

## Life Insurance

**1. Can a professional corporation own my life insurance policy?**

Yes. Your corporation may apply for coverage on your life or your spouse's life. If you already have an OMA life insurance policy you may transfer the ownership to your professional corporation.

**2. Can a professional corporation be named as a beneficiary?**

Yes.

a) If your professional corporation is the owner of the policy, then typically your corporation is also the beneficiary. The beneficiary you designate on your original application form may be changed whenever necessary by contacting OMA Insurance.

b) However, if you continue to own your policy and are considering making your professional corporation the beneficiary you should confer with your accountant to determine if there are any advantages to naming your corporation as the beneficiary of your insurance.

**3. Can a professional corporation pay for my life insurance premium?**

Yes.

a) If your professional corporation is the owner of the policy, then any premium paid should not be claimed as a tax deductible business expense.

b) If you are the owner of your policy, any premium paid by your professional corporation should be included in your income as a taxable benefit.

## Disability Insurance

**4. Can a professional corporation own my Disability coverage?**

Disability Income coverage may not be assigned. Only you, the member, may apply for the coverage and you cannot transfer ownership.

**5. Can a professional corporation pay for my disability insurance premiums?**

While your professional corporation could pay the premium, unless you can show that the full premium was added to your income as a taxable benefit, any benefits paid in the event of a disability would be fully taxable as income. To ensure disability income benefits when received are tax free, all premiums should be paid by you personally. As well, any premium refund will be paid only to you, the member.

## Professional Overhead Expense (POE)

**6. Can a professional corporation own my POE coverage?**

POE coverage is not assignable. Only you, the member, may apply for coverage and you cannot transfer ownership.

**7. Can a professional corporation pay for my POE premiums?**

Yes. Since POE benefits are a taxable business expense, you may prefer to have your professional corporation pay your premiums. However, POE benefits, which are taxable but may be offset by eligible practice expenses, will be paid only to you, the member, as will any premium refunds.

### Calculating Earned Income at Time of Claim

Some physicians have inquired about how claims might be adjudicated in the event of a disability with respect to determining earned income since the amount of salary being paid to the physician from the professional corporation may be lower than the actual income being generated by the physician.

Our disability insurer (Sun Life Financial) has well-established procedures in place to adjudicate the claims of physicians with incorporated practices. For the purposes of (a) establishing your eligible amount of disability coverage at time of application, and (b) calculating your entitlement to disability benefits at time of claim, earned income is calculated by totalling the amount paid to you by the professional corporation (salary and bonus) and the net income or loss before tax of the professional corporation which is attributable to you. Any investment income or loss in the corporation will be excluded from the calculation.

What about corporate dividends paid to a physician?

For the purpose of calculating eligible earned income, dividends are not considered earned income since they are paid from the professional corporation's retained earnings. Dividends are just the distribution of the net income of the professional corporation which has already been included as income to you, as described above. Assuming the professional corporation's only source of revenue is from personal activities performed by you, a change in status from a sole practitioner to an incorporated practice will not impact on either your eligible amount of disability income coverage at time of application or the calculation of your disability benefits at time of claim.

| Income for insurance purposes vs. for tax purposes |   | Year # 1 | Year # 2 |
|--|---|----------|----------|
| A  | Corporate income before owner compensation and tax  | 150,000  | 150,000  |
| B  | Physician's draw (salary + bonus)                   | 100,000  | 100,000  |
| C  | Net corporate income before tax                     | 50,000   | 50,000   |
| D  | Physician's actual dividends from retained earnings | ---      | 20,000   |
| Earned income for insurance purposes (B + C)       |   | 150,000  | 150,000  |
| Physicians income for tax purposes (B + D)         |   | 100,000  | 120,000  |

*Please note that this document should not be construed as legal or financial advice. Consult your lawyer or accountant with any questions about Professional Corporations and/or the contents of this article.*