






# Insurance Considerations for Business Owners and Incorporated Professionals

Do you think of insurance as solely a risk management tool? If you're a business owner or incorporated professional, insurance can provide multiple benefits, including the potential for significant tax savings. This article looks at three insurance strategies you can implement to supplement your retirement savings, help protect your business, and help maximize the value of your estate. Bonus: Since purchasing insurance can impact financial statements, we'll take a look at how to manage that too.

## Supplement retirement using the Corporate Insured Retirement Plan

As a business owner/incorporated professional, a large portion of your net worth is likely tied up in your company. Even if you have maximized the tax sheltering opportunities provided by your Registered Retirement Savings Plan (or Individual Pension Plan), and Tax-Free Savings Account, you may still want to consider additional options for accessing the funds accumulated in your company to help fund your retirement. Implementing the Corporate Insured Retirement Plan can help you accomplish this by using a permanent life insurance policy and leverage to provide:

-  Life insurance protection;
-  Tax-deferred growth of funds;
-  A reduction of passive income to help preserve the small business deduction limit;
-  Potential tax-free access to the funds in the future; and
-  A tax-free benefit to your estate up to the Capital Dividend Account balance.

To implement the strategy, use the Corporate Insured Retirement Plan and have your company purchase a permanent life insurance policy based on your needs and those of your business. Please note that the premium payments will not be considered a taxable shareholder benefit if your company is both the owner and beneficiary of the life insurance policy. Premiums are structured to

build a cash value within the policy, so that investment earnings within the policy grow tax-deferred unless they are withdrawn.

When you're ready to begin receiving retirement income, you can leverage your life insurance policy to access the cash value. Leveraging involves having your company arrange a loan or line of credit through your financial institution using the accumulated cash value within the life insurance policy as collateral for the loan. The funds borrowed by your company are used to fund taxable dividend or bonus payments directly to you. The maximum amount you can borrow ranges from 50 to 100 per cent of the cash value within the policy.

The company will be charged interest on the loan, but often an additional loan can be arranged to cover the interest payments. The accumulated loan must remain within the lending limits, which are based on the accumulated cash value within the policy. This prevents the bank from exercising rights that may include cancelling the policy.

For this insurance strategy to provide the maximum benefit, you should have a long enough time horizon until you retire to accumulate enough cash value in the policy to generate the income you'll require.

## Tax-efficient succession planning using the Corporate Asset Transfer Plan

Often, business owners/incorporated professionals let assets accumulate inside their company to take advantage of lower corporate tax rates. This can result in your corporation's investment portfolio becoming over exposed to fixed income investments. If you would like to diversify your assets, while simultaneously maximizing the value of your estate, consider the Corporate Asset

Transfer Plan offered through BMO Insurance. If you have a cash flow surplus in your business and are interested in a tax deferred flexible investment to house a portion of that surplus, you can also benefit from this strategy.

The Corporate Asset Transfer Plan involves having your company purchase a permanent life insurance policy, and transferring a portion of its passive investments, (preferably those with minimal tax consequences when liquidated) to the insurance policy, which reduces the taxes on the company's investment income. Even though the insurance carrier may also invest in similar investments, the insurance policy's tax deferral characteristics prevent the substantial erosion of value each year. Eventually, when the death benefit is paid, it will be received by the corporation tax-free. The amount that exceeds the adjusted cost basis of the policy can be passed on to your Canadian resident beneficiary(ies) tax-free through your company's capital dividend account.

### Protect yourself and your business

For business owners, life changes such as retirement, disability, or death, can impact how your company is owned and operated. Buy-sell agreements between business owners offer a degree of protection against situations that can affect the business. For example, in the event of your business partner's death, where will the money come from to buy out shares from their heirs? Using life insurance to fund a buy-sell agreement can be a cost-effective way to put this important legal agreement in place. The premium is low in comparison to the lump sum that will be paid out, and the insurance proceeds can flow through the company tax-free through a Capital Dividend Account to Canadian resident shareholders. This strategy saves you from having to use your own funds or business assets to fund the agreement or buyout of a deceased or disabled owner's share of the business.

### Manage financial statement values

Some financial professionals view life insurance as a required expense to cover a specific liability or financial need. Term insurance is often considered to cover a specific and temporary need such as key person insurance, and it is relatively inexpensive. Permanent life insurance can be used, but it may be seen as too costly, and impair the short-term values of the corporation.

Instead, consider a fully funded permanent life insurance policy that takes advantage of the additional tax-exempt room available to fund beyond the basic required premium. One advantage of over funding the policy is that you can use it to reduce a corporation's passive income. This may preserve your company's small business deductions limits which could otherwise be eroded due to passive income rules. You can still record the early cash value as a balance sheet asset, and your policy will still cover the short-term insurance needs, such as key person insurance.



When the specified period ends and you no longer need the insurance, the corporation could surrender the policy for the cash surrender value. There may be some tax impact depending on the Adjusted Cost Basis (ACB) at the time of surrender. However, if the cash isn't needed, the corporation could retain the policy and use the accumulated cash value to fund future insurance premiums, or potentially elect a "paid-up" death benefit option. Depending on the shareholder/business owner's needs and policy design, as the years go by, the policy cash value can decrease over time. That declining cash surrender value can in fact lower the share value of the company. This uniquely designed policy could decrease the capital gain taxation of the shares on death, and since ACB could be zero by life expectancy, the full death benefit could be paid out as a tax-free capital dividend to the estate of the deceased shareholder.

Your insurance professional can match the product solution to address both your risk/investment goals and manage your financial reporting needs.

### Let's connect

For more information about BMO Insurance or our products, please consult with your insurance advisor or contact us:

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