CIBC Wood Gundy

# Business Transition Planning

ADVISORY SOLUTIONS

Establishing a business and making it a success is not easy. Transitioning out of that business can be even more difficult. But, the decision to retire or move away from day-to-day management is one of the most important decisions you will make. A business transition plan is the first step in securing the future of your business and ensuring that your own personal retirement goals are met.

## CREATING A BUSINESS TRANSITION PLAN

Creating a business transition plan is a complex and lengthy process that requires a complete understanding of what you want your retirement to look like. An effective business transition plan includes a thorough analysis of the underlying business, its management structure, competitive environment, cash flows and a mission statement that sets out basic policies and procedures for your business.

**All business transition plans, regardless of your goals, should address the following factors:**

- Proposed method of structuring the planned succession, including tax consequences
- Contingency plans that address unexpected future events, such as the death of a key individual or successor
- Formal timing for transfer of ownership
- Transitional roles for each individual in the business
- Communication of certain aspects of the plan to third parties and employees
- Possible shareholder agreements, Will revisions, corporate restructuring, share transfers, insurance policies, etc.

Even if retirement is many years away, it is always best to start planning early for the transition of your business. Once you have established a plan, you should review it on a regular basis to ensure that the provisions outlined in the plan are aligned with your changing needs and the changing needs of the business.

## YOUR NEEDS AS A BUSINESS OWNER

An effective business transition plan addresses three important needs of a business owner:

- Orderly transfer of ownership or management of the business
- Tax minimization: Valuation planning and freezing techniques can be used to minimize the transfer tax costs associated with the transfer of a business interest to other family members
- Liquidity: Liquidity planning helps ensure that sufficient assets are available to pay estate taxes or to provide additional liquidity to the business during a period of transition

## YOUR RETIREMENT STRATEGY

When establishing a business transition plan, it is essential to think about your own long term financial needs. While the sale or transfer of your business may provide you with some retirement funds, there are additional savings vehicles and investment opportunities that may provide you with a higher retirement income. And, just as it is important to start planning early for the transition of your business – planning early for your retirement will help you ensure that you have the means available to meet all of your financial needs.

In addition to your Registered Retirement Savings Plans (RRSP), there are a broad range of retirement preparation strategies that can help you generate retirement income and minimize taxes, including:

- Individual Pension Plan (IPP)
- Tax-Free Savings Account (TFSA)
- Retirement Compensation Arrangement (RCA)
- Estate Freeze Strategy
- Holding Company

## FAMILY HARMONY

There is a sometimes fine line that separates family matters and business matters in a family business.

Trying to pass on management responsibilities to a family member while remaining involved in the company can cause conflict and confrontation, blurring the line between objective business decisions and emotional family ones.

Many business owners delay business transition planning because of concerns about disrupting family harmony, but there are ways to transition your business to a family member while maintaining family harmony.

Open communication is often the best way to make sure everyone's voice is heard and that your intentions are made clear to all family members. It can be beneficial to work with an objective mediator who can help you separate family and business when discussing the transition of your business. Even if your family is not currently experiencing any conflict, addressing concerns early in the planning stages can prevent misunderstandings.

## A TEAM-BASED APPROACH

Business transition planning requires a team of experts who will work with you to successfully implement your plan. Your CIBC Wood Gundy Investment Advisor can work with other trusted advisors to help keep your plan on track, including:

- CIBC Wood Gundy Estate Planning Specialist (Financial Security Advisor in Québec)
- Lawyer
- Accountant
- CIBC business advisor or Commercial Banking Relationship Manager

Together, your team of advisors will guide you through the complex transition process and keep your objectives front of mind.

A proper business transition plan will ensure the smooth succession of your company, provide you with financial security and protect everything you have worked so hard to achieve. Whatever the goal of your business transition plan, the key is to identify your financial objectives, start planning early and use the advice of a team of experts to ensure your company will continue to be successful.

**Contact your CIBC Wood Gundy Investment Advisor to find out more about business transition planning.**

### Business Will And Buy/Sell Agreements

A Business Will and a Buy/Sell Agreement can help you ensure that all of your needs are met when planning for the transition of your business. In order to be effective, you must discuss your plans with all affected parties, including family members and beneficiaries and update your plan on a regular basis as changes occur or the value of your company increases.

- A Business Will can be used as a comprehensive planning tool that details, in step-by-step format, your plans for continuation
- A Buy/Sell Agreement is an important component to a business obligating one party to buy and the other to sell their interests in the business following a triggering event such as the seller's death or disability
- Consider funding your Buy/Sell Agreement with insurance – life insurance and disability insurance are simple funding vehicles that help ensure adequate liquidity will be available if either death or disability precipitates the sale of ownership
- Establish a dollar value for each owner's share, a necessary task, as passing on control of the business involves transferring ownership of assets



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