

# Integrating Business Succession Planning into your Financial Plan:



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**M**any Small Business Owners have a large portion of their wealth tied up in shares of a private corporation. Effectively incorporating this asset into their retirement and estate plan is critical.

Some areas to consider are:

#### **Cash Flow Needs of the Owner:**

Normally, the more reliant an owner is upon the proceeds of the sale of a business for their retirement income, the less risk he/she is willing to take with the business transition. Therefore, the seller might seek a larger portion of cash up front to reduce the risk of non-payment. This often makes third-party buyers more attractive.

#### **The Succession Process:**

Without a ready buyer, such as a consolidator or competitor, private corporation shares are illiquid. In the absence of a ready buyer, a process needs to be in place to create liquidity. Normally the succession process involves transitioning ownership to key employees or family members. In order to ensure a successful succession, purchasers must have good management and entrepreneurial skills, and the effective transition of critical knowledge and relationships is essential.

#### **Structuring for Sale:**

In order to receive the \$750,000 Small Business Capital Gains Exemption, shares of the business must be sold by the individual, and the company being sold must meet active asset tests.

It is important to have the correct structure in place before a sale is contemplated, as restructuring in contemplation of a sale often has adverse tax consequences. It is important to note that the sale of shares to a family member is not as tax effective as a sale to an unrelated party. The reason is that corporate dollars cannot be used in a family buy-out situation. There is also the opportunity to duplicate the Capital Gains Exemption through the use of a family trust.

#### **Estate Equalization:**

In a large family, where the business is to be transitioned to just one or two siblings, and the business is the primary asset, it is necessary to address estate equalization. In its simplest form this involves creation of value for the non-active siblings, separate from the active business. This may take the form of life insurance or

fixed-value dividend-bearing shares in the active corporation that may be redeemed over a fixed period of time.

#### **Family Legacy:**

Often the value of the business for the owner represents more than just a financial asset. It may be closely tied to the owners' and family's legacy and their identity in the community.

As these businesses frequently bear the name of the family, the bias would be to transition to the next generation. If the business is large or does not have the management expertise within the family, professional management can be used.

#### **Family Communication (the soft issues):**

Communication of the parents' intention regarding succession of the business to the next generation is important. Input from the children regarding their aspirations for the business is needed to ensure that all family members' objectives are met as far as practically possible. Failure to communicate the succession strategy may result in resentment and family conflict, often only after the parents have passed on.

#### **Family Business Policy Statement:**

Where there are multiple generations of family involved in the business, it is important to have a Family Policy Statement in place. This ensures that a clearly defined structure is applied to all family members in relation to the business. Policies would relate to such things as: ability to work in the business, remuneration etc.

#### **Family Philanthropy:**

One way to include younger family members in the business and to nurture their management skills is to include them in family philanthropy. In order to make the giving more flexible, a private foundation or a donor advised fund with a public foundation might be considered.

A successful transition process needs an integrated advisory team, dealing with the family issues as well as financial and tax considerations. At Investaflex Financial Group we specialize in integrated succession planning for private corporations. Please contact us for a free no obligation initial meeting to see how we can assist you. ♦

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