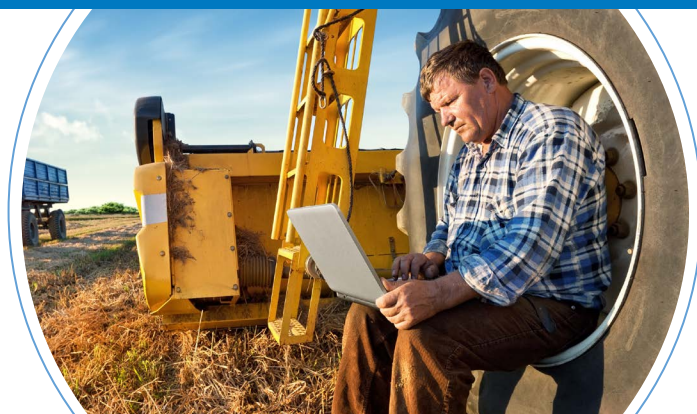


Insurance considerations for farmers



Farm owners face many of the same financial risks as other individuals, but they also have risks that are specific to their business. Insurance provides a tool to help mitigate those risks while at the same time allowing the tax-preferred treatment of insurance to come together with some specific tax advantages that farm owners may have.

Why would a farm owner need insurance?

- To help protect against debt should the farm owner pass away prematurely: many farmers take on significant debt – to purchase equipment, land, stock, seed and to construct buildings.
- To provide liquidity on the death of the farm owner: many farmers are “asset rich” but “cash poor” – insurance delivers cash when it is needed the most to help fund a transition smoothly.
- To offset the effect of tax: many farmers will be subject to significant tax liabilities due to capital gains on their death.
- To replace lost income: due to a premature death, disability or a critical illness.
- For estate equalization: to provide liquid cash to equitably compensate children who will not or choose not to stay in farming; and
- To help protect against the loss of a “key” person: people have specific skills or attributes that, if lost due to death, illness or disability, would cause financial hardship for the business.

What are some advantages of having insurance for a farm owner?

- Tax-free payout on death: either to a person(s) or into a farm corporation.
- Tax-deferred growth of cash values: either personally or inside a farming corporation; and
- Capital Dividend Account (“CDA”) credit if corporately owned – allowing dollars to flow to surviving shareholders as a tax-free dividend.

Which types of insurance should farmers consider?

Term insurance:

Consider term insurance when the need is for a short or specific period (for example, to protect an outstanding loan). Term insurance provides the lowest cost in the short term, and there may not be a need for permanent coverage. There may be options to convert to permanent coverage later (with no medical evidence required) when the needs change to favour more permanent or long-term coverage or when cash flow permits.

Permanent insurance:

This can be more expensive in the short term, but less expensive if needed for the long term. Term insurance premiums can increase when a policy is renewed, while permanent policies have premiums that stay level for as long as the policy is in force. In addition, some permanent insurance products have the advantage of growing cash values in a tax-sheltered environment over time. Whole life insurance’s annual crediting is largely unaffected by short-term market volatility. Universal life insurance offers premium flexibility and range of investment vehicles, including some fully guaranteed options, which may be favorable in times where yields are fluctuating. For some, insurance can be viewed as an alternative asset class to achieve the goal of diversification.

The cash values of these insurance policies may be accessed during your lifetime. They can be leveraged up front, with an Insured Corporate Financing Plan to minimize cash flow requirements, provide low net cost protection, reduce out-of-pocket costs, and keep cash available for other opportunities that may arise. Alternatively, the cash values can be leveraged later during your lifetime to supplement other sources of retirement assets – cash for lifestyle or other reasons or perhaps to compensate a child(ren) who will not be involved in the farm. For more information, review our [client brochure](#).

Living benefits of insurance

Farmers, like all individuals, face risk of disability, developing a critical illness, or needing long-term medical care. These risks can be mitigated with insurance, either personally or through a farm corporation. In addition, the BMO Insurance whole life and universal life plans have disability provisions which allow for tax-free withdrawal of cash value from the policy. This can be useful to either fund overhead costs or pay down the loan balance from the insured corporate financing plan.

There is more to insurance than simply protecting debt. When used strategically, it can be an excellent tool for preserving and enhancing the value of your farm estate, minimizing taxes, funding health care, and supporting your charitable giving goals.

Incorporating tax planning strategies for farm property into your succession plan

The use of the Capital Gains Deduction and Intergenerational Rollover for farm properties may be used to shelter or defer potential tax liabilities; however, conflicts may arise between the competing interests, desires and objectives of family members who are active in the farm as opposed to non-active family members.

A strategy that benefits one family member from a tax perspective may reduce the value of another family member's inheritance. Therefore, it is important that any succession plan considers whether these tax strategies will be available and the impact they will have on all family members in the context of succession, retirement, and estate planning.

How will farm succession planning affect my legacy?

This depends on how legacy is viewed by the family. Does leaving a legacy mean having one or more children continue on the farm? Or, does it mean selling the land in exchange for financial capital that can be used to benefit the family in other ways?

The underlying theme in both of these questions is considering the effect of these decisions on family dynamics. If the outcome creates tension among family members, how does that affect the legacy?

One of the most common challenges with farm succession planning is the idea of fair versus equal. If a family has three children and two children take over the farm while the third pursues a different career, the parents should consider the estate planning implications of gifting the farm to two children, and the inheritance received by the third child.

This does not mean that the third child should receive an inheritance of the exact same value, but there must be open and honest discussion among the family members to come to an understanding around fairness. Families can also consider tools such as life insurance, which is commonly employed in these situations.

Seek professional advice

The complexity of farm succession planning must not be underestimated. The interconnectedness of the family and the farm means that, in addition to procedural change such as contracts, financing, and tax planning, there is also psychological change to contend with. This includes willingness of the older generation to let go of ownership, selection and training of successors, and communication among family members. Seeking professional advice is especially important when embarking on developing a succession plan for your farm.

Whatever your situation may be, your advisors may recommend ways to reduce the financial impact of a premature death, disability, or taxes, and increase the financial resources available to you and your heirs.

Let's connect

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



1-877-742-5244



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