



Column
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SUCCESSION PLANNING FOR BUSINESSES



Being a business owner who owns a successful business but has no succession plan in place is similar to being an individual who has amassed significant wealth but has no retirement or estate plan in place. In both cases unnecessary taxes, fees and legal implications can threaten the enjoyment of a comfortable retirement and the preservation of wealth for future generations.

When you are building and growing your business the last thing you think about is the possibility of selling it or passing it on to the next generation. However, if you are a successful business owner, that day will eventually arrive, and the better prepared you are the easier the transition will be.

Unfortunately evidence suggests that the majority of business owners are not sufficiently prepared for that eventuality. According to a 2006 study done by the Canadian Federation of Independent Business (CFIB) 52 per cent of small and medium enterprise (SME) owners have no succession plan in place. Most businesses that do have a succession plan have informal or unwritten plans that have not been shared with their intended successors, and only 10 per cent of businesses have a formal plan. To compound the problem, the same study shows that 34 per cent of SMEs want to exit their business within the next 5 years and 66 per cent plan to exit their business within the next 10 years.

Moreover, a 2005 study by CFIB showed that among SME owners who have a succession plan, only 51 per cent have chosen their successor. In addition, only one in four (28 per cent) of SMEs who have yet to choose a successor have incorporated a selection process in their succession plans.

WHAT IS A BUSINESS SUCCESSION PLAN?

Business succession planning is really an extension of your personal estate planning but with a focus on your business assets and the future operations of your business. It determines how your business will be transferred to your successors and identifies the necessary steps that need to be taken to prepare for the transition.

The plan affects you, your family, employees, clients, suppliers, creditors and others. A good succession plan ensures that your wishes will be carried out if you should die suddenly or can no longer run your business due to illness or a long term disability. It can also help you ease into retirement and provide a retirement income. In addition, it can inspire confidence in your creditors, bankers, employees, clients and suppliers and therefore boost your business.

Similar to a good business plan, a good succession plan has to be well thought out and be a written formal document that can be easily followed.

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TOUGH QUESTIONS YOU NEED TO ASK YOURSELF

Thinking about succession planning requires asking some tough questions.

- When I die, how will I divide my estate amongst my family in a way that is fair and equitable to all?
- When will I release control completely?
- Who will take over control of my business?
- Where will the money come from to fund the purchase of my business and fund my retirement?
- What other assets do I have and who will receive them?
- How will my family retain their standard of living when I die or if I become disabled?
- How much control over the business do I want to retain when I retire?
- How will I ensure my business continues to run smoothly?

Here are a few you should consider:

Changes in life stages such as marriage, death or divorce can also impact the business succession plan you create. You need to review your plan regularly and amend it for any changes in your situation or financial goals over time.

PLANNING FOR UNFORESEEN EVENTS

When thinking about succession planning, you need to consider unforeseen events. You have to consider the possibility of a critical illness, disability or your early demise, either while you still own the business or when you are retired but still involved to some degree.

While you can not guarantee that you will always be in good health, you can take steps to prevent a death, critical illness or disability from harming or even destroying your business by setting up a properly funded buy-sell agreement.

YOUR UNIQUE BUSINESS SUCCESSION PLAN

Business succession planning involves a variety of business, family and personal issues which need to be considered together. Every plan is unique; therefore it's important to develop your business succession plan in consultation with your financial, legal, accounting and tax professionals.

Your financial advisor can work with and coordinate the efforts of your other advisors to help you create a plan that meets the goals and dreams for both your business and personal life.

You have invested time and money in your business and nurtured it. Now you need to take appropriate steps to ensure that it continues to prosper and to create wealth for your family.