Business Owners: What's Your Succession Plan?

Nearly three-quarters of Canadian business owners are expected to exit their businesses by 2028.[1] If you are a business owner, have you given thought to your succession plan?

While most entrepreneurs believe a transition process can be completed in two years or less, many experts suggest that succession planning can take up to five years to complete, and in the case of a family business, as many as ten.[2] As you contemplate the succession of your business, here are six questions to start the thinking process:

1. Who will be the potential successors? Where will you find potential buyers for your company? If you are considering passing the business along to family members, do they have the ability and interest to lead the company? Will they be a good fit? If not, can the needed skills and competencies be built prior to the transfer? As indicated below (see inset), the passing of Bill C-208 over the summer may be great news for those looking to pass along businesses to family members, especially from a tax perspective.

2. How will the sale be funded? Will successors need help funding the acquisition? Can successors afford the deal? The sale could potentially be managed by an equity-sharing arrangement, seller financing plan or by temporarily retaining partial ownership, as examples.

3. What will be included within the sale? How will the business' valuation be determined? A business' assets are not only the tangible ones and there may be intellectual property and other intangible assets to consider. The valuation of the business and the deal structure should take a comprehensive view of all assets. There are different ways to value a business, such as based on cash flow, return on capital or sometimes as a multiple of revenues or profits.

4. When is the right time to sell/transfer the business? The timing of a sale may impact the business' valuation, perhaps as a result of market or economic conditions. For instance, the pandemic has created economic hardship for many small businesses and delaying a sale transaction until conditions become more favourable may yield a greater sale premium. Conversely, other businesses have thrived under recent conditions which may position them for a timely and profitable exit.

5. What planning tools can help within the sale? The way the sale is structured can impact the after-tax proceeds the owner personally retains. For instance, depending on whether you are selling the shares of your corporation or the company is disposing

of its assets, the after-tax value can differ significantly even if the purchase price is the same. Using the lifetime capital gains exemption (LCGE) may provide significant benefits, but planning ahead is necessary. For the seller, the tax implications may be an important motivator.

6. Does your succession plan align with your personal objectives? The business' succession plan should be aligned with your retirement, estate, tax and wealth planning goals, to ensure that you and your family's financial needs and security are met.

Given our familiarity with your financial position, we can help recommend professionals who can support your business succession planning. Please don't hesitate to call.

1. www.investmentexecutive.com/news/industry-news/finance-department-faces-grilling-by-mps-over-tax-rules-in-sale-of-family-businesses/; 2. www.bdc.ca/en/articles-tools/change-ownership/plan-succession/family-business-succession-overcoming-barriers

Business Owners & Family Succession — Changes as a Result of Bill C-208

Keeping a business in the family has become easier and less costly. Over the summer, Bill C-208 was passed. Before this, the Income Tax Act treated the proceeds of intergenerational sales as deemed dividends to the vendor, whereas sales to third parties were treated as lower-taxed capital gains that could be used against the LCGE.* Bill C-208 eliminates this treatment and also enables corporate reorganizations among siblings to take place without being subject to anti-avoidance rules in certain circumstances.

*Lifetime Capital Gains Exemption. However, Bill C-208 reduces access to the LCGE if taxable capital involved exceeds $10 million; at $15 million or more, there is no access at all.