



## Key decisions for business owners: Part 4

Prepared for Merit Contractors Association



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This article discusses the process of succession planning for business owners looking ahead to their retirement. It looks at options and strategies to sell or transfer the business, or keep it in the family.

This is the last article in a series on key decisions for business owners, where previously we have discussed the benefits of incorporation, strategies to reduce and protect against business risk and retirement planning for business owners.

## KEY DECISION 8 > WILL YOU SELL YOUR BUSINESS?

Many business owners in Canada will exit their business by selling to a non-family member. However, only a small percentage of owners planning to transfer their business in the near future have a succession plan.

If you're selling your business outside the family, bear in mind the factors that can make it more attractive to a prospective purchaser. It will be easier to find a buyer for a business that has potential for future growth. Other corporations in your business sector may also be interested in acquiring your business with a view to improving profitability.

Valuation is of central importance. You can get an indication of this by researching the selling price of similar businesses in your area.

To help you find a purchaser and obtain a better offer:

- Have a valid reason to sell
- Don't wait until you're under pressure to sell for economic or emotional reasons
- Have financial statements professionally prepared for the sale
- Consider hiring a business broker to help you identify a purchaser
- Don't let the business decline while you're preoccupied with the sale
- Learn to judge whether a potential buyer is serious

## Assemble a team of experts to help you

Your team of experts should include an experienced tax advisor to ensure you have planned your sale in the most tax-efficient manner, a qualified legal professional to prepare legal documentation, a business valuator and a business broker to help you find a purchaser.

## Hiring a business broker

Give your broker information about your business and then follow their advice. Here are some factors to consider:

- Potential buyers may be more comfortable talking to an intermediary.
- Some brokers specialize in a particular industry and may have contacts at corporations potentially interested in buying your company.
- Brokers' fees are usually a percentage of the final sale price. Weigh this expense against the benefit they provide before you hire them.

A professionally prepared document, prepared by your broker, summarizing your business for potential purchasers can be invaluable and may help you avoid potential litigation and suggestions of misrepresentation if the purchaser finds the business less successful than expected.

## Tax minimization strategies

The following strategies may help you minimize the tax consequences when you're selling your active business to an outside buyer.

- Consider the pros and cons of setting up an Individual Pension Plan or a Retirement Compensation Arrangement, which may help to defer some of the tax upon a future sale.
- If you have a prospective purchaser for your unincorporated business, consider incorporating and selling the shares to utilize the capital gains exemption.



- If the shares of your business are sold, then consider reinvesting some of the proceeds in the shares of another active Canadian private company in the year of sale or within 120 days after the year of sale in order to defer some of the capital gains tax on the sale.
- If your sale isn't imminent and the value of your business is increasing, an "estate freeze" may allow future capital gains to accrue to other family members and possibly multiply the use of the capital gains exemption.
- Consider receiving the sale proceeds over several years using a capital gain reserve to spread the gain over a longer period.

#### KEY DECISION 9 > HOW CAN YOU KEEP YOUR BUSINESS IN THE FAMILY?

Many business owners intend to sell or transfer their business to a family member in the future. Owners of businesses employing family members often place significant importance on keeping the business in the family compared with businesses not employing family members. Following are some suggestions on how to keep the family business in the family:

##### **Involve your heirs in your succession planning**

Don't automatically assume that one of your family members wants to take over the business. Once you have identified a successor, involve them in your succession plan and share your long-term goals with them, with family and key employees. Their input can minimize potential conflict and help maintain stability in the business and the family.

##### **It's never too early to start building your succession plan**

If you start to design your succession plan many years ahead of your expected exit date, you can build the interest of potential successors within the family by involving them in meetings and asking for their input.

Obtain professional advice from your legal advisor, tax specialist and possibly a family business facilitator. A facilitator can help you discuss issues with family

members, provide objectivity, find constructive ways to resolve conflicts, review plans, establish priorities and involve stakeholders in the succession process.

##### **Create and implement a business succession plan**

- Develop a leadership profile. What do you want to see in a future leader?
- Identify suitable candidates. Who demonstrates the commitment and leadership qualities you're looking for?
- Prepare management and personal development plans. Project the company's future management needs and guide the career paths of individuals to meet them.
- Mentor and evaluate candidates. It can be difficult for a parent to do develop and assess their skills objectively due to conflicting roles of parent/business owner. Choose someone else as mentor.
- Select a successor. Your choice could be clear due to years of preparation but, if not, use set criteria to make your selection.
- Communicate your plan. Ensure everyone understands the plan and their proposed roles.
- Manage the transition. Withdrawing from daily business activities can be difficult. A gradual transition may work best.

##### **Continuing involvement after succession**

Will you have an ongoing role after the transition, perhaps in an advisory capacity? This can gradually reduce the business' dependence on you and may make it easier to separate your identity from the business role you've held for so long.

##### **Plan for contingencies**

Incorporate personal planning considerations into your succession plan. Have you prepared a Will and a Power of Attorney/Mandate? Should you have a buy/sell agreement in place? Your tax planning may also include discussion of family trusts, estate freezes and structuring your business succession to maximize the capital gains exemption.



### Benefits of a business succession plan

Business owners who implement a succession plan well in advance report significant benefits. The business enjoys improved financial stability as it moves through a well-planned and managed transition and relationships with employees and family members also benefit. A large percentage of business owners feel that a succession plan has helped them provide for their family's future and many report that they have been able to minimize their future tax liability and improve their business' financial stability.

**For more information on business succession planning, to discuss any topics raised in these reports, or for a confidential review of your wealth management needs, please contact Pam Somers, Vice President Private Banking, at 780- 448-6386 or by email at [pam.somers@rbc.com](mailto:pam.somers@rbc.com).**

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