

Planning for the Future: A Guide to Business Succession for Small Business Owners in Ontario

Running a small business takes hard work, time, and dedication. For many business owners, their company is more than just a job—it's a part of their identity and a source of pride. But what happens when it's time to step away? That's where **succession planning** comes in.

Succession planning means preparing for the day when you leave your business—whether you retire, sell it, or pass it on to someone else. Having a plan helps protect your business, your family, and your employees.

1. Know Your Goals

Before making any decisions, think about what you want for your future. Do you want to retire and enjoy more free time? Do you want to pass your business to a family member or sell it to someone else? Your goals will help guide your plan.

2. Choose the Right Successor

Picking the right person or people to take over your business is one of the most important steps. It could be a family member, a trusted employee or employees (such as with an EOT), a management group, or an outside buyer; whether strategic or VC. Make sure they understand your business and share your values. If you're passing it to family, talk openly to avoid misunderstandings.

3. Understand the Financial and Legal Side

Selling or transferring a business involves money and legal steps. You will need help from a corporate lawyer and your accountant to understand the impact of taxes, establish any contracts or agreements, and to get an accurate business value. In Canada, there are tax rules that can help you save money when selling your business, like the **Lifetime Capital Gains Exemption** which allows for approx. \$1,250,000 of business value to be realized on a tax-free basis. This amount available to each individual shareholder.

4. Think About the Emotional Impact

Leaving a business can be emotional. You've built something important, and saying goodbye isn't easy. Your family and employees may also feel uncertain or worried. Talking to them early and being honest can help everyone prepare for the change.

5. Make a Checklist

Here are some things to include in your succession plan:

- **Decide when you want to leave the business.**
 - This conversation and thought process could take weeks, months or even years; and you'll likely change your mind several times. It's okay – it's all part of the process.
- **Choose who will take over.**
 - Potentially another not-so-simple task; but it starts with being realistic about your options, because in very broad terms there are two sources for buyers; from inside the business, and from outside the business. Both have pros and cons. Take a mental inventory of the possible options and don't let biases halt your thinking. Just open your thoughts to every angle.

Planning for the Future: A Guide to Business Succession for Small Business Owners in Ontario

- **Get a business valuation.**
 - You may need to do this to affect an Estate Freeze; a mechanism to recognise the value you have created and credit that to your shares. It comes with tax consequences – but you can largely defer those. Even without a corporate reorg you’ll need a good line of sight on what you will be able to ask for your business.
- **Talk to legal and financial experts.**
 - As noted above, you’ll need your CPA and legal team involved in this process. You should also engage a qualified Financial Advisor who understands business owners and longer-term planning for the entrepreneur. You’ll need to plan for estate taxes, retirement income, inheritances and charitable giving. There are planning and specific insurance tools that can provide help.
- **Plan how to tell employees and customers.**
 - It’s important to keep the details private until you’re ready to go ‘public’. Panicked employees could leave the business before they even understand what they are leaving. Tell them as soon as it’s feasible to do so, as this lowers the risks of problems. Remember the adage: “without information you get imagination”
- **Think about your role after the transition.**
 - Often, where the next generation comes in to run the company – founders remain ‘employed’ for a time, continuing to receive either paycheques or dividends. With a third-party purchaser this is rarely possible. The new owners want the founder to sail off into the sunset and leave them to run their new business.

Best Practices for a Smooth Transition

- **Start early:** Planning ahead gives you more options and time to prepare.
- **Get advice:** Talk to professionals who understand business succession.
- **Keep communication open:** Let your team and family know what’s happening.
- **Train your successor:** Help them learn the ropes before you leave.
- **Review your plan regularly:** Things change, so update your plan as needed.

Succession planning isn’t just about money—it’s about protecting your legacy and making sure your business continues to thrive. Whether you’re thinking of retiring soon or just starting to plan, taking the time now can make a big difference later.

Take a few minutes just to dream. Ask yourself: “If I sold the business today, what would I do tomorrow?” or “How much would we need to sell the business for, to retire comfortably?”. Keep a notebook of your ‘Succession Plan’ thoughts and come back to it often.

It’s never too early and rarely too late to start.