

Plan a successful transition of your business

Many Canadians have built their wealth by operating a small business or will realize substantial wealth when their private business is sold. In a recent study by the Canadian Federation of Independent Business (CFIB), approximately 40% of all Canadian entrepreneurs plan to exit their business within five years and 70% within 10 years.

However, the same CFIB study indicates that only one-third of business owners have a succession plan for the transition of their business to the next generation or for the outright sale of the business. Of those that have a succession plan, 82% indicate that the plan helped them plan for their family's future. In addition, other benefits of a succession plan that were cited include:

- › Minimizing tax
- › Improving the financial stability of the business
- › Maintaining family harmony

Here are some key issues that you should consider for a successful business succession plan, along with the tax- and estate-planning strategies:

CHOOSE YOUR SUCCESSOR WISELY

Communicate openly with your children and determine which child is most interested and most capable to lead your business. In some cases, you may have to choose a non-family member, such as a key employee, to take over your business; or you may need to sell the business outright.

LET YOUR CHOSEN SUCCESSOR LEAD THE PLAN

Dr. Dean Fowler, a family business consultant, proves that the traditional succession plan where the senior takes the lead, focusing on estate planning, tends to fail. However, plans where the chosen successor takes the lead, focusing on management succession and strategies to buy out the senior, are much more successful.

GROOM AND TRANSITION OUT

Have your chosen successor gradually take on more responsibility and meet key business contacts well before you transition out. Then be willing to let go of the lead. Have faith in your chosen successor to take over the business.

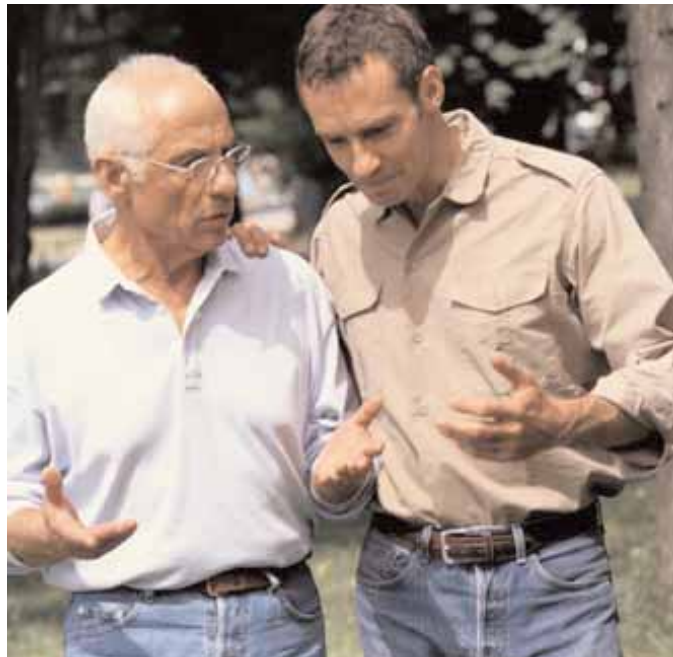


COMMON FINANCIAL PLANNING STRATEGIES WITHIN A BUSINESS SUCCESSION PLAN

- › **Financial plan.** A financial plan for the parent is a critical component of a business succession plan and will determine if the parent has adequate resources to support their retirement lifestyle and highlight which, if any, additional retirement saving strategies (e.g. an Individual Pension Plan, Retirement Compensation Arrangement, etc.) are required.
- › **Estate freeze.** An estate freeze using a family trust is a common business succession and income-splitting strategy that transfers some or all of the future growth of the business to the next generation, helping to minimize and defer tax. Ensure that the estate freeze is flexible enough so that you can possibly reverse the freeze if necessary.
- › **Shareholder's agreement.** A well-drafted shareholder's agreement provides a framework for the smooth operation of a business and addresses business ownership issues when certain triggering events occur (death, disability, retirement, marriage breakdown, and so on).
- › **Insurance.** Appropriate disability, key person and life insurance are imperative to ensure that the business can continue and your family is able to maintain their lifestyle should death or disability occur prematurely. Insurance is also a low-cost solution for funding taxes at death and funding buy/sell agreements.

HIRE AN EXTERNAL ADVISOR FOR ASSISTANCE

There are professional family business succession facilitators with years of experience to assist your family with the succession plan. Having a neutral third party facilitating the discussion in many cases can help open the lines of communication between the parents and children and lead to a more successful transition.



Families with more financial resources than the average Canadian family face some unique challenges – everything from coping with affluenza to properly transferring wealth to the next generation. But along with these challenges, there are certain opportunities to build and protect wealth, including various legal structures, insurance-based solutions, and investment strategies.

In this guidebook, we have summarized some of the key opportunities that particularly apply to individuals and families responsible for a large amount of “wealth” – which we have defined here as \$1 million or more in investment assets. If you would like more information on any of these opportunities or strategies, either for yourself, your family or someone you know, we would be pleased to help. Please contact your RBC advisor for more information.

FAIR DOES NOT MEAN EQUAL

In order to maintain family harmony, it may make sense to give children who aren't involved in the business fewer assets or other assets such as non-business assets, securities or life insurance proceeds as part of their inheritance, instead of giving them active business shares.

Succession planning should start five to 10 years before your anticipated retirement age. Speak to your advisor if you need assistance on succession planning for your business.



FAMILY WEALTH MANAGEMENT TIP

Many business owners tend to procrastinate on implementing a business succession plan since running and growing their business is their priority. According to the CFIB, one of the main reasons for failed successions is the lack of adequate time to plan and execute the succession of the business. Therefore, it is never too early to start planning.