

## **The Business Owner's Guide to Succession and Retirement Planning**

As a business owner, you're not alone if succession and retirement planning have taken a backseat to the day-to-day grind of running your company. According to the Canadian Federation of Independent Business, 76% of small business owners plan to exit their business someday, but only 9% have a formal succession plan in place.

While this lack of planning is common, it's not ideal. Preparing now for the future of your business—and your personal retirement—can save you and your family from unnecessary stress down the road.

### **Why Succession Planning Matters**

For many business owners, the idea of stepping away can feel unthinkable. After all, your business represents years of hard work, sacrifice, and passion. However, starting your succession plan today ensures your legacy lives on, your employees are supported, and your family's financial future is secure.

#### **Key steps in succession planning include:**

- Identifying a Successor: Decide who will take over your business. This might be a family member, a key employee, or an outside buyer.
- Formalizing the Transition: Draft a buy-sell agreement to outline how ownership will transfer upon your retirement, disability, or death.

### **Planning for Retirement as a Business Owner**

As a business owner, your retirement planning is often more complex than that of a traditional employee. You may lack access to employer-sponsored pensions or matching RRSP contributions, which means the responsibility for planning falls squarely on your shoulders.

#### **Start by asking these two questions:**

##### **1. How Much Will You Need in Retirement?**

To determine your retirement budget, review your current expenses and adjust for changes that may occur post-retirement.

- Expenses like food, shelter, and utilities might remain constant.
- Costs for transportation or clothing may decrease.
- Travel and hobbies may increase your discretionary spending.

Factor in inflation and other variables to ensure your calculations are realistic.

##### **2. How Will You Fund Your Retirement?**

Here are some common strategies for funding retirement:

- Government Programs: Canada Pension Plan (CPP) and Old Age Security (OAS) provide a basic income.
- Tax-Advantaged Savings: Use Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).
- Business-Specific Options: Individual Pension Plans (IPPs) or Retirement Compensation Arrangements (RCAs).

### **Selling Your Business**

Many business owners rely on selling their businesses to fund retirement, but this approach carries risks. For example:

- Will a buyer be available when you want to sell?
- Have you evaluated your business's fair market value?

A qualified small business corporation (QSBC) may allow you to claim the Lifetime Capital Gains Exemption (LCGE)—up to \$1,250,000 per individual in 2024—when selling your shares. With planning, you can potentially multiply this exemption by involving multiple family members.

### **Tax Efficiency in Retirement**

Tax planning is critical to maximizing your retirement income. For example:

- Capital Gains Tax: Selling shares or assets may result in capital gains taxes, but strategies like the LCGE or lifetime exemptions can help reduce your tax burden.
- Life Insurance: Corporate-owned life insurance can help reduce taxes for your estate. Upon the shareholder's death, the tax-free death benefit can be used to provide liquidity for heirs.

### **The Role of a “Holdco” in Retirement**

If your business transitions into an investment holding company after operations cease, you'll need to decide whether to deplete, wind up, or maintain the corporation. This decision can have significant tax implications.

### **The Bottom Line**

Retirement planning for business owners is more complex than for employees—but it also offers unique opportunities. With deliberate planning, you can maximize after-tax income, protect your legacy, and provide for your beneficiaries.

If you're ready to take the next step in succession or retirement planning, connect with an advisor to explore tailored strategies that work for you and your business. At Lionspoint Financial Services, we specialize in helping business owners secure their financial futures while protecting what matters most.