ib INSURANCE SOLUTIONS

While many business owners have had success growing their business, this does not necessarily mean that they will have success protecting their business, or financially securing the value of their business. Risk is a common word to most business owners who have had to overcome it many times in their quest for achievement. However, the risks that we're about to discuss aren't the typical risks that business owners are used to overcoming. In fact, business owners have little control or recourse over these risks and their implications.

**GOOD PLANNING IS IMPERATIVE!**

Here are several important questions all business owners should ask themselves:

- Should we insure our business?
- How will we fund our shareholders agreement? How do we minimize the tax consequences?
- How will the business and/or shareholders cover capital gains tax liabilities?
- What would happen to the business with the loss of a key employee?
- How can we effectively manage business investment income taxes?
- Are owners' and executives' finances at risk from a personal disability or illness?

## SIX SUCCESS STRATEGIES FOR PROFESSIONALS & BUSINESS OWNERS

1. **DISABILITY COVERAGE FOR PROFESSIONALS AND EXECUTIVES**
2. **BUSINESS LOAN PROTECTION**
3. **FUNDING YOUR BUY-SELL AGREEMENT**
4. **KEY PERSON PROTECTION**
5. **CRITICAL ILLNESS COVERAGE FOR PROFESSIONALS AND EXECUTIVES**
6. **COVERING CAPITAL GAINS TAX LIABILITIES**

## 1. DISABILITY INCOME FOR PROFESSIONALS & EXECUTIVES

If you're like many business owners, you may have never considered what would happen if you suddenly became ill or injured and couldn't devote the usual amount of time and energy to your business. A disability can cause your business to suffer because your business depends on you. In fact, if your business suffers, you may no longer be able to rely on it to provide your income. Many business owners are unaware that during a disability, a company cannot continue to write off owner salaries resulting in a higher corporate tax burden.

**ASK YOURSELF:**

- How long could your business function if you were unable to be there?
- How long will your clients remain loyal and continue to support your business?
- How long could you retain key employees?
- How long could your business continue to pay the fixed expenses?
- How will your creditors, suppliers and clients react when they become aware that you are no longer active in the business?

Consider your future income loss. A 45 year old earning $7,000 a month (with 2% inflation factor) has an income potential of $2,040,979 to age 65. Would you consider insuring a two-million dollar asset? Protect your business' greatest asset – YOU.

## 2. BUSINESS LOAN PROTECTION

It can be difficult to obtain adequate debt financing for a small business. Creditors will often require the business owner to personally guarantee the loan. The death of the business owner or another key executive may cause creditors to demand immediate repayment of outstanding business debts.

This can place a significant burden on the business and force the liquidation of key business assets at fire sale prices at a time when business results may already be severely impacted by death. In addition, if the business owner has personally guaranteed the debts incurred by the business, the owner or the owner's estate may be liable for any outstanding debts that the business is unable to pay. If effective planning hasn't taken place, the business may not survive the owner's or another key executive's death.

A solution is for the business to purchase an insurance policy on the life of the business owner(s) or other key executives. Proceeds from the life insurance policy are tax-free and may be used to pay down the outstanding business debts.

A life insurance policy purchased for business loan protection can help a business negotiate loans and repay business debts with tax-free life insurance proceeds when a business owner or another key executive dies. It can also prevent business owners or their estate from becoming personally liable for the business debts if the owner dies.

## 3. FUNDING YOUR BUY-SELL AGREEMENT

Buy-Sell agreements provide for the transfer of the ownership of the business in different circumstances – death, disability, retirement or disagreement. At death or disability, for example, the remaining owners may not want to be in business with the deceased owner's heirs or the non-active disabled owner. As well, the heirs or disabled owner may prefer to receive the value of their share of the business in cash. If an owner retires, an agreement paves the way for business as usual. If the owners have a falling out, a buy-sell agreement will enable the business to continue to be "wound up" in an orderly fashion.

A buy-sell agreement should deal with:

- Who will buy the shares
- What the terms of the sale will be
- When the sale will take place
- Where the money to buy the shares will come from
- How much the purchase price of the shares will be

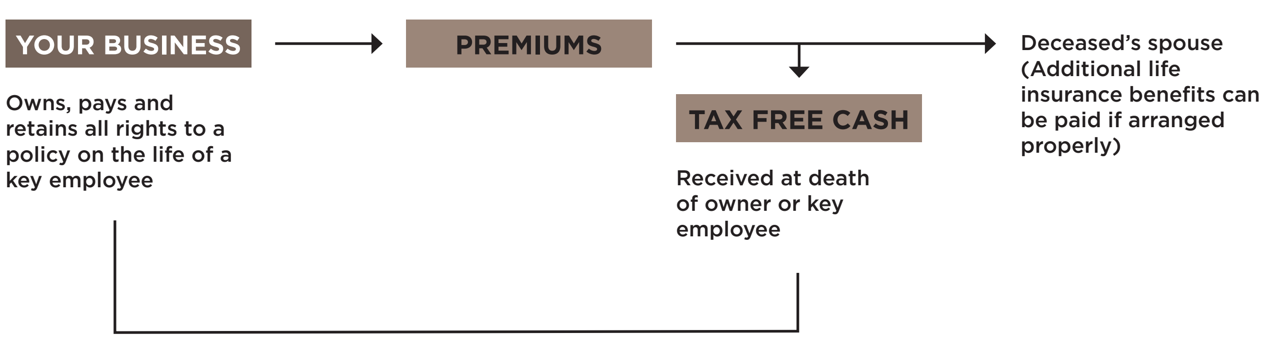
The goal is simple: satisfy all parties so the business can get on with business. Although a buy-sell agreement is a legal document, it still needs to be properly funded. The buyout can be funded via corporate cash; personal cash; borrowed cash (corporate or persona); or insurance. The most cost efficient way to fund the buy-out is insurance. If it isn't, an unexpected crisis could cause serious financial concerns for the business and its owners.

## 4. KEY PERSON PROTECTION

Business owners, executives and other key employees spend considerable time and effort to acquire the knowledge, experience, judgement, reputation, relationships and skills that make them valuable to the business. If they were to die, the business loses a key member of the management team and this can have a severe financial impact.

The effect of this situation can be considerably reduced if the business has purchased an insurance policy on the life of the business owner, executive and/or key employees. If they die, the life insurance proceeds give the business working capital to meet immediate cash needs and provide a source of funds for finding, attracting, hiring and training a replacement for the deceased person or to hire interim management.

### The most important element of a successful business is its people; More specifically; it's most valuable people.



## 5. CRITICAL ILLNESS COVERAGE FOR PROFESSIONALS & EXECUTIVES

*Who's taking care of your business while you're taking care of yourself?*

Critical Illness Insurance helps finance solutions that ensure your business can continue without you for a time. It provides a cash benefit if you are diagnosed with one of the conditions as defined in your contract and you survive the waiting period. So you can focus on what really matters... getting better.

Think about it – If you had a heart attack today and couldn't work for six months or a year, would your business continue to thrive without you?

Hopefully you will never require your Critical Illness Insurance, but if you do, you have peace of mind knowing it will allow you to focus on what is most important to you, your family and your business while you get better. Some policies are designed to reimburse premiums to the business/professional after a specified claim-free period.

## 6. COVERING CAPITAL GAINS TAX LIABILITIES

Through hard work and good personal financial planning, you may have acquired property or a business that has increased in value. Perhaps your family cottage was bought for next to nothing before the current growing demand for vacation property, or your business that you started from scratch has now grown and debt has reduced. This includes the investments you have retained/saved inside your corporation.

In either case, the growth in the value of your property or business carries a hidden liability. For example, if you die or sell the shares of business, or decide to sell the family cottage, a capital gains tax is triggered on the amount by which the value of your property exceeds your investment. When dealing with estate planning, it is important to ensure that your estate has enough liquid capital to cover this potential capital gains tax liability. This is most often done through personal after-tax dollars. Business shares, however, can be dealt with differently.

The owners of an incorporated business have the option of buying insurance through the corporation and using corporate dollars to pay the premiums. When the owner dies, the business receives the life insurance benefit proceeds tax-free. It can use the funds to declare a tax-free dividend to the shareholders so that they can purchase the shares from the estate of the deceased. Or, it can be used to redeem the shares of the deceased shareholder directly, thereby providing the cash necessary to pay the tax. When dealing with the capital gains on business shares, particular care must be exercised to avoid undesirable tax consequences.

We can help you minimize the impact of capital gains tax on your estate.