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Small Business Owners: Do You Have a Succession Plan?

All too often, business owners have adequately prepared for their personal retirement, but not for the retirement of their businesses. A 2014 survey by Deloitte Canada found that only 17 percent of family-owned Canadian companies had a formal leadership succession plan in place. According to this study, 33 percent of those surveyed had no plan at all.

The reason that many small businesses don't have a plan in place varies: some owners claim that they are too busy building their businesses; others don't believe that succession will happen for many years to come.

But giving good thought to the business' succession well before it becomes a need can have its benefits. It helps to plan for any unwelcome surprises, such as the unforeseen death or illness of the owner. More importantly, it enables the owner to accurately plan for retirement.

Take, for instance, the small business owner who assumes that the majority of his/her retirement income will be funded by the sale of the business. Without a succession plan, the owner may not have a clear understanding of the true valuation of the enterprise, potential buyers of the business, or mechanics of the sale transaction. When the eventual sale of the business approaches, the owner may be left with a lower than anticipated business value or a costly tax position that significantly reduces proceeds from the sale. With a proper plan, these situations may be avoided.

A detailed succession plan can prove valuable in many ways by minimizing taxes, optimizing estate planning and preserving wealth. Succession planning can ensure that the company is passed on to successor(s) in the most tax-efficient manner, for example through the use of a trust. Many business owners may be aware of the tax implications of a transfer of ownership, but be unaware of the personal tax implications that may be triggered upon death. A well-designed plan can also allow the business to undertake measures to enhance value prior to the future transition, especially if it involves a sale.

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A succession plan is only as good as its likelihood of being implemented. For instance, some family businesses may believe that they have appointed the next generation successor, only to discover upon transition that this individual lacks the commitment, skill set or desire to run the operation.

It is never too early to begin the process. Various experts suggest that succession planning begin at least 5 to 10 years prior to the expected transition date. Plans should be revisited periodically to address changes in the business, market or other circumstances.

Don't be afraid to seek assistance from others, including accountants or lawyers, as investing in professional advice may help to save time and money. There are many resources available to help with succession planning, and we would be happy to assist you if you are beginning the planning process.

Why not take the necessary steps today to provide greater certainty around your business' future?