

Planning options for passing on your small business

As a successful small business owner you've faced many challenges – economic, competitive, client service and taxation – to get where you are today. Once you establish and grow a profitable business to maturity, there is another challenge you must face. What do you want to do with your company as you age, decide to retire, or otherwise consider a change in your career or life?

Transfer the business to your family

If you are like many small business owners, your business is part of your life. Who better to continue your business success than your children? There are a number of issues to consider that will help you determine if this is the right choice for you and your business.

- If your effort, knowledge and talent have been the key to ongoing success, can your business survive if you leave?
- If your primary investment is your business, what is the financial impact of transferring or selling it. The business may have to be sold for enough money to secure your future, or alternatively it may be worth more to you and your family than a third party will want to pay for it
- Does anyone in your family have the same ability as you do to run the business? If not, this may be an indication that a sale to a key employee or an outsider may be the best route to follow
- Is there a member of your family who is willing and able to take charge?
- Can you easily identify who should take over the business? If there is more than one family member, can everyone work together in a joint partnership?
- Can you ensure non-participating family members receive equal treatment through inheritances?

If you are not ready to give up all of the control immediately, you can issue new shares to a trust or holding company and decide later who will receive shares of the business.

What are my options?

The five main options available to small business owners are as follows:

- 1) Transfer to members of your family
- 2) Sell to key employees
- 3) Sell to a third party
- 4) Issue shares to the public
- 5) Wind up the operation

Sell to key employees

If family members are unwilling or unable to take over from you, an alternative option is to sell to one or more key employees. Key employees generally know the business as well as you. Perhaps you could be retained as a consultant to bring in additional future income.

Sell to a third party

You might find this option appealing if you have no family members or key employees who want or can run the business as well as you have. Depending on market conditions and competitive landscape, it might make sense to sell to one of your competitors, or an unrelated third party. Make sure you consult your accountant to ensure you take advantage of all the tax savings available, such as the \$500,000 capital gains exemption.

Take the business public

If you are convinced that your business will continue to grow in the future and the company is well-established and has a good financial history or provides a product or service that is not well represented in the marketplace, then it may be a good idea to consider taking your business public. You will have to issue shares for purchase by the public and set up a management team. This will mean you have to give up some control over the business. Offsetting the loss of control is the freedom you may find in passing responsibilities on to a group. Another nice thing is that, as an owner of public shares, you can trade your shares on the open market as needed to meet your future cash requirements.

Wind up the business

If you feel your business should not continue after your retirement or death, then the option of winding up the business may make sense. Consult your accountant about the procedural issues you must deal with before you close the doors for good. These include:

- De-registering for GST/PST and payroll taxes
- Notifying clients and suppliers
- Calculating retiring allowances or severance payments to employees
- Disposing of capital assets

Summary

This is a brief overview of the planning issues you must consider as a business owner. There are procedures and strategies for income tax and insurance that can help you make the transition from active business owner to retiree. Your financial advisor, lawyer and accountant can team with you to ensure that your succession plan is carried out smoothly.

For more information about this topic, contact your advisor, call us at **1.800.874.6275** or visit our website at **www.aimtrimark.com**

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