



# Succession Planning *for Canadian Business Owners*

Prepared by Bellwether's Financial Planning Specialists







# Current State

Entrepreneurs—as they should—put a lot of effort into starting a business, but the most successful ones put an equal amount of thought into planning for after they’ve built a prosperous company. Enter succession planning, the process of transferring ownership and control of the business. When done correctly, a seamless transition can help you maintain your lifestyle during retirement, provide for your heirs, and ensure that your legacy stands tall.

Family-owned enterprises are a cornerstone of the Canadian economy, generating 48.9% of the nation’s real GDP in the private sector and employing 6.9 million people, according to The Conference Board of Canada. Even as a dominant form of business across the country, however, many owners have struggled to navigate succession and rapidly changing business needs. From internal family dynamics to external economic factors, some common reasons for this shortfall are:

## Time Management

“I’m dedicating my time and energy to running the business.”

## Disinterested Heirs

“The next generation isn’t willing, prepared, or both.”

## Uncertain Outcomes

“What will I do once I sell or transfer the business I’ve built?”

Questions and uncertainty are natural, but what matters most is how you react to them. A more constructive approach might be to ask yourself what your exit strategy is, who you’ll be selling or transferring ownership to, and, most importantly, why. Here are some questions you can ask yourself to identify the ideal candidate, whether they’re family members, employees, or third-party vendors.



# Questions & Options

**79%** Hope for Children  
to Inherit

- “Do the children want the business?”
- “Do any of them work for the business?”
- “How can I fairly distribute my wealth?”
- “Can they run the business?”
- “Can they afford to buy in?”
- “If needed, how long will training take?”

**69%** Intend on Selling  
to Third-party

- “Do my competitors want my business?”
- “Do my suppliers want to vertically integrate?”
- “Is my business a turnkey operation?”
- “Can the new owner run it without me?”
- “Can I leave immediately?”

**23%** Plan on Selling  
to Key Employees

- “Do my employees want the business?”
- “Can management function without me?”
- “Are they in a position to buy the business?”
- “How will I arrange financing?”

Source(s): † Kpmg LLP, “[Most family business leaders are accelerating succession plans in the face of mounting pressures: KPMG poll](#)” November 23, 2023. Browning, Mark, “[What Canada’s aging population could mean for your succession plan](#)” March 11, 2024.

# Power of Planning

Tax implications always warrant consideration, and for succession planning, it's often central to decision-making. To better minimize tax liabilities, preparing in advance will almost always improve the outcome—whether for your personal situation, the ongoing business, or your family members.

## Powers of Attorney

Death is inevitable in the long run, but over the short term, disability is much more likely. Make sure someone with Power of Attorney can provide support during your downtime.

## Business Valuation

Have you performed a valuation to establish its worth? Without a proper valuation, it's impossible to determine the potential outstanding tax liability.

## Legal Wills

Testaments guarantee the distribution of our assets in accordance with our wishes. To avoid paying probate taxes on corporate assets in certain jurisdictions, a secondary will is required. Probate taxes can climb as high as 1.5% of the business's value, meaning a \$2,000,000 company could be liable for \$30,000—a secondary will is significantly less expensive.

## Lifetime Exceptions

All resident Canadians are eligible to receive a Lifetime Capital Gains Exemption (LCGE). This amount, indexed to inflation in 2024, stands at \$1,016,836. To qualify for this, however, you must sell what are known as Qualified Small Business Corporation Shares. That said, there are several conditions that a company must meet:

- **The ownership requirement:** To qualify, only an individual, their relatives, or a partnership must own the business shares for at least 24 months before claiming the LCGE.
- **The 90% requirement:** To qualify, a company must be using 90% of its assets in active business operations inside Canada at the time of disposition.
- **The 50% requirement:** To qualify, at least 50% of the company's assets need to be used in active business for the 24 months before the sale.

The importance of starting early, much like saving or investing, cannot be overstated. With enough time, other family members can benefit from this government incentive. Indeed, the LCGE has the potential to multiply.

## Estate Freezing

An estate freeze offers business owners a way to “lock in” appreciation based on the company's value. This method exchanges common shares in the company for fixed-value special/preferred shares, followed by issuing new, nominal value common shares to your children, which can be held by them directly or through a family trust structure.

The company's growth directs value toward the common shares, which remain tax-free until your children sell, gift, or otherwise dispose of their shares. Once again, time is required for those shares to appreciate and maximize value for your family.

# Plan for Success

As always, every entrepreneur's business plan is as unique as they, and their business, are. Let's take the estate freeze and LCGE multiplication as an example.

There is no one-size-fits-all approach for most aspects of financial planning, but business owners have an added layer of complexity to manage. This isn't necessarily a bad thing, as the nuances introduce opportunities to plan accordingly—the key is to know your options, identify what suits your situation best, and use time to your advantage.

**Consulting with your Family Wealth Advisor should be your first step**, and, as always, a nimble plan that can adapt to your changing circumstances almost always outperforms one set in stone.

## Hypothetical Scenario Mrs. Stone's Business

**Ownership:** Sole-owner

**Present Value:** \$4,000,000

**Annual Growth:** 25%

**Household:** Partner and two children

**Strategy:** Estate freeze and LCGE multiplication

**Preparation Period:** Three years

**Lesson:** **Planning is profitable**


Mrs. Stone is the sole owner of a \$4,000,000 business that grows at 25% (\$1,000,000) per year. She has a partner and two children—if she freezes her estate today, they will not benefit from the LCGE immediately, as they have not held shares for 24 months and the shares are of nominal value.

If she elects to wait three years, 24 months have elapsed, and her family's shares are now worth over \$3 million.

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*Time is, and always has been,  
an incredibly effective asset*





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