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THE INSURANCE ADVISORY GROUP INC.

Shareholder Agreement Funding

A key component of any integrated financial plan is planning for business transition. All closely held businesses face the possibility of a shareholder dying or becoming disabled prior to selling or transitioning the business. Shareholder agreements are intended to cover these events.

A shareholder's death or disability can create financial hardships that could jeopardize a lifetime of hard work and investment and leave partners and beneficiaries in a precarious position. With an unplanned, uncontrolled transition the remaining shareholders are faced with tough questions:

- How will the business continue its operations?
- Who will control the business?

- Can or will family members of the deceased or disabled owner become involved in managing the business?
- How will the surviving shareholders finance the buyout of the shareholder who has died or who has become disabled?
- How can shareholders be sure that their families will receive fair value of the shares in a timely manner?

Business interests often represent a substantial portion of the wealth the business owner has accumulated. Ensuring that a strategy is in place for the eventual transfer of the business interests can help the shareholder realize the full value of the business interests while also supporting the remaining shareholders through the transition.

A shareholder agreement can facilitate the transfer of the shareholder's interest in the business to certain parties under specified terms. The buy/sell provisions will govern how the parties buy and/or sell the business interests under certain terms if a triggering event occurs. The contractual obligations to buy or sell may create substantial liabilities for the surviving shareholders.

A funded shareholder agreement enables business continuity and certainty for the deceased shareholder's family. Insurance is often the most cost-effective way to fund the buy/sell obligations that result when a shareholder dies or becomes permanently disabled. Life and disability insurance funding offers potential tax benefits when compared to other funding methods. Additionally, life and disability insurance are preferred because they make the necessary proceeds available at the exact time the funds are required most. The most carefully drafted shareholder agreement may prove ineffective if there are no funds to purchase the disabled/deceased owner's interest.

All shareholders of closely held businesses will benefit from a funded shareholder agreement. The receipt of life insurance proceeds by a Canadian-controlled private corporation is a transaction that creates a credit to the Capital Dividend Account. This enables tax-free dividends to be paid to shareholders under certain conditions.

For more information, please contact an IAG Advisor today.

Ontario and Eastern Canada:

Guy Bentley, President
(416) 363-0072
gbentley@iagi.ca

James O'Connell,
Insurance Advisor
(416) 363-0090
joconnell@iagi.ca

Western Canada:

Janice Tchida,
Insurance Advisor
(587) 393-2813
jtchida@iagi.ca

Quebec:

Lissa-Marie Brossard,
Insurance Representative
(514) 348-9422
lmbrossard@iagi.ca