

Things To Consider When Retiring From A Business You Own



For years, you've worked hard by putting in long hours and building up your business. You've felt a sense of satisfaction, knowing that your hard work has led to your success and feelings of accomplishment. Looking ahead, you want to see more, experience more, and live more. You've decided that the time has come to cash in and take some well-deserved time to enjoy what the world has to offer. Or perhaps, you're hoping to pass the family business onto the next generation. In either case, you'll need a road map and some good people who can help guide you in this time of transition.

Getting Started

What are you selling?

Where should you start? It's good to begin by looking at the structure of your business. If you're carrying on the business as a sole proprietorship, you may be looking to sell some (or all) of the business' assets. If you're carrying on business through a company or corporation, you need to decide if you want to sell the assets of the business or if you want to sell the business itself through the sale of your company shares . Perhaps you want to sell the operations portion of the business, but you want to retain the real estate and become a landlord. This is why it is prudent to seek financial and legal advice in order to structure your business and prepare it for sale.

Cleaning House

An important second step is to take some time to "clean house" with your business records. Review annual financial statements and assets with your accountant to determine if there are any assets that should not be included with the sale of your business. Do you have a vacation property or motor boat as a business asset? Do family members have leased vehicles under the company's name? It's always a good idea to resolve any uncertainty so that you have a clean set of annual financial statements to present to your potential buyers.

If you are carrying on business through a company, this is also an excellent time to have your minute book checked by an experienced lawyer to see if it should be cleaned up as well. This will make the due diligence process and the closing of any sale go quickly and smoothly, saving you time and frustration in the long run.

Selling Assets or Shares

Most purchasers prefer to purchase assets, rather than shares. Assets can be acquired and the cost can be expensed over the useful life of the assets. For the buyer, the purchase of shares involves purchasing not only the business' assets but also its liabilities. From the buyer's perspective, this brings a longer, more complicated due diligence process with the need for additional tax advice to ensure the deal is structured properly and efficiently.

For owners of small business corporations (SBCs), it is likely they will prefer selling the shares of their business in order to take advantage of their lifetime capital gain exemption (LCGE). The 2022 LCGE for an SBC owner who makes a profit from the sale of their qualifying SBC shares is \$913,630. This means that each SBC shareholder could be able to earn up to \$913,630 in capital gains from the sale of their qualifying SBC shares, tax free.

Financing the Sale of the Business

Sometimes, a business owner will be asked to help finance a portion of the sale of the business for the purchaser. The purchaser will pay a portion of the purchase price up front and ask that the rest of the purchase price be financed from the business operations. This is sometimes referred to as vendor take-back (VTB) financing. It is important that the terms of the VTB financing and the collateral for the financing are appropriate within the overall deal. You will want to make sure that the VTB financing is not excessive and is properly secured with collateral. It is imperative to consult your financial and legal advisors before agreeing to any VTB financing.

Transition Service Agreements

So, you've now sold your shares of the business. However, you may not be finished working on your deal quite yet! Purchasers want to make sure that they will get the most value from their newly acquired business. As the current business owner, you have a wealth of experience and have developed solid business relationships. For the purchaser, capturing and transitioning this enterprise knowledge is a valuable asset for the new team. As part of the acquisition, the purchaser may want you to continue on for one to two years to ensure the smooth transfer of business operations to the new team.

Passing the Baton

Perhaps your goal is not to sell your business to strangers but to transfer it to the next generation. There can be many reasons for this, including ensuring a lasting legacy or to provide the next generation with the opportunity to continue growing the business. At the same time, it's important to structure the transition in a tax efficient manner while allowing the next generation to pay you for the business so that you have the ability to retire. Your lawyer and financial advisors can structure the transition to take advantage of your life time capital gains exemption, while ensuring that the transition of control proceeds at a proper pace.

It is important to engage a lawyer early in the planning stages, especially before you agree to or sign anything. Following these steps and seeking expert business and legal advice will save you time and money in the long run. Settling into retirement and enjoying your financial reward should be a time of joy and satisfaction, not aggravation and worry. Planning carefully and wisely will not only speed the process, it will help ease the transition into your exciting, new chapter!

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