



PROTECT YOUR BUSINESS

How insurance delivers security and opportunity

If you're a business owner, insurance can provide not only protection, but also opportunity when it comes to growing your business. Life insurance policies can protect shareholders and their family members, the corporation itself, and key persons to the business. And, it can also enhance the cash flow to the corporation by assigning the policy as collateral for a loan.

Consider insurance when it comes to your Shareholders' Agreement

A shareholders' agreement is one of the most important documents a business can have, because it addresses several important aspects relating to share ownership, such as:

- Issues relating to who can own/buy/sell shares
- What happens upon the death/disability or bankruptcy of a shareholder
- Usually contains right of first refusal and methods of dealing with offers from third parties
- Other issues such as dividend policy, employment terms, non-competition, etc.

In corporations with multiple shareholders, a well-crafted agreement will allow for a smooth transition after the death of a shareholder. Even very successful businesses often do not have the funds available to buy out a significant shareholder, and without the funding, the spouse or child of the deceased could become a partner even if that is not a desirable outcome for all parties involved.

Insurance on the lives of the shareholders means there will be immediate funding available to purchase their shares in the event of a death or disability. Insurance is more cost effective and convenient to fund a buy/sell than other options such as using borrowed money, liquidating assets, creating cash reserves, or using after-tax corporate profits. At the same time, the shareholder can utilize the tax preferred nature of life insurance to achieve their estate planning goals.

It's important to periodically review the value of the corporation to make sure that the buy/sell is properly insured and that the amount of coverage continues to increase in step with the business.

A NOTE ABOUT TAXES – The life insurance benefit is received tax free by the corporation on the death of the shareholder and generates a credit to the Capital Dividend Account (CDA). The CDA can in turn be paid tax free to the estate of the shareholder. The CDA is a valuable tool that can be used in post-mortem planning to remove potential double tax on the death of the shareholder.

Other uses for Corporate-Owned Insurance

KEY PERSON INSURANCE – This coverage is common with small to medium businesses where there are one or more key people; whose death, disability or critical illness would significantly hurt the organization. Often people think of a key person as only a shareholder, but a key person can also be a hired executive or anyone whose death, disability, illness or departure will harm the financial health of the business. The most common formula in determining coverage is 5 to 10 times the compensation that the person earns.

COLLATERAL – It is very common that lenders – banks and other financial institutions that lend money to small businesses – will ask the borrower to provide life insurance on the lives of the key shareholders or employees as a condition of lending. Having insurance will help you be in the right position if this need comes up. The loan interest may be deductible, subject to certain conditions.

CHARITABLE GIVING – Just as insurance can be an effective tool for individuals to donate to charity, corporate insurance can also be used tax effectively this way. Either new or existing corporate insurance policies may be used to benefit a charity in different ways:

- Policy ownership assigned to the charity
- Corporate owned policy used to fund an estate gift
- Corporate owned policy used to fund corporate gifting

ESTATE PROTECTION – Insurance can provide a very tax efficient way to enhance or create an estate. It can be used to pay taxes due upon death thereby protecting the value of the estate for the beneficiaries.

ESTATE EQUALIZATION – It is common with family businesses that not all of the children want to or are suited to, work in the business. The parents want to see the child that runs the business inherit it, but also want the other children to be dealt with fairly. The best solution for this is life insurance – no other financial asset delivers liquidity when it is needed like life insurance.

Your *life*, your *family* and your *business* deserve protection. Speak with us about how insurance can not only provide that protection, but also help you build assets in a tax effective way for your retirement or estate plan.

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