

Fair Market Valuation

Valuation of life insurance policies



What is Fair Market Valuation?



The Fair Market Valuation (FMV) of a life insurance policy can be used for purposes of:

- Valuing a corporation prior to March 22, 2016
- Valuing a corporation's shares
- Divorce calculations for marital property
- Transfers from corporately owned to personal
- US Citizens owning Canadian policies residing in Canada and vice versa
- Charitable giving

Are you a good candidate for FMV?

An actuarial calculation and certification is recommended to determine the FMV on your life insurance policy in the following situations:

- A business owner or incorporated professional wishes to transfer a personally owned policy to the corporation so that future premiums can be paid with corporate dollars.
- In circumstances where there is gifting of insurance policies to registered charities, a Fair Market Valuation ensures that a tax receipt is issued for the maximum allowable amount.
- A corporation freezes or transfers assets from an operating company to a holding or sister company.
- The sale of a business where the business owns insurance policies.
- A marriage breakdown.

What factors impact FMV?

Typically, the value of a life insurance policy is based upon a very simple process. Term policies are held to have no value, and permanent policies are said to be worth the Cash Surrender Value (CSV) of the policy. However, where determining a full actuarial value, the FMV method is used. Canada Revenue Agency defines FMV in CRA Information Circular 89-3:

“FMV is defined as the highest price obtainable in an open and unrestricted market between knowledgeable informed and prudent parties acting at arms-length, neither party being under any compulsion to transact.”

A number of variables can give rise to a FMV being considerably higher than the CSV; for instance, the health of the insured. If the individual has suffered a deterioration of health that would give rise to a rating or result in the life insured becoming uninsurable, then the FMV could be closer to the death benefit. Other variables impacting the FMV include conversion provisions and changes in the current pricing of a similar policy.



GBL is the recognized leader in FMV

To learn more about how your business can benefit from a Fair Market Value assessment, contact a GBL representative today.



Building *your* future

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