Business Owners Who Fail To Plan, ARE PLANNING TO FAIL!

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It's no surprise that entrepreneurs tend to be bigger risk-takers. Business owners take significant risks in setting up their businesses, sacrificing time with family, and may even put second mortgages on their homes to get their businesses off the ground. Many don't have access to pension plans that many other salaried employees have. They give up that certainty and safety to create something of value that they hope will provide for their retirement needs. Unlike those who may have pension plans, the business itself can often be their pension and retirement income source.

As of June 2021, there were 1.29 million employer businesses in Canada, with almost 98% of these being small businesses. These owners are often focused more on operating their companies and ensuring profitability for the immediate future rather than planning for succession or retirement. That can be a big problem because some fundamental strategies are better implemented early, not to mention the tax planning that should be happening year to year with both a short and long-term outlook.

While every family has unique needs and goals, business owners have particularly unique and special challenges that often require more sophisticated advice and planning. A long-term plan focusing on wealth preservation should be developed years in advance, which helps with contingency planning to protect the family and clients of the business in the event of an accident or untimely death.

Studies show that 58% of Canadians have not discussed instructions for their estate with their heirs, and many have not either decided or discussed what to do about one of their most significant assets - their business. A lack of communication with family members regarding business plans is expected, as most assume the conversation will cause issues, although not having the conversation may lead to more problems down the road.

So when should one start planning their exit strategy? The earlier, the better of course, but the most successful transitions happen 2-4 years out. Entrepreneurs seek out professional advice in various financial areas, including tax, philanthropy, estate planning and wealth education for their children or successors.

Whether one is transitioning their business to family members or selling it to a third party, there will be tax consequences to consider, and cash flow needs to factor in. Therefore, some tax planning strategies need to be arranged well in advance as it can be a complex process and can take months or years to prepare. Methods may include getting a formal business valuation, putting common shares into a family trust, and implementing an estate freeze, all of which should be discussed with a team of wealth professionals.

As Canada's population of wealthy investors increases, financial advisors are developing specialized practices to serve their need for independence, objectivity, governance, and holistic wealth planning. I have had the privilege of helping many families with the transition into retirement and on their inheritance plans. All are unique in their own way, but business owners have some complex needs that provide opportunities for multiple options depending on their goals. Having conversations now and a team of experts looking out for your best interest can avoid problems later and pave the way for effective wealth planning and preservation strategies.

Succession is not an event but a process. Preparing yourself and your business today will increase your odds of a successful sale when the time comes, and knowing the company you've created will continue to be successful will help you let go and retire well!

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