



Investment Planning
Insurance Planning
Mortgage Planning

Tax Planning
Financial Planning
Estate Planning

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A Business Owner's INSURANCE CHECKLIST

Managing risk is a survival strategy businesses can't ignore. Start-up firms and smaller companies are especially vulnerable to risk

because they often lack big company sophistication and in-house risk-control expertise. Some risks are potentially devastating and therefore must be insured against; others are less menacing. Shop around for a competent commercial insurance agent or broker who can advise you on how to handle risk in cost-effective ways. A number of insurers offer relatively inexpensive packaged policies for home-based offices. Features include: crime coverage, liability, property, valuable papers, and extra expense—all in one policy.

Here's an insurance checklist:

Life. Everyone with financial obligations to others needs appropriate life insurance: to pay off the mortgage,

educate the kids, provide income for a spouse or a disabled dependent.

Disability. The need for disability insurance isn't always well understood. Think of it as income replacement in case you get hurt or sick. It's usually included in the benefit packages of large firms. Employees of small firms and associations shouldn't miss out. Owners of smaller businesses may be able to negotiate a group package or purchase individual disability plans for themselves and/or key employees.

Disability insurance isn't cheap but shouldn't be ignored. Chances are far greater you will spend three months or more off work than die before age 65.

Key man. Such life policies are designed to cover the loss companies might suffer through the untimely death of a key individual (a research chemist, say, whose unique knowledge of a new process gives the firm a competitive edge).

Liability. These days \$2 million is regarded as the minimum needed for commercial/general liability insurance. It protects you if a visitor falls and is hurt on a slippery sidewalk, or if you drop a cup of hot coffee in

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a visitor's lap. Office policies don't cover product manufacturing or distribution.

Property. You need coverage in case your office burns down and your furniture and equipment, including computers, need replacing. You can also insure intangible property including customer lists and computerized records.

Business Interruption. Covers the additional expenses you would incur if you had to re-establish a home-based office as a result, say, of fire. It pays for any extra advertising expense, new phone hook ups and all the other services needed to function. It's designed to avoid income loss and get your business back into operation as quickly as possible.

If you use a vehicle for business be sure to insure it specifically for that purpose or your insurer may reject any claims you make. Generally, you will pay a modest extra premium for automobiles used for business, depending on your driver's record, type of car and the territory where it's being driven. Investigate fleet rates if you operate several vehicles.

Disability Buy-Sell Agreements

Two strategies protect shareholders against the liabilities associated with another major shareholder becoming disabled.

Criss-Cross Buy-Sell Agreement

- The agreement provides for a mandatory sale and purchase of an interest in the corporation once a shareholder has been disabled for a specified period.
- Shareholders own disability insurance on each other to fund the purchase.
- The agreement guarantees the purchase of the disabled partner's business interest over the period of the policy's payout period.
- Premiums are paid with after-tax income.

- Policy owners receive tax-free disability benefits.
- Capital gains on the sale of the asset can be offset for a time by an allowable reserve, if full proceeds are not collected up front.
- Personally owned income replacement insurance is normally purchased in addition to the above coverage to provide an income to the disabled shareholder (in addition to the buy-out benefit).

Corporate Share Redemption

- The agreement provides for the mandatory redemption of the shares once a shareholder has been disabled for a specified period.
- A taxable dividend, equivalent to the full amount of the purchase price, less the paid-up capital value of those shares, is deemed to have been received in the year in which the redemption of the shares takes place.
- The dividend is subject to the Dividend Tax Credit and the Alternative Minimum Tax rules.
- A lump-sum disability insurance contract owned by the corporation covers the funds required for the redemption.
- The corporation could pay out an amount in addition to the redemption value to cover taxes payable by the disabled shareholder.
- A promissory note can cover shortfalls in payment.

