

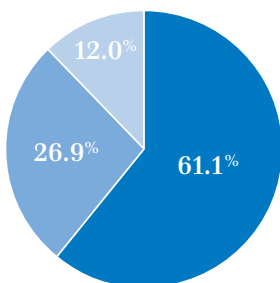
# Succession planning is key for small business owners

Nearly two in five business owners are wondering who will take over their business and how they will transition it to a successor.

However, the majority of them do not have a formal plan to exit their business or preserve the continuity of the business upon retirement. As small business owners shift gears and look to retirement, decisions about when and how to retire will have a significant impact on their personal financial situations and the future of their businesses.

As a business owner, you devote a significant amount of time, energy, and in some cases your own money to developing your business. The exit from your business should raise questions such as: Will the business be sold? At what price? Will the children, or someone else continue to run it? What will happen to the employees? Who will service regular customers? These are important questions that are often overlooked, yet they form the basis of a formal succession plan. Without a succession plan, it stands to reason that many small business owners simply plan to walk away from their businesses once they retire, and only a small minority plan to pass the business on to others.<sup>1</sup>

## Lack of succession planning by small business owners



- Never given thought to succession planning or do not have plan in place
- Have a formal succession plan in place
- Have an informal succession plan in place

## Planning continues to be a key driver of success

Starting the succession planning process early is important, as it is a long-term process. It may take years to develop a plan and put into place. A formal succession plan ensures a smooth transition into retirement for you, as well as continuity of the business for the employees and customers. Business succession planning involves knowing the value of the business, identifying potential purchasers both inside and outside of the company and determining the best time to sell. Moreover, it helps you identify the options available to you when you make the transition out of the business.

As a business owner, you may have a significant amount of your financial assets invested in the business. It is important to consider whether you have other financial assets or your business will be your primary source of retirement funding. Hence, it is critical for you to assess available options as you exit the business. If you plan to pass the business to a family member, it would be wise to discuss the matter well in advance of your retirement, because the individual may not have the required skills, or even the desire to run the business. On the other hand, if you are selling your business to a competitor or a partner, or bringing on a new employee who can be groomed to take over the business, it would be in your best interest to extract 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 ensure the most profitable exit from a business. For instance, if you plan to transfer the business to family members, you may consider an estate freeze, which allows you to retain an interest in the business that could generate retirement income for you, while passing any future growth in the value of the business to the next generation. If the business is incorporated, you may be able to claim a capital gains exemption of up to \$800,000 when you dispose of the shares. This could result in considerable tax savings for you.

There are additional strategies for maximizing retirement income from your business and transition into retirement. For example, you may consider 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. Or you could continue as a consultant to the business for a number of years.

For those who are self-employed or who are small business owners, lack of planning can have a negative impact on retirement income, causing them to miss the opportunities available through exploring potentially lucrative and personally rewarding options that maximize all the potential benefits.



### Key questions to address when retiring from your business:

- What is the fair market value of my business?
- What significance does the business have to my family and myself?
- Whom would I choose to take over the business?
- Could one of my children take over the business? How would this decision affect other family members?
- When am I planning to retire? How much time would I require to groom a successor?
- What role will I take in the business post-retirement?
- Have I spoken to my tax advisor to understand some of the possible tax strategies available when the transition occurs?
- Do I know what my retirement income needs are to maintain my lifestyle?



For more information, speak with your BMO financial professional.



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<sup>1</sup> BMO Wealth Institute study conducted by Research Now with a random survey sample of 301 Canadian business owners, conducted between August 29 and September 9, 2013.

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