



## **BUSINESS SUCCESSION**

As the Baby Boomers retire, our economy is experiencing what may be the largest shift in wealth and income in history. Nonetheless, professionals are noting that they are assisting more clients with winding-up or dissolving businesses than with selling or transferring businesses. This indicates that clients may not be aware that their successful businesses may be sold. With some planning prior to retirement, certain tax strategies may be implemented that maximize cash flow for the retiree, while optimizing the stability of the business.

### **HOW DO I PREPARE TO SELL MY BUSINESS?**

The first thing to do is organize your business affairs from a buyer's perspective. A strong business framework is critical and the following considerations will make your business more attractive to a potential purchaser:

- Supplier contracts: Are they assignable or transferable at the same rates?
- Employee contracts: Are there contracts in place to ensure employees do not quit upon sale of the business and do they contain confidentiality and non-competition clauses?
- Policies & Procedures: Have policies and procedures been created that streamline the flow of work and the distribution of cash within the business?
- Unanimous Shareholders Agreement (USA): Is one in place to ensure the corporation is not forced to dissolve in the event of the death, dispute or departure of a Shareholder? If there is a USA, does it restrict the sale of shares to third parties?

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- Patents: If the business has created an original product or process, is it protected with a Patent?
- Financial Statements: Are they up-to-date and available for review by a potential purchaser?
- Financing: Is there flexibility to remove or replace personal guarantees that have been given to secure the financing for the business? Are there excessive penalties for early payment?
- Integrity of Assets: Is the property or equipment utilized in the ordinary course of business in acceptable operating condition? Does it meet applicable safety requirements?
- Corporate Filings: Are the Annual Returns all filed with the Corporate Registry and Minute Book up-to-date?
- Licenses/Permits: Are all licenses and permits current and are all employees properly certified for their respective positions with the business?
- Lease Agreements: Are the Lease Agreements held by the business assignable or transferable?
- Goodwill: Is the client base of the business contractual or assignable and will it stay intact upon sale of the business?

### **WHAT IS MY BUSINESS WORTH?**

Simply stated, the purchase price will be largely defined by the future value that can be realized by a potential Purchaser. Professional business valuers are available to assist you with determining the fair market value (FMV) of your business. Some of the factors to be taken into consideration are:

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- Overhead v. Personal Expenses: What is the actual cost of operating the business, not including the personal expenses a business owner is able to “write off” as a business expense?
- Interest-Free Loans: Determine how much debt the business has and how much interest is paid upon that debt. Funds loaned to the business by family are often interest-free and would be paid out upon sale of the business.
- Investments: Exclude the value of any investments that would remain with the seller upon disposition of the business.
- Goodwill: Consider steps that may be taken to preserve the client base upon sale of the business. Is it possible to provide customer (and supplier) introductions and transitional training?
- Expenses: Take into account the taxes and professional fees involved with selling the business as this may discount the overall value of the business.

### **WHAT’S IN IT FOR ME?**

The benefits you may receive in planning the succession of your business are proportionate to the time you invest in planning it. Pursuant to Canada Revenue Agency (CRA) requirements, some benefits may not be utilized unless certain conditions have been met 2 years prior to disposition of the shares of a corporation. If planned in advance, the corporation may be reorganized to utilize the following benefits:

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- Create tax and liability shelters for corporate property by transferring it to a holding corporation and leasing it back to the business.
- Maximize your Lifetime Capital Gains Exemption of \$750,000 (where applicable) upon disposing of the shares of the corporation. (Note: This cannot be used when the proceeds are from the sale of the corporation's assets or the dissolution or wind-up of a corporation.)
- "Purify" the company to ensure it complies with CRA requirements that would classify it as a Qualified Small Business Corporation (QSBC) and provide access to certain tax advantages
  - Remove non-active assets (Eg. place them in a holding corporation)
  - Remove "safe income" out of the company to reduce the value of the shares (eg. dividends)

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