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ESTATEPLANNING

You Sold Your Business

Now what?

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You worked for years to build your business and then you sold it when the time was right. Daily rituals have changed irrevocably as you embark on the next chapter of your life, no longer unlocking the doors every morning, chatting with staff, pumping up your sales team and a hundred other things before locking up at the end of the day. Life has certainly changed, and you may feel a bit uncertain about your financial future.

Hopefully, the sale of your business garnered the financial rewards you wanted. Your family needs your help and you've have been thinking for some time about how to pass on your wealth to your children and grandchildren in the most tax-efficient way possible. Regular TaxLetter® readers already know that choosing to be charitable means the tax department will get less of your money, so it just makes sense to build a charitable legacy into your plans while demonstrating philanthropic values to your family.

OK, but how do you do this?

First, be prepared for what could be a great adjustment. Recognize your new reality as a retiree and take a deep, long breath. If you had been building up your business for decades, not getting up every morning to go to work can cause major disruptions and create a void that you hadn't expected.

Indeed, many entrepreneurs find the first 12 months after the sale to be a period of uncertainty, as they consider what to do with the sale proceeds and adjust to how they will move on with life. The more a business owner is tied to his/her company or associated with its brand, the more difficult it is to make the transition.

Then there are those who have sold their business and stayed on to work for the new owners. Coming in to work every day as an employee could be tough after years of being the boss. But having the sale proceeds in your bank account eases the adjustment (pain) of listening to the new person in charge.

Many entrepreneurs and business owners build other, parallel assets like real estate, private equity and investments. If someone in the business was looking after those assets for you, you may be forced to seek a trusted professional to help you.

Experts say a good transition is a process, not an event, and should take place over a few years to allow entrepreneurs to think about what they want to do and how to go about it. According to a recent study, it takes at least two years for 66 per cent of post-sale entrepreneurs to make the transition.

When it comes to dealing with the financial aspects of your future, a smart first step is sitting down with an experienced professional planner to develop a financial plan and estate plan. This is the time to get personal, determine your needs and set priorities in retirement with a new plan to help accomplish your goals.

A study by RBC Wealth Management last year reported that just over half the people canvassed had a will in place.

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One in three had done nothing at all to prepare for passing their wealth on to the next generation.

What To Do With the Proceeds

For many entrepreneurs, the one-year period following the sale is the time of greatest uncertainty, as they consider what to do with the proceeds from the sale and adjust to what are potentially markedly different professional and personal circumstances.

According to one survey, many entrepreneurs who sold their businesses invested at least some of the profits from the sale within the first 12 months; others put the money in the bank for a year. About 20 per cent invested the funds in a new business.

After you have set your retirement objectives, evaluated your risk tolerance and calculated how much income you will require every year, the sale proceeds can be invested confidently in a well-planned asset mix with appropriate rates of return and tax considerations.

The next step in the process is to translate your plans into a solid number -- how much you will need to fund your retirement.

Just how much will you need?

Much has been written about how much money is needed for retirement. Estimates range from 46 per cent to 70 per cent of your pre-retirement income. There is no cookie-cutter solution, because all of it depends on you, what you want to do in retirement and how you want to spend your money.

When it comes to their financial plan, people in retirement (including those who didn't have a business to sell) are sometimes too risk averse to invest in anything other than ultra-conservative, low-yield and highly-taxed assets like GICs. This approach, they reason, will provide much-needed stability, limit downside risk and deliver reasonably consistent rates of return overall. Unfortunately, the net after-tax returns are paltry.

In these days of low interest rates and high taxes, you might want to consider alternative investments in unique financial instruments that continue to enjoy special tax-free treatment under Canada's Income Tax Act, namely Life Insurance products.

These products are worth considering:

- ☛ Annuities
- ☛ Insured Annuities
- ☛ Segregated Funds
- ☛ Permanent Life Insurance
- ☛ Joint and Last-To-Die Life Insurance
- ☛ Long Term Care Insurance
- ☛ Best Doctors® Insurance Global Medical Care™

A Sound Plan Needs Professional Help

Comfort is a key consideration in any investment plan. The last thing you need to do is stay awake nights worrying about the soundness of your investments. Managing your own business was a full-time job at which you excelled. You may not be quite as astute, or successful, in your new role as portfolio manager presiding over the proceeds of your business sale. Consider engaging professional help to manage that hard-earned money.

Many people believe that they can sell their current home, especially in this over-heated housing market, and downsize and use the difference for investing. But that all hinges on where you live, your preferred lifestyle and your general financial position.

It's quite possible that your current estate plan, including your will and insurance arrangements, don't match your new life. The life insurance you bought in the past may not be appropriate today. I compare this to having old financial furniture that doesn't fit your current architecture.

A proper will puts you in charge of what eventually happens to your assets. You can direct who gets what and when. In many provinces, if you die without a will, the courts alone will decide how to divide your assets. Your spouse and children will have no say in those decisions.

A recent study of wealthy Canadians revealed that only one in four had a full strategy in place for transferring their wealth to subsequent generations. One in three said they hadn't done anything in that regard. Developing an estate plan while you are alive will preserve and protect your assets and direct how they get distributed upon death. Most importantly, your plan will maximize the size of your estate by incorporating strategies to minimize the taxes that can quickly erode your financial legacy.

Former business owners should check out products like prescribed rate loans to help in income splitting to reduce the overall family tax bill. You may want to consider an alter-ego trust that allows you to defer tax of capital gains until the assets are sold or you pass away. You must be 65 or older and the sole beneficiary of all income or capital of the trust during your lifetime. These trusts also avoid probate and legal fees on death, provide potential creditor protection and enable the transfer of assets to the trust without being taxed on capital gains.

Be Charitable

Regular TaxLetter® readers already know that choosing to be charitable means the tax department will get less of your money, so it just makes sense to build a charitable legacy into your plans while demonstrating philanthropic values to your family.

Several opportunities are available. The CPP Philanthropy™ strategy, explained in my October 2017 TaxLetter® article, allows you to use your monthly CPP benefits to fund a large life insurance policy whose proceeds will benefit both your estate and the charitable causes you care about. Many options are available to save on taxes now, or later, when your estate is being settled.

Planning to live to 100? No problem (almost).

As a society, we are all very fortunate to be living longer. But from a financial perspective, we need much more money to live longer. Many financial planners make their recommendations based on a life expectancy of age 90. What happens if you live to 100, where's the money coming from to cover those unexpected years?

As we age, our topics of conversation with friends and family also mature to include health issues, medical appointments, medications and treatments. Naturally, we become concerned about looking after ourselves. There is a 30 per cent chance you will need long-term care at age 65 and a 50 per cent chance by age 75. Going into a long-term care facility easily costs $10,000 per month. Staying put in your own home gets very expensive if you require 24/7 care. Many people mistakenly believe that our overworked universal health care system will cover the health costs associated with eye care, drugs, physiotherapy and nursing homes. Long Term Care Insurance is an inexpensive defensive strategy to preserve your capital, and some policies feature a Return Of Premium (ROP) option that returns all of your premiums if you don't make a claim.

You have gone through a major change – you've sold the business that took up a huge part of your life. Just as you made careful decisions while building, growing and then selling your company, this is the time to consult a professional advisor to guide you through the process of making thoughtful decisions for the rest of your life. Give us a call. We would be more than happy to help. ❑

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.
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