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AIR CANADA

5 Minutes for Business

Are We Ready for the Next Generation of Small Business Owners?

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Canadian business is about to go through an era of unprecedented upheaval. Is it an economic crisis? A climate calamity? A Trump presidency? It's much worse: a mass-retirement of business owners!

A staggering 75% of small business owners will retire over the next decade, and $1 trillion in business assets will change hands. Are we ready?

The answer is a resounding no. Less than half of small business owners have succession plans and only 9% have a formal written plan. We often hear that owners don't like talking about retirement. They've been leading their business for decades and it's part of their identity. Many just assume that they will be able to sell the business or pass it along to kids when the time comes. And because it's years away, the awkward discussion can always be put off to another day.

There are huge implications. For starters, inadequate planning will lead to a big tax hit. Many family businesses have concerns that they are treated unfairly. If an individual sells a business to an unrelated person, it's considered a capital gain and subject to a significant exemption. However, when an individual sells a business to a family member, the disposal is taxed as a dividend at the top marginal rate. That's because the Crown sees the cash remaining within the family unit and wants to avoid creating a costly loophole. It's a tough issue—there is an issue of discrimination against family business. In fact, NDP Deputy Finance Critic Guy Caron has prepared the private member's bill C-274 to address the "unfair treatment" of family transfers.

But financial planners tell us that Canada's tax code is actually quite generous. If you set up a family trust, an estate freeze or other tax strategies, it's possible to minimize your tax bill substantially. The problem is that this must be done years in advance.

The second big challenge is financing the succession. It can take years to find the right buyer with deep pockets to buy-out the retiring owner. Again, a lack of planning can force owners into a fire sale situation, and potential buyers need time to raise funds.

The Canadian Chamber recently passed a resolution asking that government small business financing programs be expanded so that potential buyers can access the funds to buy-out a retiring owner. It's a great idea.

We sometimes focus exclusively on supporting start-ups, but it's just as important to ensure the continued success of existing businesses. Consider the perspective of an entrepreneur: you could create a new idea from scratch, seek out customers who have never heard of you and hope against the odds to turn a profit. Or, you could take over a company that has been in business for decades, with a loyal customer base and a track record of profitability.

The point is that it takes years to plan, finance and implement a successful exit strategy—on top of the training and mentoring to prepare the business itself for transition.

That is why chambers and business associations must do more to encourage members to start early and create robust succession plans. Financial institutions and government agencies also must help fund the next generation of managers and owners. But it's a big challenge for business and for the Canadian Chamber. If you have views on succession planning and/or on bill C-274, please email or give me a call.

For more information, please contact:

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