
A plan is the best way to ensure that your business ends up in the right hands and continues in the right direction.

Why a succession plan is important for your business

If you're an entrepreneur, you've probably worked very hard over the years to build your business — and dream of the day you can step away from work and enjoy retirement.

The cornerstone

For many business owners, a succession plan is a vital part to protecting your business as you implement your business transfer strategy. It outlines, in detail, how your business is to be transferred to another owner-operator. When done properly, a succession plan can prevent potential difficulties and increase the chances that your business will continue to thrive.

Regardless of whether you're transferring the business to an existing partner, senior executive, or family member, a plan is the best way to make sure it ends up in the right hands and continues in the right direction.

This means that a succession plan is not something that can be done hastily or at the last minute. You need to carefully consider who should run the business when you leave, then train your successors, plan your exit, and decide how to transfer business assets. Ideally, a succession plan should be formulated years before you retire.

Plan carefully

Here are some of the considerations that need to be addressed:

- ▶ Decide who is going to take over your business and its assets. Will it be family members, business partners, or perhaps a member of your management team?
- ▶ If you decide on family, determine which family members are interested in, or capable of, running the business. Talk it over with your children and spouse to avoid family conflict.
- ▶ If you're not the sole owner of the business, what arrangements must be made with partners and shareholders?
- ▶ You need to make plans for the possibility of an untimely death: What happens if you die before you're able to transfer the business?
- ▶ Decide when you will retire.
- ▶ Explore and determine the most tax-effective way to transfer business ownership.
- ▶ Fully examine and consider available options for transferring ownership, including an "estate freeze" — a way to freeze assets at their current value and defer taxes on future growth until your heirs transfer their shares.

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Legal agreements

These may include provisions governing who can assume your portion of the business and under what conditions. For example, they may give existing shareholders the right to buy you out. You may be able to institute a shareholder agreement with other shareholders that facilitates your succession goals.

If you're in partnership, pay particular attention to agreements that are already in place, including "buy-sell" agreements.

Once these and other issues are considered, detail your plans in writing. Your succession plan should establish a timetable for key events: training successors, your retirement date, and transfer of ownership. It should also outline your "strategic vision" — how you see the company being operated after you leave, and the management roles individuals will play in the company.

There is help

The road to your completed succession plan is complex. That's why it's important to enlist the help of professionals. You may need to work with management consultants who specialize in succession planning, as well as tax professionals and lawyers. You should also consider how your succession plan ties in with your estate plan. For example, if you pass along the business to one child, how will you fairly compensate your other children?

Your Small Business Advisor can refer you to one of our internal specialists, who can help determine the impact that a succession plan will have on other aspects of your financial life.

And once it's in place, review your succession plan regularly. This is especially important when there are changes in your family or business circumstances — for example, marriage or divorce, a birth in the family, a material change in the business or its ownership structure, or changing tax and business regulations affecting the business. ●

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