

# Financial Planning After Selling:

## PART 1

**A** dentist sells their dental practice for (hopefully big) money. A significant chapter of their life has ended, and another one has just begun. But now what?

In this article, we look at what dentists may want to do if they did an ASSET sale – meaning their dentistry professional corporation (“corporation”) sold the dental-specific assets that made up their practice. That corporation received the money from the sale. In a future article, we will look at what dentists may want to do if they did a SHARE sale – meaning the dentists themselves sold the shares of their dentistry professional corporation, and they received the money from the sale.

**CAVEAT:** Why did the selling dentist end up doing an asset sale and miss out on the lifetime capital gains exemption (which provides up to ~\$250k of capital gains savings per person if fully maximized and which can be multiplied) that comes with a share sale? Well, maybe they’ve already used up their lifetime capital gains exemption (keep in mind the limit increases each year – in 2023, it was \$971k). Or perhaps they didn’t qualify because the corporation didn’t meet the various time or assets tests. Or perhaps the dentist didn’t qualify because they had “cumulative net investment losses” or “allowable business investment losses” that eroded their ability to claim the capital gains exemption. Either way, the dentist or their corporation didn’t qualify for a share sale, so it ended up being an asset sale.

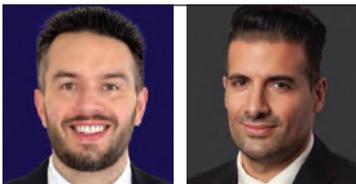
### Initial Thoughts

The proceeds from the sale are tied up at the corporate level. The corporation would typically owe capital gains taxes on the sale of the various asset classes (e.g. furniture, fixtures and equipment, computer hardware and software, dental supplies, goodwill in the form of patient records, etc.). Let’s assume the dentist doesn’t need to immediately draw upon this money to fuel their lifestyle – because that could trigger personal taxes in the form of salary or dividends. So, what could the corporation do to increase wealth and minimize taxes?

Sure, buying real estate, investing in stocks, and holding cash are all great options with advantages. But what about buying whole life insurance at the corporate level? Whole life insurance is a permanent insurance policy that builds cash value over time. As long as the owner (in this case, the corporation) pays the premiums, the policy remains active for the policyholder’s entire life, and the beneficiaries (also the corporation) will receive the death benefits tax-free upon the dentist’s passing.

### Financing Advantages

If the corporation is still considered a “Canadian small business corporation” – for example, the selling dentist uses it to earn active associateship income – then it would pay for the whole life insurance premiums AFTER paying income tax. Since your corporation’s combined federal and provincial



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income tax is only 12.2%, it has a lot more spending power after paying its taxes (e.g., to pay even higher premiums on a larger whole life insurance policy) than an individual like the selling dentist would. Suppose the selling dentist paid the premiums, and their earnings pushed them to the top personal marginal tax rate. In that case, they'd need to pay a whopping 53.53% tax on their associate-ship income before having anything available to pay the premiums! This translates into less money being available to fund their lifestyle or investments.

### Tax-Advantages and Estate Planning

Whole life insurance policies offer tax-advantaged growth. When held within the corporation, the policy's cash value grows year-over-year without a tax bill being levied on anyone (the corporation or the dentist). On the dentist's passing, the death benefit – this is the amount that's paid out by the insurance company tax-free to the corporation when the dentist passes – provides a credit to the corporation's capital dividend account, which allows for dividends to be distributed tax-free (at both the corporate and individual levels) to the appropriate shareholder.

### Supplementary Retirement Income

The cash value of a whole life insurance can also be used for financing or investment purposes. For example, with sufficient cash value, the entire life insurance policy could be used as a deposit for the corporation or the dentist to buy real estate and earn rental income. The dentist could use such a policy as collateral with the bank to take out a loan (e.g. a line of credit) to supplement their income. The death benefit would eventually pay off the dentist's debts. For example, the dentist leverages their cash value to receive a \$1,000,000 tax-free line of credit, uses it to live on, and then passes away. If the death benefit is \$5,000,000, then \$4,000,000 will be paid to the beneficiary to account for the \$1,000,000 outstanding line of credit balance. A whole life policy is flexible to adapt to life's ever-changing circumstances.

### Long-Term Vision and Prudent Planning

With the assistance of insurance, accounting, and legal professionals, a dentist who just sold their practice and sold assets through their corporation can align their tax planning, retirement, supplemental income, and estate planning goals with a whole life insurance policy.

### Famous use cases

Interestingly enough, the one and only Walt Disney was denied a bank loan in 1955. So, instead, he borrowed against his own life insurance policy to help finance the beginning of Disneyland. The next time you ride Magic Mountain, remember you have life insurance to thank for the thrill!

Also, the beloved character Ronald McDonald would not exist without whole life insurance. In 1961, Ray Croc borrowed against two of his whole life policies to finance the original marketing campaign for Ronald McDonald. Hamburgers, French Fries, and Whole Life insurance – they all go together. ✧

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