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Life events: Selling a business

Financial checklist

Selling your business will require a good deal of planning, not just for the sale itself, but also for your new circumstances after the sale. The sale of your business will affect not only your immediate situation but also your retirement and estate plans. Consider asking your advisor the following questions when contemplating this important step:

- What is involved in selling my business on 'the open market' as opposed to transferring it to a family member?
- What sort of professional assistance will be required?
- What are the implications of selling the assets or the shares of my company?
- How does a Section 85 rollover work?
- What sort of information should I be collecting?
- What will be the tax implications of this sale/transfer?
- How should I invest the proceeds?
- How will my financial plan change now?
- Are my insurance needs different?
- How will my wealth transfer plans change now?

Professional advice

When selling your business or transferring it to a family member, you are going to require professional assistance. There are many aspects of a sale that need to be considered. One factor that is always present is the value of the company. Even when a transfer is being made to a family member, tax law will require an accepted valuation. Working with a qualified business valuator is strongly advised. In Canada, the Chartered Business Valuator or CBV designation indicates that the person is professionally trained to make business valuation decisions. Business valuation is a multidisciplinary field that requires expertise in finance, tax, accounting, and law. Most large accounting firms have departments that deal with business valuation or else you can contact the Canadian Institute of Chartered Business Valuators (CICBV).

Along with a qualified business valuator you will probably require the services of a lawyer who is trained in business transition issues and perhaps an accountant familiar with the field. Your advisor may be able to provide referrals to these experts.

Selling assets of selling shares

If you own an incorporated business you will have to determine whether you will sell the shares or the assets. One of the aspects of determining a fair market value is that the parties should be acting at arm's length, which means that both parties will have competing financial/economic goals. These competing interests certainly come into play when considering selling assets or shares. Generally speaking, if you are selling a business you will prefer to sell shares. If you are buying a business you will typically prefer to buy the assets.

Capital gains—When you sell shares of a corporation, there may be capital gains incurred on those shares. Capital gains receive beneficial tax treatment compared to many other sources of income. If assets are sold, the resulting tax may be substantially higher.

Under tax law, where shares are being sold and the payments are being made in installments, the recognition of capital gains may be deferred and spread out over up to five years, which is tax advantageous.

In addition, the sale of shares of companies that qualify as Qualified Small Business Corporations will be eligible for the $813,600 Capital Gains Exemption (CGE). You may be able to exempt this total amount from tax over your lifetime.

Tax deductions—When you sell assets, they are restated to their current fair market value, which is often higher than your cost. In this case the higher asset value will result in higher tax deductions in the future through depreciation or Capital Cost Allowance. This differs from a share purchase, where the purchaser assumes the same cost for the assets as the seller, usually reducing the amount of future tax deductions.

Choosing assets—If you sell shares, the purchaser assumes all of the assets and liabilities of the company. However, if you sell assets, the purchaser can choose to buy only the assets that fit with his objectives and plans.

The decision to sell assets or shares will be determined through negotiation. For example, if you are selling your company you would typically ask for a greater selling price if you are selling assets since you may be forgoing the capital gains exemption.