



CESTNICK

TAX MATTERS

Business owners should plan ahead for life in retirement

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I remember my first job. I worked for my father, who was a small business owner. My Dad said to me one day: “Tim, there are 35 million people in this country. 15 million retirees, 8.5 million students, 10.4 million government workers, and 1 million in the armed forces. That leaves 100,000 people to do the work. Oh yeah, then there are 85,000 in the hospital and 14,998 in prison. That leaves two people – you and me. And you’re not pulling your weight. So get working.”

My father worked hard as a business owner, but he also planned for life in retirement. Today I want to share the key things business owners need to do to prepare for a healthy financial future.

1. Understand the value of your business

Your business may very well be the most valuable asset you own, so it makes sense to understand its value. You can pay a business valuator to do a thorough, detailed calculation, but a simpler and less costly estimate may be all you need. The sale of all or part of your business could be key to the life you want down the

road. And taking steps to maximize the value of your business is always good practice, whether you plan to sell or not.

2. Calculate your cash needs

How much do you need annually to survive? What will this amount look like in the future when you slow down? You may never retire, but you may not be able to work in your business full-time forever. Making ends meet starts with understanding how much you need, whether that’s income from your business or from other assets.

3. Determine your sources of cash

Once you know how much you need, the question is: where is the cash coming from? Most commonly, business owners receive some income from the Canada Pension Plan (you’ll need to take salary as opposed to just dividends from your business in your working years to qualify to collect CPP) and Old Age Security benefits. Also, be sure to maximize RRSP and TFSA contributions during your working years (salary – but not dividends

– will provide RRSP contribution room; see [my column from January](#) for more).

A common problem I see is that business owners often fail to accumulate any additional investments. Suppose you plan to use your business as your “pension fund” by drawing money out of the business, but also want to transition ownership to your kids. You’ll be creating conflicting objectives: on the one hand, your kids may want to reinvest to grow the business while, on the other hand, you might expect them to pay out of the business to support you. Finding the cash you need to make ends meet later in life might best be achieved by selling all or part of your business, to family or otherwise. You’ll need a succession plan, which brings me to the next point.

4. Develop your approach to business succession

The Canadian Federation of Independent Business (CFIB) [published a report](#) last year suggesting that over \$2-trillion in business assets could change hands in the next decade since 76 per cent of small business owners plan to exit their businesses. The problem? Only one in 10 of these folks had a formal business succession plan in place at the time of the survey. You need to plan for transitions of ownership and management. Ownership transition can include selling to others (a family member, partner or employee, or a third-party), giving shares to family members, or winding up the business.

You’ll want to speak with a tax pro about the options, because the tax implications can be different depending on your approach. Keep in mind, however, that you’ll want to take advantage, if possible, of the lifetime capital gains exemption, or LCGE (which can shelter up to \$1.25-million of gains realized on or after June 25, 2024, on qualified small business corporation shares) and the Canadian Entrepreneur’s Incentive, or CEI. This incentive becomes available beginning Jan. 1, 2025, and provides a capital gains inclusion rate equal to one-half of the usual rate on up to \$200,000 of capital gains on qualifying shares in 2025, increasing in increments of \$200,000 each year until it reaches \$2-million. The CEI is available over and above the LCGE.

There’s more to be said about retirement planning for business owners. I’ll finish the conversation next time.

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