Addressing Barriers to Succession Planning By Leveling the Tax Playing Field to Allow For More Family Run Businesses to Stay in a Family

DESCRIPTION

Currently, there is little incentive through the Canadian tax system for family run businesses to be sold to another member of a family. According to a recent survey, 72% of business owners intend to exit their business within the next 10 years, with over $1.5 trillion dollars of business assets to be transferred to a new generation of business owners.[1] The importance of succession planning and the creation of a business exit strategy should not be underestimated.

BACKGROUND

To ensure business owners successfully accomplish the transition of their business, it is essential to have the necessary tools and resources at their disposal. As the current Federal Income Tax Act reads, if a business is sold to an unrelated person, it is considered a capital gain. However, if that same business is sold to a family member the difference between the sale price and the price originally paid is considered a dividend. The challenge is that capital gains are taxed at a lower rate than a dividend. Therefore, the dollar difference between the sale to an unrelated person versus a family member can be significant and reduce the chances of a business being passed down to the next generation.

Small businesses are the foundation of our country. 98% of businesses in our country have less than 100 employees and according to Innovation, Science and Economic Development Canada employ 48.3% of the labour force, and account for 40.7% of the GDP. That represents 1.2 million businesses across Canada, a majority of which are owned by baby boomers who are preparing for retirement. A BDC report released in September of 2017 shows, that 52% plan to sell their business to someone outside their family, 22% plan to wind down the business and sell the assets, and 26% indicate that they would sell to a family member.[2] The BDC report also reveals that by 2022 41% of business owners plan to exit their business.

Various studies have proposed that only 10% of owners have a succession plan in place. A succession plan helps a business owner deal with complex topics such as:

- Tax issues
- Required qualifications and skills of successors
- Legal issues
- How the successor will be trained/prepared for the role and
- Mechanics for the purchase or transfer

Some of the top barriers to succession planning include but are not limited to:

- Finding a suitable successor

[1] The Coming Wave of Business Transitions in Canada https://www.bdc.ca/en/about/sme_research/pages/coming-wave-business-transitions-in-canada.aspx Retrieved on March 29, 2019
[2] The Coming Wave of Business Transitions in Canada https://www.bdc.ca/en/about/sme_research/pages/coming-wave-business-transitions-in-canada.aspx Retrieved on March 29,2019

- Valuing a business
- Financing for the successor
- Access to cost effective professional advice

Since 2013, several tax measures have been introduced to assist Canadian business owners with the transition of their businesses. One of these measures is the Lifetime Capital Gains Exemption (LCGE) which is important because for many owners, the sale of their business is their retirement income. The Lifetime Capital Gains Exemption (LCGE) is a federal tax deduction that can be claimed against taxable capital gains and is indexed to inflation. Currently, for a small business the deduction is applied to the capital gains on the sale of qualified small business corporation shares.

It would be prudent for the federal government to focus on stimulus for succession planning for small business that addresses the various business structures while keeping in mind that vendors' general desire to use the Federal Tax Act provisions to minimize tax on the transition. Under the current tax system there is no incentive to sell a business to a family member and this should be cause for concern to the Canadian economy. This is the wrong message to be sending at a time when entrepreneurship is on the rise. With the number of businesses expected to transfer hands it is imperative that all options available to sell a business are success driven and, on a level, playing field.

RECOMMENDATIONS

That the federal government:

1. Adjust the Federal Income Tax Act so that the sale of a business to a family member is treated and taxed the same or lower as if the purchase were by a third party.
2. Use existing technology platforms to enable the matching of prospective sellers and buyers of SMEs, particularly family-run businesses
3. Expand the scope of existing small business financing programs to incorporate succession planning as a legitimate reason for business financing.
4. Increase the Lifetime Capital Gains Exemption for Canadian-Controlled Private Corporations (CPCC) amount to $1 million for all SMEs.

Applying Accelerated Capital Cost Allowance Fairly to All Economic Sectors

DESCRIPTION

The Chamber of Commerce has consistently delivered the message to federal and provincial governments that accelerated capital cost allowance (ACCA) needs to remain in place as a key component of a strategy to attract new investment in the Canadian economy. In support of an enhanced value-added strategy, it is critical that ACCA be broad-based and apply fairly to capital investments in all economic sectors instead of a targeted few.

BACKGROUND

Accelerated capital cost allowance (ACCA) has been a feature of taxation in Canada for decades to