



## Running your own business includes planning for transition

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Special to The Globe and Mail

Published Thursday, Aug. 11, 2016 5:17PM EDT

Last updated Thursday, Aug. 11, 2016 5:19PM EDT

There are as many types of businesses as there are people who own them. And there are some strange ones (not the people, but the businesses).

I think about [Rent a Mourner](#) that allows customers to hire professional mourners to attend funerals and wakes when a low turnout is expected. Or [My Friend Smells](#) that enables you to send a friend, co-worker, boss or other stank suspect some cologne wipes to let them know what's up. Then, there's the [Las Vegas Wedding Wagon](#) which will provide a full wedding ceremony out of the back of a van for as little as \$129 (U.S.).

But as strange as any business may seem, all successful business owners have a couple of things in common: First, the business likely represents the majority of their wealth. Second, it's a challenge to figure out what to do with the business when it's time to retire, or you're not here anymore.

On this second issue, business transition planning can be complicated, and emotional when it involves family members.

Here's a primer on business transition planning.

### The concept

Business transition planning is the art of planning for two things: (1) the future management of your business, and (2) the future ownership of your business.

The truth is, those who manage the business might be different from those who own the business (although there is typically overlap here). Many business owners avoid this type of planning because they're reluctant to let go of control over the business, fear making the wrong decision, don't want to create discord in the family or are simply too busy to think about it.

The best time to focus on transition planning is when you're busy building and running your business, and this should ideally be done about five years before you execute the transition.

### The options

At the highest level, there are four options when it comes to transitioning your business: (1) A family transition, where family members take over the management and ownership of the business (either as a gift from you or by selling to them); (2) An employee transition, where employees take over management, and likely some or all ownership; (3) A third-party sale, where you sell to an outside party to be determined; (4) wind-up the business (which may make the most sense in certain situations).

Your game plan for transition of your business could be a combination of these options.

You should also be aware that it may be possible to take some chips off the table – that is, partly cash out – while you still own and run the business.

## **The tools**

Business transition planning is a process, and there's a "business transition toolbox" that contains some common tools that could be handy, or important, in executing a transition in your business.

You may not use all of the tools, but chances are good you'll use some of the following.

- **Family meetings:** If there's a chance you'll transfer management or ownership to family members, you should be conducting family meetings to talk about it. The conversations should focus on participation in the business (who is interested and what are the prerequisites for working in the business?), ownership of the business (who will own it? When? Gift or sale? What are the rules for exiting? And how will a price be set?) and governance (development of a mission statement with guiding principles, frequency of family meetings, terms of a shareholder's agreement, process for resolving conflicts, etc.)
- **Trusts:** It can often make sense to use a trust to hold shares that will eventually pass to family members or others. This way, you don't have to decide today who should ultimately own the business but can, in the meantime, protect the value of those shares from creditors and multiply use of the lifetime capital-gains exemption, among other things.
- **Tax provisions:** There are many provisions in our tax law that can be helpful in a business transition. The most common are the lifetime capital-gains exemption (which can shelter from tax, for every Canadian resident, \$824,176 of gains on qualified small-business corporation shares in 2016), and tax-deferred rollovers (often called a "Section 85 rollover"; these provisions can allow a transfer of shares in a business or certain other assets to a corporation without triggering tax at the time of the transfer). There are also provisions specifically designed to help farmers and fishermen.
- **Key documents:** A few documents will be important to prepare or revise, including your last will and testament, and shareholder's agreements.

I'll continue this conversation on business transition planning next time.

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