WOOD GUNDY

THE MATURE BUSINESS

As the owner of a mature business, you have weathered the ups and downs of the start-up and growth stages. Your business has been in operation for several years and is generating more cash and assets while carrying little to no debt. At this stage, profits do not need to be retained and reinvested, as the business is profitable and thriving. Outside shareholders may now be investors in the company and your children may be involved. While managing the success of your business you need to plan for retirement, wealth preservation, business transition, tax minimization and charitable giving.

Your investment needs are as unique as your business. Your CIBC Wood Gundy Investment Advisor will work with you to review the options discussed in this report and will determine solutions to meet your personal and business needs.

Wealth preservation and estate planning

An estate plan is an essential component to helping you determine how your assets should be managed during your life and distributed afterward to the people or causes most important to you.

Estate plans for business owners are complex. To be effective, they need to address your personal, family and business situations and meet the often-conflicting needs of the many stakeholders in your business. Estate plans for business owners typically include saving for retirement, providing for heirs after death, being fair to all children, minimizing taxes, ensuring adequate liquidity and preserving the value of the business upon your death. Issues such as keeping the business in the family and treating all children fairly may take considerable precedence in your estate plan, as the owner of a mature business.

Personal factors that need to be considered when developing an estate plan are your age and health, the level of debt and assets both inside and outside the business, risk tolerance and retirement plans. Also relevant are income needs, the age of any children and the degree to which your spouse or other family members may be involved in the business – or plan to be one day.

Estate planning strategies

Importance of a Will

A properly structured Will is generally the most effective way to make sure that estate assets will be managed and distributed according to your wishes. A Will can give executors some flexibility in holding and operating a business upon the death of its owner. It can ensure the business ends up in the right hands and that the transition is smooth, while minimizing taxes through the use of capital gains exemptions, rollovers and trusts.

Once completed, a Will should be reviewed regularly, especially any time there is a significant change in the family or business. Similarly, you should have valid powers of attorney for financial assets and personal care, which take effect during your lifetime, if you are unable to make decisions for yourself. Your legal advisor should be able to help you review your personal and business circumstances, clarify your estate objectives, and explore Will planning options.

Consider an estate freeze

An estate freeze can be implemented to reduce the amount of taxes that are payable on the transfer of assets to a beneficiary. “Freezing” a company’s share value for the original shareholders (for example, a parent) ensures that future increases in the fair market value of the company pass to the next generation. A parent transfers his/her shares in the operating company to a holding company, and in return, the parent receives fixed value “freeze” shares from the holding company.

This tax-planning technique may be used by small business owners to achieve a wide range of objectives including:

- Passing the business to the next generation
- Maximizing use of small business and capital gains exemptions for qualifying small business shares
- Maintaining future cash flow sufficient to meet your needs
- Minimizing capital gains tax payable upon your death
- Taking advantage of income splitting strategies
- Preserving the value and continuity of the business for inter-generational transfers

Before undertaking an estate freeze, you need to be confident there are sufficient assets and income available to maintain your desired lifestyle. Tax and legal experts must be consulted, as this is a complex strategy.

Ensure adequate life and disability insurance

Insurance can be used to provide income for your family in the event of disability or death. It can also be useful for paying taxes on large capital gains and other liabilities upon your death.

An insurance-needs analysis will help estimate the funds required to eliminate liabilities and pay your family's present and future living expenses. Both term and permanent life insurance can be customized to provide liquidity on your death, or on the first or second death of you and your spouse. Insurance needs may be reduced if sufficient non-business assets have been accumulated.

Consider setting up Testamentary trusts

If you have substantial capital to leave to your children at death, it may be appropriate for you to distribute it to them outright, however, this may mean that they will be missing out on a tax-planning opportunity. For instance, if you have adult children in a high tax bracket and you leave them substantial capital in an outright distribution through your Will, any income they earn on that capital will be taxed at their high tax rate. If, on the other hand, you direct the capital to testamentary trusts for them and their children, any future income can be designated to them, or to their children, or to the trusts, at each of their respective tax rates.

Testamentary trusts are a useful tool to provide a surviving spouse with income from the business for his or her lifetime, with the capital transferring to the children on his or her death. A spousal trust will often hold preferred shares, particularly if an estate freeze has been conducted during your lifetime or if you have retired from the business and retained preferred shares to provide retirement income. Testamentary trusts can also serve as appropriate vehicles if you wish to have assets managed for minor children or other dependants.

Business transition planning

As a business owner, you've worked hard building and expanding your business. The continued success of your business depends on your management and expertise. But have you considered what will happen to your business when you are ready to retire, in the event of your death, or if you incurred a disability?

Passing ownership and control of your business requires careful thought and planning. It is important that you consider your long-term needs, while keeping in mind the best way of continuing your business.

A transition plan can address issues before they occur to ensure that when you transfer ownership the business is not disrupted. The benefits of having a transition plan in place include: financial security and a smooth transition for retirement; continuity of operations; business value is maintained; tax reduction and deferral strategies; protection from unforeseen events and no surprises at retirement.

A transition plan should be started approximately 10 years prior to the expected transition and be in place within three years of the sale or transfer of your business.

Estate equalization

Handing over the business to a family member is one way to pass on a legacy to your children and future generations. However, when family is involved, issues can become personal and emotional. It is important to address and communicate your decisions effectively and ensure that your wishes are well documented to ensure they are carried out.

If you decide to keep the business in the family, you need to determine which family members will lead the business. In addition to passing the business on to children, it's important to consider spouses of the successor, the possibility of divorce or separation and ensuring equalization of assets for those children that do not wish to be a part of the transition plan.

In the interest of family harmony, it is often beneficial to have an objective mediator present when discussing the transition of your business to family members to ensure that all opinions and concerns are considered.

Tax minimization

There are several strategies you can put in place now to structure your business so that you receive maximum tax benefits in preparation for the future transfer or sale of your business. Addressing tax implications of a business transfer or sale can also assist you in ensuring a comfortable retirement income.

Major tax considerations may include:

Exemptions

Some businesses may benefit from incorporating. Corporations have the advantage of limited liability, the opportunity to defer taxes and the relative ease of raising capital. The decision to incorporate, however, depends on a number of factors and will vary from business to business.

The capital gains exemption for qualifying small business corporations (QSBC) may be claimed to offset a capital gain on the sale of shares. Each family shareholder of qualified small businesses may also be eligible for a capital gains exemption. As it only applies to shares, businesses must be incorporated to qualify. There is no size restriction; however, the business must meet the definition of a Canadian Controlled Private Corporation.

Crystallizing gains

Prior to selling or transferring your business, you can crystallize your gains to take advantage of the Small Business Gains Exemption (SBGE), by undertaking a share exchange under section 86 of the Income Tax Act. To use the SBGE, you have to reorganize the shares of the company such that the existing shares are returned to the corporation for cancellation and new shares are issued with the same fair market value. However, instead of electing to rollover the original cost base of the shares, you would choose to elect a higher adjusted cost base, thereby giving rise to a taxable capital gain that may be eligible for the exemption.

The above strategies are complex and specialized tax advice should be sought to ensure proper structuring of these strategies.

Charitable giving

As a business owner, you may want to give back to the community that helped your business succeed. Whether dedicated to researching medical cures or to helping those in need, charities and other non-profit institutions depend on individuals and businesses for funding.

By incorporating charitable giving into a comprehensive transition plan, your assets can benefit the organizations or causes you care about. Ensuring that your intentions are satisfied requires more than simply writing a cheque to your favourite cause. With proper planning, your generosity can continue after the sale or transfer of your business and long after you've retired.

Your CIBC Wood Gundy Investment Advisor will work with you to determine appropriate strategies for charitable giving, as part of the financial and retirement planning process.

Retirement income solutions

Determining retirement income objectives can be difficult as a business owner. If you remain a shareholder, the company may continue to expand and grow and provide you with a retirement income. If you opt to retire completely, you need to assess your income needs for your retirement lifestyle.

An important question to answer is how much of the sale of your business will be capital and how much will be income. If you opt to wind up your company, you should consider putting a plan in place to get your capital and assets out of the company. The main objective is to maximize retirement income to provide for a comfortable lifestyle based on your goals and objectives.

Preparing for retirement

As a business owner, you need to first determine what your retirement objectives are. You have been working hard to create, develop and grow your business. You should determine if you want to have an active role in the company after the sale or transition of your business. Deciding your objectives is the first step to understanding what your retirement needs will be.

You should begin to prepare for retirement early on in your career and regularly evaluate and adjust your retirement plan. It is also important to consider investment vehicles that may protect your retirement income from possible creditors.

As a business owner you have a broad range of retirement saving possibilities that can help you defer taxes including Individual Pension Plans and Share Redemption Plans. For more information on these products, please speak with your CIBC Wood Gundy Investment Advisor.

Financial planning

Financial security is a long-term proposition that requires careful planning and attention. The financial planning process reviews your financial circumstances, develops appropriate strategies and responds to changes in your life as well as changes in the world around you. A common goal for many individuals is to retire comfortably. Consequently, retirement planning is often the cornerstone of a financial plan.

Planning your financial security is not easy. Regardless of the stage of life you are in, and as a business owner with assets outside of your investment portfolio, it is important to take steps today to ensure your financial independence in the future. Your CIBC Wood Gundy Investment Advisor has access to an established network of Estate Planning Specialists (Financial Security Advisors in Québec) to help you. Our Estate Planning Specialists are well versed in the relevant areas of taxation and estate planning. They work with you and your CIBC Wood Gundy Investment Advisor to provide services in estate creation and preservation, business transition planning, estate-friendly investing, charitable giving, retirement income planning and tax minimization.

As your business continues to thrive and you move closer to retirement, the solutions discussed above should be carefully considered.

We're here to help

To learn how these options may make your transition out of your business and into retirement a successful one, contact your CIBC Wood Gundy Investment Advisor.

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