



Practical Wealth Creation Ideas

...for Simplified Financial Success™

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Securing the financial future of an owner-operated FAMILY BUSINESS

It is estimated that small family businesses employ over 5 million people in Canada. Our

economy depends on their future well-being. A successful business owner has an optimistic outlook and enjoys a challenge. Yet if family businesses are to remain successful in our fast-paced economy, they must address the following issues:

- Continued success may depend on the leadership of the founding owner. If the owner desires to retire in 10 or 15 years, succession planning may be necessary today. Have you made plans to sell, or to pass the company on to the children or another successor?
- Talk to your CA or tax lawyer to assess possible capital gains tax liabilities. If these liabilities exist, life insurance policies may be able to solve the problem in advance. Life insurance could be purchased individually or jointly on the lives of the owner and/or the spouse while in reasonably good health.
- If the owner of the company will depend on the company's resources for retirement income, it should be budgeted as an ongoing disbursement, in terms of salary or dividend payments.
- An immediate (as well as long-term) successor should be groomed to take over the company, just in case the owner suffers a disability. Owners need to ask, "What would happen if I was laid up and incapable of giving directives? Would that force a fire sale of my company?"
- To prepare for the event of either disability or death, owners should make sure they are covered with both disability insurance to replace income, and life insurance to meet capital needs and cover liabilities such as company debt. Acquiring loans may be harder for unknown successors and servicing

debt could get costly if interest rates go up. Life insurance can relieve company debt entirely upon an owner's death, spouse's death, or after both have died (using a joint-last-to-die policy).

- Owners need to ensure that key family members actively working in the company (including active owners), and important employees, are covered with key-person insurance. If a key-person is afflicted with a disability or dies, the business may need money to acquire replacement help.

- Buy-sell agreements are essential for partnerships and many corporations. Often family members in joint ventures will overlook this planning device as they feel they can solve business issues when one dies or is disabled. Without proper planning, businesses could get bogged down in conflicts, and may not have enough capital to buy out the interest of a partner. Back up the agreement with life insurance and disability insurance to solve these potential problems.

Planning to Divvy up Your Wealth

It is estimated that over the next 20 years, over two million baby boomers, now over the age of 55, will pass inheritances to their children amounting to \$1 trillion. Add to that, an estimated \$2 trillion worth of household assets that will need to be bequeathed. Those who inherit the money will, for the most part, be middle-aged and responsible. It is expected they will pay down their mortgages, invest for retirement, help their own children receive an education or buy a house, and some may take a well-deserved holiday. As boomers age, they could begin giving their personal belongings such as a camera or a piece of art to their heirs. If financially able, they could begin gifting by helping a grandchild fund an education or by loaning money to a child to help them purchase a home (thus increasing their net worth). The upside to giving now is that one can see the positive use of their assets while they are alive. To fairly disperse your remaining assets, make sure you have your will updated. If there will be significant capital gains tax due upon death (or upon the death of your spouse), hire a tax accountant to create an estate plan. Consider using life insurance to cover the tax that will eventually be due on your RRSPs/RRIFs and any capital gains on property such as a cottage or a business interest.