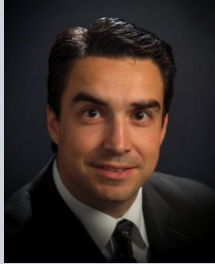


Jason Baba Wealth Management Group

Newsletter



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Selling Your Business - Tax Strategies to Consider

Business Succession Planning involves having an exit strategy when you decide to retire and sell your business. Many business owners in Canada will exit their business by selling to non-family members and this article focuses on strategies that may help you minimize the tax consequences of selling an active business to an outside buyer.

Six Tax Strategies

- 1) If the purchaser is buying the shares of your business, you may be able to claim the capital gains exemption of \$750,000 if your shares qualify. In order to qualify, substantially all (CRA takes the position that this means 90% or more) of your business assets must be "active Canadian business assets" at the time of sale. Furthermore, at least half of the assets must be used in an active Canadian business during the 24 months before the sale.
- 2) If the purchaser is buying the assets of your business, then you will not be eligible to claim the capital gains exemption. As a result, you should consider negotiating a higher sale price to factor in the additional tax that you will incur on the sale of the assets of the corporation and the after-tax sale proceeds that your corporation will pay out to you as a taxable dividend.
- 3) If the shares of your business are sold, then consider reinvesting some of the proceeds in the shares of another active Canadian private company in the year of sale or within

120 days after the year of sale in order to defer some of the capital gains tax on the sale.

4) Residents of Alberta could consider rolling their shares into a qualifying spousal trust prior to the sale. Selling the shares within an Alberta trust may result in some tax savings since Alberta has a low top capital gains tax rate of 19.5%. A cost benefit analysis must be undertaken since there will be professional fees and potential trustee fees to set up an Alberta trust.

5) If you are selling the assets of your business, you may consider paying yourself a retiring allowance from the company prior to the sale. If you had years of service prior to 1996, then all or a portion of the retiring allowance can be transferred to your RRSP on a tax-deferred basis without impacting your unused RRSP deduction limit.

6) Consider using some of the sale proceeds to make a charitable donation in the year of sale. The donation tax credit may help you minimize the tax on any capital gains realized on the sale.

Making plans to sell your business is a very complex issue and you are strongly advised to assemble a team of experts to help you through the process. This should include an experienced tax advisor to ensure you have planned your sale in the most tax-efficient manner, a qualified legal professional to prepare legal documentation and a business evaluator. In addition, consider hiring a business broker to help you find a purchaser.

This is a very brief discussion on this topic. However, we do have a more detailed publication called “The Business Owner’s Guide to Wealth Management” which has many helpful tips which go beyond the scope of this article. Please call us if you would like to receive a copy.



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