve bonding capacity
- c. Continue acquiring properties
- d. Avoid impairing operational flexibility

In a construction business, liquidity is strategic capital.

2 – Avoided Forced Asset Sales

Without planning, the most likely solution would have been:

- a. Selling rental properties
- b. Selling the head office and leasing it back
- c. Increasing leverage significantly

All three options would have weakened long-term family wealth and business resilience. The IFA created estate liquidity without liquidating productive assets.



3 – Maintained Capital Efficiency

Because borrowed funds were deployed for income-producing purposes:

- Interest costs were deductible
- Real estate portfolio growth continued
- Insurance cash value accumulated inside the corporation
- Net estate enhancement was achieved

The solution aligned tax efficiency with capital allocation discipline.

4 – Protected Second-Generation Leadership

The children did not inherit:

- A liquidity crisis
- A refinancing obligation
- A forced divestiture decision
- A weakened balance sheet

Instead, they inherited:

- A stable operating company
- An intact rental portfolio
- Clean estate tax funding
- Full control of the business

The plan ensured continuity rather than disruption.

This structure allowed the Russo family to pass down over \$30M in real estate and operating assets without selling a single property and preserving the financial strength of a second-generation Ontario construction company.

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.

