

Business

Tax laws and family relationships often stop succession of business

Family-owned businesses employ 4.5 million Canadians and account for more than 45 per cent of Canada's Gross Domestic Product, according to estimates from the Canadian Association of Family Enterprise. Yet only about 30 per cent of family businesses - no matter how suc-

cessful - continue into the second generation and a scant 10 per cent make it to the third.

Family-owned businesses make up a large part of Canada's economy - yet most don't succeed into the 2nd generation

are capable of managing it. If not, consideration must be given to how long it will take the intended successor or successors to gain the necessary experi-

ence and confidence to take over the helm.

Assuming there are interested and experienced relatives waiting in line, the issue then turns to just how the business can be transferred.

Special attention to tax - The options in creating an estate plan are many and varied. Developing an appropriate plan requires detailed input from those with expertise in tax law, property law, corporate law, family law, wills and trusts, valuations and insurance.

Tax planning needs to be dealt with carefully. The rules change frequently and Ottawa has become more vigorous in trying to maximize taxation revenues.

That's why it's important to consult a tax expert who will ensure that shares of the corporation are dealt with in a tax-effective way upon the death of an owner.

Why is there such a high level of attrition?

The two major roadblocks lie in the minefield of tax law and in the often complicated dynamics of family relationships. Succession planning is critical for the owners and their families if these obstacles are to be conquered.

The key to accomplishing a successful transfer depends very much on the recruitment of skilled outside advisors, in particular lawyers, accountants, bankers and estate planners.

This will become even more important with the general aging of the Canadian population.

Think Ahead

Long-term planning is the usual hallmark of successfully passing a family business to the next generation.

There are two key areas that need to be considered:

The owner's goals - For any succession plan to work,

the owner must make firm decisions about his or her future role in the company.

The owner must decide whether to retire completely, continue on a part-time basis, or maintain active control for as long as possible.

If the decision is to retire, a timetable has to be drawn up and a strategy developed for passing on managerial control.

Some owners feel strongly that the business should remain in family hands. Others are happy to extract the best possible price from the sale of the business and then distribute some or all of the proceeds to their beneficiaries.

The younger generation's capabilities - Often there are some family members who are more interested in carrying on the business than others. Sometimes these family members are already involved in the business and



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Businesses fail because of original owners

Our Advice

- ✓ Start early and put a long-term plan in place.
- ✓ Recruit a team of experts who can look at every aspect of your business.
- ✓ Remember to include your business banker.
- ✓ Be realistic about the younger generation. Is there anyone truly capable of managing the business successfully? Get evaluations from outsiders you trust and listen to them.

Five ways to succession success

Offer the seeds of failure of a family business in the next generation are...

- Involve younger family employees
- Refusing to consider new ways of looking at the business often discourages the development of successors.
- Be open to suggestions
- Some owners refuse to discuss details of the business with anyone - seriously compromising the company's efficiency.
- Consider non-family management
- Sometimes focusing on the career paths of children can limit the contributions of talented non-family members of the business.

...and severe responsibility when the current owner insists on making all the decisions...

there is no real depth of management. By giving other employees responsibility now, you help to develop their management skills and give them a sense of ownership in the business.

□ Don't insist on equality. Extending management opportunities, ownership and control to all children regardless of competence or interest can harm the company.

Fairness can be achieved through other means, such as gifts of cash, life insurance or bequests in the owner's will.

This article was submitted by Royal Trust

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Date: Thursday April 17, 1997
Time: 12:00 - 2:00 p.m.

Join us for Refreshments and Sandwiches from the Village Grocer!!

Location: Edward Jones
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R.S.V.P.: To Kathy at (905) 305-8507
Seating is limited so please don't delay

Speakers: Dave Redwod of TRIMARK
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Agenda: GIC Alternative Investing with TRIMARK MUTUAL FUNDS
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