



# Business Succession

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## Business owners and retirement

Whether you plan to sell your business or transition it to the next generation there will be decisions to make and planning to be completed.

To maximize proceeds and/or minimize tax, planning must begin well in advance of the anticipated transition date. Putting in place a formal succession plan will ensure stability for employees and customers through the transition period as well as ensure a stable and predictable retirement income stream for the owner.

### To sell or succeed

Often business owners have a desire to pass the family business on to the next generation as part of a family legacy. Consideration must be given to the ability of the next generation to be successful in the business as well as their desire to take over the business. Both must be present if the business is to continue as a profitable entity. It is important to ensure all family members are included in the discussion to maintain family harmony and that serious thought is put into the skills the successor will require. Discuss your plans early and consider how children who will not participate in the business will be equalized in other ways.

Recently Bill C-208 came into effect, Jan 01 2022, which allows the intergenerational transfer of certain family businesses to receive the same tax treatment as businesses sold to a third party. Previously, a long-standing anti-avoidance rule in the Income Tax Act (ITA) treated intergenerational transfers of a business as a dividend rather than a capital gain. Bill C-208 changes that rule to allow access to the lifetime capital gains exemption. Bill C-208 also provides for positive changes around the division of a family business amongst siblings. There are several carve-outs and limitations, so advice from your tax advisor and corporate legal are needed.

### Navigating the challenges of business ownership

Business ownership, regardless of size or type, holds the potential for abundant opportunities but also unique challenges. That's why selecting the right Advisor who can effectively manage the many facets of your wealth as an entrepreneur is critical. Richardson Wealth provides all types of business owners, including traditional family-run enterprises, with strategic advice and support. This includes tax-efficient wealth strategies, planning for succession or sale, and other solutions.

If a sale of the business is planned, you will need to determine the fair market value of the business and who the potential purchaser might be. There may be interest from internal purchasers, such as existing management or external purchasers, which could include a competitor. Will these purchasers be willing to buy the shares of the corporation or will they negotiate a better price for the assets instead<sup>1</sup>?

### Which professionals do you need on your team to help with the transition?

- Tax Accountant
- Corporate Lawyer
- Business Valuator
- Financial and Retirement Planner
- Insurance Professional
- Pension Specialist (if there is an IPP)
- Estate Planner

Typically buyers will prefer an asset deal over a share purchase for the simple reason that they are purchasing the operational portion of the business without acquiring the corporate history of the company and the liabilities that go along with it. Vendors, on the other hand, typically prefer to sell shares in order to access the lifetime Capital Gain Exemption which can shelter up to \$1,250,000<sup>2</sup> of capital gains from taxation. In the end, a combination of these strategies, known as a hybrid transaction, may be the solution to suit the needs of both parties.

### Ensuring tax efficiency and retirement funding

How much money is required to retire? Are there other savings or income streams outside the corporation? These are questions you should be asking yourself as you plan to move on from your business. It is important to have a good understanding of the income stream you will need to meet your retirement goals and where these funds will come from.

If you pass the business on to the next generation, you may want to consider completing an estate freeze which will fix the value of the company in preferred shares to be redeemed over time to provide a steady flow of dividends throughout retirement. This strategy can facilitate the transition of common shares and control of the corporation to your children on a tax deferred basis. As a business owner, you may want to explore an Individual Pension Plan<sup>3</sup> or a Retirement Compensation Arrangement to facilitate excess corporate cash being converted to secure retirement funding in the future<sup>4</sup>.

When a family business continues to the next generation, it can fulfill a legacy and provide steady income as long as the business is operated in a manner that remains profitable.

Choosing the correct successor and ensuring they have the skill and passion to maintain operations will provide more stability and ensure the business remains a going concern.

If you plan to sell the business, how much net after tax cash will you receive on that sale? Have you engaged the correct professionals to ensure you maximize that number? Do your shares qualify for the Capital Gains Exemption<sup>5</sup>? These are all questions that need to be answered to provide you assurance that a sale of your business will be sufficient to provide for your retirement. Engaging the correct professionals well in advance of the sale ensures that you minimize tax and maximize sale price where possible through sale structuring and tax planning. Much of this planning and due diligence is completed months or even a year prior to the sale closing. It is important to engage professionals early to keep your options open.

**In addition to meeting other requirements,  
most shares must be owned  
for 24 months in order to access the  
Capital Gains Exemption on sale.**

1 For additional information on this topic please see our article *Sale of a Business*

2 The government has proposed to increase the LCGE to \$1,250,000 for dispositions on or after June 25, 2024, with indexation beginning in 2026. Private company shares must qualify as "Qualified small business corporation" shares as defined in the Income Tax Act.

3 For more on this topic see our article *Individual Pension Plans*


4 For more on this topic see our article *Estate Freeze*

5 For more on this topic see our article *Capital Gains Exemption*

Upon sale, consideration must be given to the existing employees. Will the new owner continue with the current work force? If not, as the vendor you will be responsible for severance costs related to these employees. Be aware that if key employees leave during a prescribed amount of time post sale, there may be a financial liability depending on the agreement negotiated between vendor and purchaser. Often the vendor is required to stay on and transition slowly away from the business. How does this impact your retirement plan?

## Conclusion

While risks are present with both strategies, planning undertaken with the appropriate professionals well in advance of a contemplated transaction can mitigate these risks, minimize tax and ensure your retirement objectives are met. Consider completing a comprehensive wealth plan to ensure the business sale proceeds or continued income stream from a family operated business will be sufficient to fund your desired retirement lifestyle.

We recommend you discuss your personal situation with your Richardson Wealth Advisor and your other trusted professionals. 

## Tax & Estate Planning

As an individual investor or a business owner you have unique objectives and priorities that need to be considered. At Richardson Wealth, your Investment Advisor collaborates with our in-house Tax & Estate Planning professionals to deliver customized wealth management solutions designed to address tax, estate, insurance, philanthropic and succession needs.

Our approach. Our expertise. Our experience.  
**Our difference.**

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