MONEYTALK

MoneyTalk: 10 questions for business owners who are thinking about retiring

10 questions for business owners who are thinking about retiring

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It’s never too early for business owners to start thinking about their end game — after all, you eventually want to enjoy the fruits of your hard work. There’s a lot to consider. Here’s a checklist to get you started.

The COVID-19 pandemic may be providing sleepless nights to business owners. In fact it could be causing some to start thinking about their exit strategies, and whether they’re ready to retire.

“Many business owners don’t have a succession plan. They assume the right opportunity will present itself,” says John Nicolls, a Vancouver-based Business Succession Advisor with TD Wealth. “But arranging for transition to a chosen successor allows you to have choices and keep all your options open.”

There are many strategies for transitioning your business, including getting it ready for sale or helping the next generation take the reins. But Nicolls points out that succession planning takes time, communication, and, most likely, some professional help.

Nicolls offers this checklist of 10 questions you can ask to help test your succession readiness:

1. Do you know how much your business is worth and how you would sell it?

There are different methods that can be used to value your business, and a chartered business valuator can help. Once you have a range of value, you can figure out how taxes may play out in various scenarios — and who can help market your business to achieve your desired outcome.

2. Have you communicated your plans to your family, and discussed how they would acquire the business?

Many assume that passing down the business means giving it to your children for free, but that doesn't have to be the case. There are many ways to structure — and finance — the sale of a business to family, but the first step should be a conversation that gets everyone on the same page. Be aware that selling to family members below market value might not be the favour you think it is: It could trigger unintended tax consequences for both buyer and seller.

3. Do you know your corporate structure and are you set up to potentially utilize your lifetime capital gains exemption?

Your lifetime capital gains exemption may allow you to minimize the taxes on the sale of shares of your business — so long as it is a "qualified small business corporation" at the time of sale. This takes prior planning and may require a reorganization of your corporate structure well in advance. A business succession planner can help you strategize.

4. If you are making a sale, do you know how the purchase will be financed?

Financing can often make or break a deal. A business's value could be tied to intangible assets such as brand, client list, or employees, and it may be difficult for a buyer to get financing based on things that aren't hard assets like equipment or real estate. Financing the deal yourself may be one way to close the gap, and there are ways to structure your loan to secure repayment over time.

5. Do you know how much you need to "net" from the business in order to retire comfortably?

Whether you are selling for a lump sum, payments over time, or both, working with an investment advisor or financial planner can help you see how much you need from the business (after tax is factored in), to fund your retirement lifestyle.

6. If something were to happen to you before you sell or transfer your business, do you have a plan for how the business would function?

Who would make decisions on your behalf? Do the right people have the know-how to keep the business running seamlessly? A Business Continuity Plan can be put in place in case you suffer an accident or illness.

7. Do you have an up-to-date Will and substitute decision-making documents?

Maybe you have thought about these things for yourself, but have you thought about your business? The foundation of any good estate plan is a Will and any substitute decision-making documents, including a Power of Attorney for financial decisions and one for personal care/medical decisions. Ensure they are up to date and that you name alternate decision-makers in each case.

8. If you have business partners, do you have a Shareholders Agreement and have you discussed your exit strategy?

If you co-own the business, having plans agreed upon in writing may help avert disagreements down the road. Revisiting the document regularly will keep your plans up to date as your lives and business needs change.

9. Have you stress-tested your business? If there was a downturn in your industry, how would your company survive?

Setting a plan for how to keep your business afloat during hard times could save your business. Having a plan for alternate supply chains, credit lines and reducing costs so you can stay liquid could make all the difference.

10. Have you set aside savings outside of the business to protect you and your family in case of an unexpected crisis in your business?

Unforeseen circumstances such as an unexpected lawsuit or bankruptcy could bring creditors to your door. Ensuring you and your family have a sufficient emergency fund and RRSP/pension-type savings in a secure account means that you can breathe easier if hard times hit.