



Wealth Insights

TD Wealth Private Investment Advice
Monthly Perspectives From The Daley Group

Business Owners & Insurance: Your Most Valuable Asset is You

While we may prefer to think that nothing bad will happen to us, the current pandemic is a reminder that unanticipated surprises can, and sometimes do, occur.

For many businesses, one of the most valuable assets is the ability of the owner to work and generate income. As such, insurance may be an important consideration to provide protection for a business owner at every stage, from the business' development, through its growth, and eventually to succession. It can also lead to valuable tax savings opportunities. Here are some high-level considerations that may serve as a starting point for discussion.

Developing Your Business

While full insurance coverage may not be affordable when first starting out, obtaining some coverage can help protect owners and their families by replacing income in the event an owner is unable to work. Critical illness insurance may provide protection in the event of critical illness; term insurance may be a comparable cost-effective solution to support family members in the event of a business owner's death.

Growing Your Business

As a business becomes more established, other forms of insurance may be better placed to provide protection. For example, disability insurance may protect in the event of illness or injury, but insurers will generally require a few years of self-employed tax returns before providing coverage (the amount an individual qualifies for is based on what has been earned over a given period). Overhead insurance covers the cost of fixed monthly overhead expenses to keep a business running until the owner returns from a period of disability. Key-person insurance names the owner and other key staff as the insured, with the beneficiary as the business. Business interruption insurance compensates for lost income in the event of a disaster.

In the case of a partnership, insurance may also help to support a

buyout agreement in the event of a partner's death. If each partner has a life insurance policy on the other, the proceeds can be used to buy out the partnership interest if something were to happen to one partner.

Insurance can also offer more than protection. It can help to minimize corporate tax or maximize corporate assets. For example, owning a life insurance policy within the corporation may allow the premiums to be paid with "cheaper" corporate dollars (i.e., income subject to tax at corporate rates that are lower relative to personal tax rates). Or, if a business needs an exempt life insurance policy for key-person insurance, the policy could also be used to invest a portion of the company's excess profits on a tax-deferred basis.

Succession of Your Business

Insurance can also help facilitate succession of the business. Corporate-owned life insurance has the potential to provide liquidity at the time of the owner's death, which can be helpful to cover terminal tax liabilities when passing along the business. Funds may also be used as an income-replacement tool for surviving financially-dependent family members. There may also be tax benefits. At death, the par policy from participating life insurance held corporately can be distributed to the shareholder(s); anything above the adjusted cost basis is paid tax-free through the capital dividend account.

As a business owner, you are the most important asset your business possesses, so plan ahead and consider protecting yourself. For a more detailed discussion, please get in touch.



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