



Wealth Management  
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# Life events: Business owner – partnership

## Financial checklist

Being a part of a Partnership can be a very rewarding experience. But, you want to be sure that the Partnership is being managed and structured as efficiently as possible. Appreciating and taking advantage of all of the techniques and strategies available will help to ensure that being a Partner will continue to be profitable and satisfying. Your Advisor can provide assistance and guidance about the efficient operation of a Partnership. Take this opportunity to review your situation and consider asking your Advisor the following questions:

- What is the best way to finance a Partnership?
- What regulatory requirements am I facing as a Partner?
- What should be included in a comprehensive budget?
- What are the implications of hiring employees?
- How can I receive income from the Partnership?
- What sort of insurance coverage is required?
- How will my status as a Partner affect my retirement and estate plans?
- How will I, and the Partnership, be taxed?

## Estate planning

It is always a wise strategy to consider what will happen to the ownership interest you have in your Partnership upon your death. Many factors such as tax will come into play when a Partnership interest is transferred on death and it is very important that there is a plan in place to ensure that the Partnership interest is dealt with efficiently and pursuant to your wishes.

## Succession planning and the partnership agreement

The most effective and efficient method of planning for the death of a Partner is to provide detailed instructions in the Partnership Agreement. This agreement will be legally binding and can ensure the continuation of the Partnership after the death of a Partner and meet the objectives of the deceased as well as the surviving Partners. The agreement may allow for the replacement of the deceased Partner by another individual but this would have to be with the agreement of the other Partners.

For Partners wishing to have their interest in the Partnership sold upon their death, it is a common strategy to institute a Buy/Sell Agreement with the remaining shareholders. Creating a formal Buy/Sell Agreement achieves several goals. First, it ensures that there is a ready market for the Partnership interest, finding an outside buyer for a Partnership interest can be difficult and you want to ensure that your estate and beneficiaries receive fair value in a timely fashion. Secondly, it ensures an orderly transition for the remaining Partners. Where the remaining Partners have the right of first refusal to purchase the Partnership interest, they can maintain control of the Partnership on their own terms and not have to deal with the potential problems and complications of having a new 'outside' party becoming part of the ownership structure. There are various ways to structure and provide funding for a Buy/Sell Agreement and your Advisor can provide you with further details.

### Retirement planning

If you are a Partner you should be considering how to transfer your Partnership interest when you retire from the business. Many factors will come into play when a Partnership interest is transferred and it is very important that there is a plan in place to ensure that the Partnership interest is dealt with tax-efficiently and pursuant to your wishes. In addition to relying on the interest in your business to generate the retirement income you need, you should also consider other strategies to help you save for your retirement.

### Succession planning and the partnership agreement

The most effective and efficient method of planning for the departure of a Partner is to provide detailed instructions in the Partnership Agreement. This agreement will be legally binding and can ensure the continuation of the Partnership after a departure while meeting the objectives of all the Partners. The agreement may allow for the replacement of the departing Partner by another individual but this would have to be with the agreement of the other Partners.

For Partners wishing to sell their interest on retirement, it is a common strategy to institute a Buy/Sell Agreement with the remaining Partners. Creating a formal Buy/Sell Agreement achieves several goals. First, it ensures that there is a ready market for the Partnership interest as finding an outside buyer for a Partnership interest can be difficult. Secondly, it ensures an orderly transition for the remaining Partners. Where the remaining Partners have the right of first refusal to purchase the Partnership interest, they can maintain control of the Partnership on their own terms and not have to deal with the potential problems and complications of having a new 'outside' party becoming part of the ownership structure. There are various ways to structure and provide funding for a Buy/Sell Agreement and your Advisor can provide you with further details.

### Other retirement savings

As a Partner, you are not an employee of your company so you can't participate in company-sponsored savings programs such as Registered Pension Plans and Deferred Profit Sharing Plans. While realizing value from the Partnership may be a substantial part of your retirement strategy, Partners can and should look at other individual savings mechanisms such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSA's). The tax-assisted savings in these plans will add to retirement savings and should be incorporated into an overall long-term financial plan. Your Advisor can put a comprehensive retirement plan in place for you that takes into account all potential sources of income.