

Succeeding Your Business An Estate Planner's Expert Advice

Remarkably, seventy percent of all family-owned businesses in Canada fail to succeed to the next generation. In order to avoid a company's demise, it is vital to both prepare an effective business exit plan and to allow for a sufficient amount of time for its proper implementation. Proactively taking the right steps now will help to ensure a smooth transition, leading to greater financial security for retirement.

Sheri MacMillan, the President of MacMillan Estate Planning Corp. and a senior Trust and Estate Practitioner, has developed exit strategies for business owners over the past decade. "Business owners often avoid planning due to the number of emotionally charged issues that are associated with passing on the torch," MacMillan sympathizes. "However, retiring from a business does not have to be a difficult or uncomfortable experience." By consulting with a qualified expert, a business owner can determine the best approach within the scope of his or her unique circumstances.

First and foremost, a business owner must decide what exit strategy would best suit his or her retirement objectives. Should the plan be to sell, a business must be structured to maximize its value as much as possible beforehand. This means grooming management and replacing an owner's day-to-day involvement with clear policies. Accordingly, this demonstrates to potential buyers that the company has the capacity to succeed well-after the owner has left the picture.

Similar to selling a business, when succeeding a company to the next generation of family members or employees, it is also important to maximize the company's value before its transference. Developing sound procedures and ensuring that the successor is proficient in all realms of the business are also necessary. Just as it takes a company's founder many years to discover the best methods of business operation, a substantial amount of time must also be afforded to a successor; an average of ten to fifteen years at least. Consequently,

What should you know in order to strategically plan your company's succession?



beginning as soon as possible is the key to a company's continued success.

Although business succession gives an owner more choices in regards to how much involvement he or she would like to have in retirement, it may also leave an owner more open to undo risk. Without the right knowledge, many owners will unintentionally make choices that are to their companies' detriment, as MacMillan illustrates: "When a business owner gives shares of a company directly to a successor, that owner is putting their financial security in harm's way, especially if he or she is relying on the revenue generated by the company for retirement. Should their successor divorce, go into bankruptcy or be sued, these shares will inevitably be lost. However, by giving a successor shares indirectly, by way of a trust, a business can be properly protected against such unforeseen circumstances."

Essentially, a trust is a private legal vehicle that holds ownership of an asset on behalf of a beneficiary. Trusts offer a remarkable sum of benefits, such as matrimonial and credit protection. Moreover, when an owner puts a

company into trust, he or she can continue to exercise control over the business. Sheri MacMillan recommends that a trust be used in conjunction with an estate freeze. "When both mechanisms are utilized within a succession plan, not only are assets protected, but unnecessary taxes may also be deferred or avoided completely."

On a final note, when planning your company's future, it is important to select an expert that is well-versed in the structures that govern business transfers and successions. A professional who has a Trust and Estate Practitioner designation is a particularly good choice. Awarded by the Society of Trust and Estate Practitioners, professionals holding this title are recognized as the most qualified experts in the estate planning field.

Should you have more specific questions pertaining to the ideas discussed above, MacMillan Estate Planning Corp. offers both complimentary consultations and monthly seminars on business succession. For further information, please inquire online at www.yourestateplan.ca or call (403)266-6464.