

Succession Planning is Key for Business Owners

When asked if they have a business succession plan in place to sell, transfer or wind down their business, almost two-thirds of business owner respondents to a 2016 BMO Wealth Management survey indicated that they did not have a business succession plan. In fact, only 8% of business owners surveyed had an up-to-date, formal written succession plan; and almost one-quarter of all respondents indicated they only had an informal, unwritten business succession plan.¹

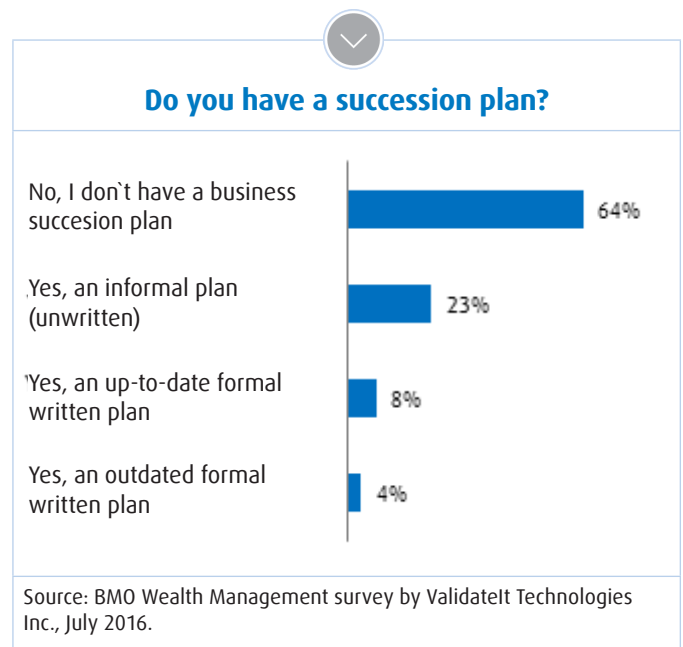
Business owners devote a significant amount of time, energy and, in most cases, their own money to building their business. As a large contingent of business owners shift their focus towards retirement, decisions about when and how to retire will have a significant impact on their personal financial situations and the future of their businesses.

Planning is an important driver of success

Business succession planning involves understanding the value of your business and, if you're not planning to transfer the business to other family members, identifying potential purchasers, both inside and outside of the company, and determining the best time to sell the business. It's also important to consider whether you'll have other financial assets available to provide retirement income or if your business will be your primary source of retirement funding.

Your business succession plan should address technical concerns, such as legal, accounting and tax matters, as well as softer interpersonal issues that are of the utmost importance for family members, key employees and other business stakeholders. It can take years to develop and fully implement a business succession plan; therefore, business owners should start the succession planning process well in advance of retirement.

If you're considering a transfer or sale of your business within the family, you'll need to determine whether these designated individuals have the desire to assume ownership and possess the required skills, or will need additional training.



Alternatively, if your succession plan will involve selling the business to a competitor or partner, or bringing on a new employee who can be groomed to eventually take over the business, it's in your best interest to take steps to extract the maximum value from the sale of your business.

Business exit strategies

There are financial and tax strategies that can be incorporated into your succession plan to help ensure the most profitable exit from your business. For instance, if you plan to transfer the business to family members, an estate freeze allows you to retain an interest in the business which could generate retirement income for you, while transferring any future growth in the value of the business to the next generation. If the business is incorporated, you may be able to claim the Capital Gains Exemption (up to \$824,176 in 2016) when you dispose of the shares, which could result in considerable tax savings for you. Please note that the Capital Gains Exemption is indexed annually to inflation.

Additional strategies for maximizing retirement income from your business should also be considered, such as establishing an Individual Pension Plan (IPP) or a Retirement Compensation Arrangement (RCA). There are also tax-efficient and cost-effective insurance strategies designed to generate supplementary retirement income, yet still preserve money for your heirs. Alternatively, you could continue as a consultant to the business post-retirement and draw an income to supplement your other sources of retirement income.

Business owners should attempt to accumulate assets outside of the business in order to help fund their retirement income needs. When asked about the diversification of their retirement assets, 31% of business owners taking part in the BMO survey reported that they had maximized their Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) and/or Pooled Registered Pension Plans (PRPPs),² and 21% had non-registered investments allocated for retirement. Almost half had not diversified their pool of retirement capital; however, business owners closer to retirement had accumulated greater savings outside their businesses, with 45% having maximized their RRSPs, TFSAs and/or PRPPs, and 32% accumulating non-registered assets for their retirement.


Business Success Planning – Key Considerations

A formal business succession plan helps ensure a smooth transition into retirement, as well as the continuity of the business for your employees and customers. The following are important questions that should be considered before developing your business succession plan:

- What is the fair market value of my business?
- When am I planning to retire?
- Will the business be sold, and if so, at what price?
- What role will I take in the business post-retirement?
- Whom would I choose to take over the business?
- What significance does the business have to me and my family?
- Could one of my children take over the business? If so, how would this decision affect other family members?
- How much time do I require to groom a successor?
- What will happen to the employees?
- Who will service the customer base?
- How much income will I need to generate in retirement in order to maintain my desired lifestyle?
- Have I accumulated other sources of retirement income?
- Have I spoken to my tax advisor regarding possible tax strategies available when the business transition occurs?

Seek professional advice

If you're a business owner contemplating the sale or transition of your company, setting goals, having a vision and developing a formalized business succession plan are critical for success. Business owners should explore all options and strategies available to them and develop a plan that addresses their retirement income needs and the eventual succession of their business. Professional advice may be needed when developing your plan and implementing solutions that fit your particular circumstances and personal objectives.



Your BMO financial professional understands the unique challenges faced by business owners, and can help you to identify your needs and refer you to the appropriate professional advisors for further assistance.

Footnotes:

¹ BMO Wealth Management survey conducted by Validatelt Technologies Inc. between the dates of June 27 and July 5, 2016. The online sample size was 405 Canadian small business owners between the ages of 25 and 64 with at least two employees. The survey has a confidence interval of +-4.87% at the 95% confidence level.

² Pooled registered pension plans are available in a number of provinces, all territories, and for employees whose employment falls under federal jurisdiction. <http://www.cra-arc.gc.ca/tx/prpp-rpac/prppqa-mp-eng.html>



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