

0:02

Okay. Okay.

0:06

What are we talking about? I think Oh, we have to start.

0:08

We have to start like fully over. Yeah. I know. No. No.

0:11

Okay. Let No, let's just start. Well, yeah,

0:13

we'll start over again. We'll see what We didn't do much in.

0:16

No. Yeah. It was just a getting us getting

0:19

warmed up. Okay.

0:21

You look tired at this time. 3:00.

0:24

Yeah. I'm usually very good. Okay. Yeah. Go

0:28

ahead. So we were talking about like So let's

0:32

talk about the process of what does it look like for someone who

0:38

wants to think about um selling their business

0:44

and what are the things that logistically need to happen

0:47

um even if you think about a future exit.

0:51

Yeah. Well, I think it's important to say that an exit is not a single time.

0:57

It's not one single event. Um there's it's multiple years sometimes multiple

1:02

years in the making. Um from a founder perspective, sometimes you don't even

1:08

have a buyer and you're looking for a buyer, right? And you're you're looking

1:12

to see and even before that you're looking to see if your business is can

1:17

sell, right? Like is someone is someone willing to pay premium price for my

1:22

business? What's the value? What even the value is?

1:24

Yeah. Exactly. And then you know is there value to it? What am I selling?

1:29

And to whom I'm selling it, right? Like is there a buyer out there that's

1:33

willing to pay that price? That can take so much time.

1:36

And even thinking about if you are going to sell it, how are you going to offload

1:40

all the operations? Is someone going to take over? What do you need to do? What

1:45

things do you have to put in place for that to even happen? Right. Like there's

1:49

a lot that happens beforehand. Yeah. Yeah.

1:53

And then usually they approach an advisor looking for some advice when

1:58

they're selling. Yeah. Typically, you know, selling even

2:03

into the future, you're just having a thought about it. It's not it's it's a

2:06

lonely space to begin with. Yeah.

2:08

Uh you can't freely talk about it to your people, your employees,

2:13

um because they might interpret things differently and might have job security

2:17

issues. And so, you know, when you're making these types of decisions, you

2:22

have to uh do a lot of things in the making over a period of time and

2:27

transitioning to it. Uh oftentimes you have to um uh hire

2:33

uh strong um team members or in your in your in your company staffing that's

2:40

going to be slowly taking over what you do and then really removing yourself out

2:45

of the process. So then it makes a business case for somebody else who

2:50

might buy you out. Then they might see some value to it like hey the business

2:56

runs on its own. Yeah. Whatever income it makes

3:00

it doesn't require um the current owner to be so much part

3:06

of the business all the time. Yeah.

3:08

So that is like you said it's right like I mean it's process.

3:12

Yes. It takes time to figure things out what needs to be done, but oftentimes

3:16

you have to see, well, is it even a sellable business and how do you even

3:20

ascribe a value to it? Exactly. And that's why I think that's

3:24

when some owners approach us looking for or their advisor is looking for some

3:28

advice on that standpoint. And then when they start looking for a buyer or find a

3:34

buyer, there's a lot of negotiations that take place before anything is

3:39

signed just to just to see if there's even interest. And those conversations

3:44

can take time because there's a lot of questions that come up.

3:46

It takes weeks, uh, months, sometimes multiple people,

3:51

uh, you try it out with and, uh, you know, it's like a marriage,

3:56

so to speak, right? if that person is a good cultural fit

4:03

forward. Yeah. And then from the buyer

4:09

perspective, there's a lot of due diligence that occurs because they're

4:12

asking a lot of questions. Yeah. About the operations and what's

4:15

happening. I guess we should talk about like what

4:17

type of buyers are out there. Yeah.

4:19

Um I see it like there's a succession that can happen with from within.

4:24

Yeah. You can have a succession from uh like a buyer could be a key employee who

4:29

you can um you know coach, train and eventually have them take over the

4:34

business. Sometimes it's also succession within

4:37

the family. So if you have um a child that's

4:41

interested in what you do and you want to have them take over the reigns of the

4:45

company, that's like another way. What other buyers have you seen? And

4:49

yeah, externally I suppose if it's not

4:51

externally. Yeah. If it's if it's externally, it could be someone you've

4:55

worked with in the past. Um, that's maybe buying you out, you know, a larger

5:00

accusation in that way. They're it could be it could be someone

5:05

unrelated entirely that you don't even know. And then I think that's when all

5:08

the due diligence questions come up a bit more because they're trying to

5:11

figure out if this makes sense for them. Um, but yeah, how about you? What else

5:16

have you seen? We generally see like there's um two

5:20

types of buyers that are external. Sometimes it's a competitor who is

5:26

strategically trying to grow uh by buying out

5:30

the you know others in the same market especially if the market is very

5:34

saturated where there's too much competition and

5:37

where what you do um and the only way to grow is like not starting another

5:42

um business similar to it because it takes time to grow it. So sometimes

5:46

competitors will try to grow by acquisition. Um then so that could be

5:51

like a strategic buy for somebody. Yeah.

5:54

Uh other times it could be like a you know a group of investors who think this

5:59

is a good return on investment. Mhm.

6:01

And they might sometimes form a a fund so to speak and we call them you know

6:07

like uh private equity groups.

6:10

Yeah. where um these private equity groups are really, you know, an

6:15

alternative investors who are not investing in public markets like the

6:20

public stocks, bonds. They're looking for something a little bit more riskier

6:24

perhaps. Yeah.

6:25

And you know, they can they can form a consortium

6:29

and u put some funds together and then look out for some businesses that might

6:34

be that might be good targets for them to

6:38

make return on investment. Yeah, but each each buyer has their own um way

6:44

of how they continue business, right? Like if it's a competitor that's buying,

6:48

well, they might be looking to see, okay, well, I know the business. I'm in

6:52

this business. So, they can literally take over very

6:55

quickly. Yeah. And integrate their operations.

6:59

Yeah. They can integrate and you know, integration happens uh over time.

7:02

Yeah. They might remove the existing staff and

7:05

like uh try to look for efficiencies.

7:08

Yeah. That happens in that happens a lot in

7:12

accounting firms too. Yeah. Some of the accountants get acquired by bigger

7:16

accounting firms and then they integrate them in. So that's like a

7:20

a good example. Uh but um it really depends on what the

7:26

seller is interested in. If they want a quick sell then a

7:32

competition acquiring you is a a better uh fit sometimes.

7:39

Because it doesn't take long for a transition to happen for someone to take

7:44

over the operations. Generally.

7:47

Yeah. Generally because I feel like if you're going to do a succession plan

7:50

within the family or within a key employee, there's a period of time where

7:54

you're transferring knowledge and you may stay back right during that

7:58

transfer. Yeah. Um which

8:01

can take a lot of time to fully transition out and also in getting paid,

8:05

right? like um sometimes you have these deals within the family or within key

8:10

employees where you're getting paid over a longer period of time.

8:15

Yeah. Versus if you're selling to a competitor

8:18

that might have the capital to just buy you out right away.

8:20

Yeah. Yeah. And you know uh I find that the the founder who's selling out um

8:27

they sometimes have uh you know if somebody really wants to retire then

8:33

they're looking for a buyer who will completely take over less painful

8:36

transition is quick. Yeah.

8:38

And and and you know they can be out or um other times when they're looking to

8:43

sell it's like they're looking for growth. um they want to scale their

8:48

business by uh offering their business to let's say a private equity firm

8:54

who will want you to stay in. Yeah.

8:56

But allows you to cash out some of your equity now

9:00

and then you're not really retiring but you become their you know a manager of

9:06

the company now the private equity firm owns. So like you don't really get out

9:10

or transition out that fast. They typically

9:13

want to keep you on want to keep you. Yeah. Like private equity firms when

9:18

they're acquiring you, right? They want the businesses to run as they were

9:22

running because they're more interested in return on investment.

9:26

Yeah. Generally speaking, and then they'll

9:28

want the existing owner to stay on and run the business for them because they

9:31

don't know anything about the business. Sometimes they might be like they're not

9:34

competitors. They don't have the knowledge of the industry sometimes.

9:37

Yeah. So it's a different um ball game and then you have to be uh strategic as

9:43

to what is aligning with me as a seller or a founder and what are my intentions.

9:48

Yeah. All to say that even figuring this out when you start the process you might

9:52

not be thinking about all this but as you're entertaining different offers

9:56

these things come up. You learn a lot.

9:58

You learn a lot about what you really want. Um which takes time.

10:02

It takes time to what you really want. What you're okay to give up. Um

10:07

sometimes founders are tough to um you know when there's other owners get into

10:13

the you know ownership of the company now they're not the lone wolf.

10:18

Yeah. Right. Now they have they don't have the

10:20

same autonomy anymore. Mhm.

10:22

Yeah. Like you said there's no they don't call the shots anymore. Right.

10:25

Yeah. Or generally. So

10:27

generally. Yeah. So they have to be okay with the fact

10:29

that they um if they're no longer the owners and

10:33

they may not want to stay at all. Yeah. They want maybe a more clean smooth

10:37

transition just to be completely out. Yeah. So like the buyers can depend.

10:42

You could look for a particular type of buyer which is more suitable with your

10:45

intention. Yeah. I think it's important to do that.

10:48

I think that's something that everyone should think about before they're even

10:51

exiting or entertaining an exit. It's a lot of things to think about upfront.

10:56

Yeah. Okay. So let's say we found a buyer,

10:59

right? How does that look? if you could maybe talk about what you've seen, what

11:04

the process looks like. Uh gen generally, you know, very

11:07

commonly the buyers are usually represented by a broker. Usually a

11:12

broker, you know, there are all sorts of buyers on the market and they have um uh

11:18

they will engage somebody to look for businesses that are selling.

11:23

Yeah. and they help meet the buyers and seller and then they're

11:28

going to facilitate the transaction and be helpful along the way

11:33
uh to make a smooth transaction. So you know anytime uh a buyer has found a
11:39
particular prospect u buyer generally wants to start negotiating or giving
11:45
them an offer. Yeah. Um, if it's an unsolicited offer,
11:48
meaning seller wasn't selling, they just thought this particular person might
11:53
sell, there's a whole different process of like giving them an offer, seeing
11:59
what their reaction is, whether or not they're even looking to sell. That's a
12:04
different thing. Yeah.
12:05
And then if they're serious about it, that can sometimes trigger people from,
12:10
you know, start even thinking about it. when an unsolicited offer comes and
12:13
like, oh, this is too good to be true. Maybe seller becomes serious about
12:17
thinking along those lines because they may not even be aware that
12:20
there was this market or I'm going to get paid X amount. Yeah.
12:23
And now they're like, "Oh, this looks nice.
12:25
Yeah, this looks like well, I'm about to exit now."
12:27
Yeah. Yeah. But if it's um a buyer uh if it's a seller that's actually looking
12:33
for a buyer then it's a different way of uh approaching it because they may have
12:40
engaged their own broker. Yeah. who takes them to market and
12:43
almost like uh creates a bidding environment where they put out a a sales
12:49
pitch deck. Um um and uh that marketing material that they put together, you
12:56
know, talks about all their um you know, what business it is, what the financial
13:01
metrics looks like, how much money does it make,
13:05
um how many employees does it have, what type of industry they're in,
13:09
yeah, what type of growth prospect this
13:11
industry is experiencing, and how does it compare this particular business on

13:15

average? Like is it doing performing better than industry average? Is it

13:18

doing you know so they it it marks them it markets them in a positive way.

13:24

Yeah. And then it also says well the buyer's

13:26

looking for either a purchase price of X. So if you're interested you have to

13:30

offer that and then and then take it from there. Right. Then the buyer knows

13:35

okay if I need to be considered they're looking. It's like buying a house.

13:39

It is. Yeah. You know you list a house on MLS. It's a

13:42

bit eas It's a bit more complex than buying a home, but it but yeah,

13:46

you're thinking about it in the same way.

13:48

Yeah. Like the buyer has put out an offer that if somebody were to give me

13:53

that offer, I will sell. Yeah.

13:55

And then uh the buyer comes through with the same offer, then I think uh

13:59

negotiations are not that Yeah. I think even prior to that,

14:02

sometimes there's conversations that take place where you see if this is a

14:05

good fit like you said. Right. I think that happens in the due

14:07

diligence piece, right? like they have to once they

14:11

start to even consider that um we're aligned on the purchase price or the

14:16

economics then they can start to see well does it

14:19

really do what they're saying? Yeah.

14:21

Um does the financials I mean well there's a whole due diligence process we

14:26

can talk about. Yeah. But it really is a a little bit of

14:30

courting of um depending on who's more interested

14:35

and then there's negotiations generally do happen um if the purchase price is

14:40

not um is not what they're willing to pay.

14:43

Yeah. And then it's also like how many other

14:47

others are interested, right? So they might have a bidding round where like

14:51

okay, you put your offer and then they'll pick the best.

14:54

Oh yeah. they're they're going to pick the best based on various things,

14:57

purchase price being one of them. Yeah. But yeah, if there's multiple offers

15:01

being entertained, then Yeah. And offers themselves also can

15:04

vary differently, right? It may not be just the the fact that

15:08

it's the what they're willing to pay. Sometimes they bring in other variables

15:12

that become equally uh important. Um not just the purchase price, but sometimes

15:18

they say, "Well, you need to stay on in the business for x amount of years or

15:21

months or weeks." Um and then um so that could be a deal breaker for somebody is

15:27

like if somebody's looking for a quick exit, they may not want that. They may

15:31

look for a buyer who is willing to just buy, give them a very short transition

15:35

and walk away. Um these things can play out. Sometimes the offers could be along

15:41

the lines of I'm not um uh it's about like um that they're

15:48

willing to accept uh the purchase price and how and when

15:53

they're being paid. Yeah. So the payment, when are they

15:56

being paid? When are they being paid?

15:57

Multiple different ways to structure that.

16:00

Yeah. Based on price. We I think we saw a deal just not too

16:04

long ago, right? like where um if you're getting all cash on closing, great.

16:12

Mhm. But how many times do we see that?

16:14

Not often at all. No. They'll say, "Okay, we'll pay you 5%

16:18

as a deposit." We'll give you uh maybe, you know, 50%

16:24

on closing and then rest could be like

16:27

over time based on different contingent expectations. Like it could be different

16:32

contingencies, different earnings that you have to meet in order to get paid.

16:37

Yeah. So I don't think a lot of sellers

16:39

sometimes financing is a thing too, right? Like

16:41

the buyer has put out a bid but like they put a financing condition.

16:45

Yeah. And then how long that financing

16:47

condition takes that could string someone along for a long time. And like

16:51

we've seen deals where you know we worked on a deal where um you know a CEO

16:56

wanted to buy out the company and uh had a very promising private

17:01

equity firm who wanted to back them and I think the deal went on for one

17:07

year before they finally figured out the buyer figured out that this CEO will not

17:12

be able to arrange for financing and then the deal fell apart.

17:15

True. Yeah. But we were so far along in doing all kinds of things but just that

17:19

the money was just never came through. Yeah.

17:22

Right. So that was unfortunate.

17:24

That's a very unfortunate event. Right. But it can happen. Yeah.

17:27

Yeah. Especially if it's happening from within and you know the the owner really

17:31

wants to really trust that CEO that look, I trust this person. Obviously

17:36

they're running my business. They know a lot about my business.

17:39

They're the executive of my team. But if the money never comes through, then you

17:43

may have let go of other offers. um in the meantime while you're waiting

17:48

for this one to come through. Yeah.

17:50

So, I think financing is such a huge condition in any market.

17:53

Yeah. That um if you know the buyer has the

17:57

money, I think, and you're looking for a quick close, uh they may not be offering

18:01

you as much, maybe they're 10% lower, take it because you know you want the

18:06

cash and just to be done with it and exit and retire if that's

18:11

such a psychological game, right? And that's only at the beginning. Like

18:14

this is all just the beginning. Yes.

18:17

Of the process of you getting to a place where you can then say, "Okay, now I

18:22

have a buyer. I think we agree on the terms of what are they buying,

18:29

when are they buying, when are they going to pay me,

18:33

and what is my involvement after they bought out?"

18:37

Yeah. Right. And if all these variables work

18:41

out for you, then I think you have a good starting

18:46

point to even have logistical uh point of putting an offer that gets

18:52

signed. Yeah.

18:53

You know, maybe you can walk walk me through like the letter of intent and

18:58

other things that you see. Yeah. Yeah. So after that

19:01

once we've you know gotten to that point and you know some negotiations have

19:07

taken place. Yeah.

19:08

Then you have that initial letter of intent which is just an intention to

19:13

purchase. Yeah. It's a nonbinding

19:15

it's a non-binding contract just to show that you're interested in buying

19:20

and you can start your due diligence. And I think at that point is when some

19:26

after all this has happened that clients reach out and say hey we're

19:32

looking to sell in and that's an interesting

19:35

sometimes in 30 days and I think that's when we're notified

19:39

um when you know there is that letter of intent.

19:42

Yeah maybe let's let's break it down a little bit more in terms of what is a

19:46

letter of intent um what is it meant to do? What type of

19:51

things is it does it usually mention? And then we can talk about more like,

19:55

you know, practicalities of like when we usually get in.

19:58

Yeah. Right.

19:59

Yeah. Typically what I've seen is like it it lists out um who's purchasing and

20:05

who's selling, right? And then

20:08

what are they buying? What are they buying? Um is it shares?

20:11

Is it assets? You know, is it a combination of the two?

20:15

And then what is the purchase price? Yes. Right. And how are they getting

20:19

paid? Yes. When when? How? Um based on what?

20:24

Yeah. Um it kind of lays out the deal terms at

20:26

a very high level. Yeah.

20:28

And it's signed by both parties. Yeah. Yeah. And I think it just it's

20:32

it's a non-binding uh agreement, not definitive agreement,

20:37

not comprehensive, could be just a couple of pages.

20:39

You can back out. Yeah. You can back out. You basically

20:43

want to um list out the things you mentioned, but also make it clear that

20:49

you have an exclusive period. You're not going to be looking for other buyers

20:52

during this time. Yeah.

20:53

Uh sometimes you pay down a deposit, maybe 5%. And you say, "Okay, for next

20:58

90 days, you're not going to be looking for any other buyers, and we're going to

21:02

be exclusively dealing with each other with good faith that this deal is going

21:06

to close." And in the time that they are um uh going to be making this deal,

21:12

definitive agreements uh through lawyers, accountants etc. they generally

21:18

um do due diligence. So they you know make it clear that the expectation is

21:22

that they will be sharing information um in a confidential manner. Uh that you

21:28

know all information they need to make a decision related to the company. uh

21:33

making sure the company in itself what the what the seller is saying in its

21:38

marketing material let's say does x amount of revenue x amount of income

21:43

they try to verify that and if they're buying shares of the

21:47

company um you know they want to do additional due diligence from a legal

21:51

perspective tax perspective to find if there's any hidden liabilities

21:56

um because as you yeah because when you're purchasing your

21:59

the company then you're buying all the hidden in liabilities with it as well.

22:03

May not be on the balance sheet, right? That may not be on the balance sheet.

22:06

So, the risk is is much higher when from a buyer's perspective when they're

22:10

buying the shares of the company versus just

22:12

assets. If there's any like like, you know, things that we see that

22:16

they're worried about is like, well, did you um

22:21

have you been deducting expenses for tax purposes that you should not have

22:25

or taken aggressive positions for tax purposes? It may not cra may not have

22:30

caught on to that but they may come back to you five years later or three years

22:33

later and then the buyer who is the current owner is on the hook for it.

22:37

Yeah. So they try to do a a diligence process

22:41

to make sure that they identify at least any red flags uh that are glaringly

22:45

around and mark them up and and maybe become part of the um

22:51

negotiations negotiations because negotiation really

22:54

doesn't end. by the time you get the letter of intent, things can come up

22:58

during the process of buyout that now they're discussing other things

23:02

and we've seen you know negotiation continuing.

23:05

Yeah. And I think there's due diligence happening on the financial side too to

23:09

you know look at more detail into the financials to see what are you actually

23:14

buying and is it is it actually as you had it in your slide deck is is the

23:18

company running in that manner you know.

23:21

Yeah. Um yeah and negotiations definitely can start.

23:26

It still happens afterwards as well once you sign the letter of intent.

23:29

Yeah. Yeah. Absolutely. I mean not every buyer does this but you know buyer

23:33

definitely wants to examine the financial statements. Uh they want to

23:37

see the um the company act you know making the revenue that it does the

23:44

existence of assets that the company says it has on the balance sheet. um the

23:50

expenses that they have, you know, that uh make sense in the businesses they are

23:55

in and they look at all kinds of ratios and

23:59

making sure that the business is in fact profitable and uh the numbers are not

24:05

manipulated to present it in a way that um tells you the wrong story.

24:11

Yeah. Right. They also look at what level of

24:14

financial statements they've gotten in the past.

24:16

Yeah. Is it audited financial statements, reviewed financial

24:18

statements, or is it like some bookkeeper internal financial statements

24:21

that may not be accurate and what they're relying on is okay or not?

24:25

Yeah. Right. So, there's so much that you rely

24:28

on the data. Yeah, definitely. There's a lot that you

24:31

rely on for sure. It really depends on the buyer

24:34

sophistication too, right? Sometimes we've seen deals like

24:38

not much happens in terms of diligence and they're like, let's go and buy it.

24:41

Yeah, definitely. Whereas other goes like overkill, right?

24:44

like they they overanalyze every little thing

24:47

and um people get exhausted during the Exactly. Yeah. The seller is getting

24:53

exhausted, right? Because they're just hoping to sign and close. Yeah.

24:57

But they need to also understand that the buyer is going to do their due

25:01

diligence, which is going to take time. A lot of questions are going to be asked

25:05

and a lot of information needs to be gathered during that time.

25:08

Um and typically it's not like the buyer and seller are working together, right?

25:12

there's a team that's working sharing that information

25:15

and you're going through different people to get to the end,

25:19

right? Which takes time. Um so it's not as simple as I'm going to

25:24

sign the letter of intent and we're going to close tomorrow, right? Because

25:27

what happens as we both know um accountants, us tax advisors are hired,

25:32

right? representing either like representing the buyer or

25:36

the seller and there's structuring um needs that

25:40

come up in order to save tax on the sale.

25:43

Yeah, you got a really good point like in terms of what

25:49

happens like I mean maybe we'll start with the also the diligence process,

25:52

right? Like we were talking about I mean logistically the sellers get

25:57

inundated with list of information or request.

26:01

Yeah. if they're buying, especially if they're buy if they're buying and

26:04

they're selling shares of a company. Yeah. They're looking at the tax

26:07

returns, the financial statements, maybe they're going back three years,

26:10

corporate minute books, which you may or may not have or you have to get

26:14

agreements. Like it's

26:16

and all at the same time you're running your business.

26:19

Yeah. Yeah. And and you can't tell the people you're working in the company

26:23

that they're going through all this process. So being lonely again, right?

26:27

Yeah. You can't delegate it. It's you doing it. So uh I mean we've

26:32

seen our list when we are representing buyer we do our diligence from a tax

26:35

perspective. We often send like a 40 50 page sorry 4050 questions to begin with

26:41

not pages. Yes.

26:42

Um of requests.

26:43

Yeah. I mean we a lot of it is historical data but like maybe from a

26:47

tax diligence perspective right like we typically ask for give us all the

26:52

accounting data all the tax filings

26:56

income tax payroll filings HST filings for the last two three years at minimum

27:02

uh and usually they get examined for uh you know are they are they filing things

27:06

properly are they claiming things properly is the financial data clean are

27:11

they or is it messy or like you Um does it stuff tie out like do

27:16

financial statements and the trial balance and all the other accounting

27:18

data you know cleanly flows up uh to to the to the tax records

27:24

and has CRA ever like you know started an investigation? Are there any ongoing

27:28

audits? I mean there's so much that happens.

27:32

Yeah. In the background and that's only tax.

27:35

Yeah. That's only tax. That's not even the financial due diligence if there is

27:38

any. Yeah. Yeah. And and there's a lot of pressure.

27:40

I mean we see those lists come to us when we're representing sellers. Yeah.

27:43

And you have to continue to like, you know,

27:47

work work through their questions and answering their questions and and

27:52

whatnot. But the definitely it could be an exhausting process for somebody. So

27:56

ultimately the buyer has to be prepared uh and the seller has to be prepared to

28:02

go through this uh this mental marathon of

28:06

Yeah. of of this process itself.

28:08

Yeah. At least be aware, right? And I think that's the point for us to let

28:12

them know that this is not going to close as quickly as you imagine. There's

28:17

a lot that needs to get done in between and it's important to get this done as

28:21

well, right? Yeah. Yeah. I mean, some things come up

28:25

uh during the diligence and you know often if they we do find issues uh on

28:30

tax, let's say an is you do uncover an issue that sometimes buyer I mean

28:36

sometimes even sellers are not aware of it.

28:37

Yeah. It's not like they're they're doing it on purpose to like maybe create

28:41

a tax issue and and whatnot, but it does get discovered sometimes or reveals

28:45

itself because someone is looking so closely

28:48

maybe sometimes forensically. Yeah.

28:50

And um we've seen if depending on the severity of the issue that's been

28:55

uncovered uh you know in the buy sell agreement

28:58

sometimes you put in a reduction of purchase price.

29:01

Yeah. Or some long horizons of a hold back.

29:05

Yeah. uh on the purchase price is held back um until that issue gets resolved

29:11

and if it takes three years to resolve that issue meaning like CRA may not come

29:16

back for three years then that money is released right so

29:18

these things can always be um ingredients that are in the making and

29:23

you don't find out about them until the diligence period is over

29:27

so that's like your diligence piece um maybe like talk talk to me about like

29:34

how you know in in tandem with all this

29:38

diligence process that we just spoke about like what goes on in respect of

29:43

the definitive agreements like buy sell agreements being drafted by the lawyers

29:47

and review and all that yeah um I feel like there's multiple

29:51

reiterations of the agreement that I have seen right we start with an

29:55

agreement and then we're as a tax advisor we're

29:59

looking to review that agreement from a tax perspective Um

30:04

I guess who starts the agreement? Is it the buyer or the seller?

30:08

Whose lawyer? The buyer.

30:11

We always have to ask that question, right? Because we don't know who has it.

30:14

Like we and and and there's no particular template to this.

30:19

Yeah. Sometimes the buyer's lawyer

30:22

will take the first stab at it. They'll prepare a first copy of the um

30:27

you know, an agreement. And these agreements are very massive.

30:30

Yeah. They're very lengthy. Yeah. very lengthy like could be hundreds of pages

30:35

like at least maybe 100 or 200 pages depending on how big the deal is

30:39
sometimes and what the complexity is. Um and then it goes through your various
30:46
people are reviewing it from their perspectives, right? Like
30:49
there's a legal review. Yeah, there's a legal review, there's a
30:52
tax review. That's where we've been involved, you know, reviewing it and
30:56
providing our comments from a tax perspective to ensure that it's aligned
31:01
with what we need it to be and and and aligned with what the deal actually is
31:06
supposed to be, right? Um when there's multiple negotiations, if things get
31:11
missed, we have to ensure that it actually reflects the intention of the
31:16
buyer and the seller, right? And then if we're representing one side, then we're
31:21
ensuring that the it's written in a way that reflects the structure that we have
31:25
in place. Um when there is a sale, right? Is it an
31:30
individual selling? Is it a corporation selling?
31:32
Um what is being sold? Yeah. Right.
31:35
Well, oftentimes like when we are looking from a reviewing an agreement
31:39
from tax perspective, depending on which side we're representing, we we we have
31:45
different ways of giving our comments, right? Yeah,
31:47
as a buyer, we want the seller to have as much reps and warranties and like
31:52
promises that you will be, you know, to the to the point like
31:56
they're overpromising sometimes like what they uh that what
32:01
they're saying is accurate, what information giving is complete. Um and
32:06
um uh all the things that they should have done in the past like they have
32:10
actually done them and like we take so many reps and warranties for that. So if
32:15
any of them turn out to be untrue, you know, the the buyer can go and like
32:20
make a claim against the seller that they misrepresented them when they were

32:23

doing the deal if something doesn't turn out to be true.

32:27

Um but as a as a seller's adviser, you're trying to do exactly the

32:31

opposite. Opposite. Yeah.

32:33

You're trying to say we don't want to be overpromising anything. Just the least

32:36

amount of promises that we can Yeah. we can get away with.

32:39

Yeah. And or like change the language, right? doesn't say I know everything in

32:44

terms of um uh what's transpired. We filed

32:48

everything that we know is timely, accurate etc in the good faith. So you

32:52

always have to like uh look out for how the agreements are drafted, who drafted

32:58

it for the first time like it was a buy side sell side and there could be

33:01

different flavors of how the language is written in and you have to

33:05

um give and take give feedback and give give feedback

33:09

depending on who you're representing. Yeah. And you know, I mean, oftentimes,

33:14

you know, depending on how um how much time parties have to close a deal, these

33:21

things will continue to be an adrenaline process.

33:24

Oh, yeah. There's there's there's multiple um comments that go back and

33:28

forth and then you're reviewing the agreement once the changes have been

33:31

made. Yeah. To ensure it aligns with your original

33:34

comments. Yeah. And then and there could be

33:37

multiple versions of the share purchase agreement or asset purchase agreement

33:42

depending on you know and like I mean if you zoom out a little

33:46

bit more and say just going back to the previous

33:52

discussion when you said you know selling is a

33:56

process not an event. Yeah. Maybe let's zoom out from this

34:01

particular conversation to say, okay, are you ready to sell from an

34:06

operational standpoint and all the things you think you've found the right

34:10

buyer or you know who you're going to be looking for?

34:13

But really, you know, what does it take to have a good tax result?

34:19

Was that a question? Yes.

34:20

I don't know if I understand the question.

34:23

No problem. I didn't get your question. Basically going back to the you know

34:29

structuring we can use examples like Samir and all

34:33

wait frame the question better. Um

34:36

what does it take to let's zoom out.

34:38

Yeah let's zoom out on like what does it take to have the uh good tax result on a

34:46

like if you're selling Yeah. If you're selling,

34:49

how do you pay the least amount of tax on a sale transaction typically?

34:54

Okay. Right.

34:55

Yeah. So, yeah,

34:58

start. Or um

35:02

should we bring in Samir Gupta's example here? Or do you want to or you want to

35:06

talk about Okay. I guess you set the stage.

35:08

Yeah. Like set the stage in the way that it's like we've tal we zoom out. Talk

35:13

about how long it takes to get here. Yeah. and then say um

35:21

or we say because I don't want to get into

35:23

pre-closed reorganization until we know the

35:26

Yeah, but I mean like structure in advance you want to talk about or do you

35:29

want to talk or what structuring even is?

35:32

I guess we could do I guess we could jump right into maybe an example that

35:37

you've seen like Durban for example. Okay. What was Durban example? Um they

35:42

just came or Pathfinder whatever like okay

35:44

the idea is like they they just they didn't do any planning. They just

35:48

Okay. Durban didn't do any planning. Yeah.

35:49

Yeah. They just came to us and we had to like

35:51

Okay. Yeah. Cuz right now we're on SPNA, right? So let's just talk about

35:55

pre-closed reorganization looking at like tax

35:57

and we'll contrast it against Yeah. Like we did a phase one. We did

36:00

like modeling of the tax results and look at

36:03

different scenarios and Okay.

36:06

Um yeah, let's do that because we're on the

36:10

spa. So then we can say okay this example was

36:12

like they didn't do any planning but we did

36:15

our best. Did they come to you with the um LOI?

36:18

They came to me while the transaction uh was they were being due diligenced

36:24

already. LOI was signed.

36:26

Oh LII was signed. They were being due LOI was signed. The lawyer was already

36:30

engaged. They were already drafting.

36:31

They were drafting agreements. Okay, that's good.

36:33

And the lawyer was also trying to figure out what pre-closed reorganization they

36:36

need to do. Like tax planning had begun on whose side? on Durban side.

36:41

Oh, like EY was engaged to review the

36:45

pre-closed reorgan. Why didn't they do it? Oh, EI EI was

36:48

engaged on the buyer side. Buyer side. But then um Gings was

36:53

engaged to do the reorganization and then it just didn't make any like the

36:58

client couldn't make any sense of it like they couldn't speak the language.

37:02

What are they doing? Why are they doing etc. They were so confused.

37:05

Okay. Then they somehow reached out to us and we changed the we took over the

37:09

entire tax plan. Okay. So yeah, that's a good one then.

37:12

So we'll just talk about So okay, how did we end off?

37:17

We were talking about like SPNA. So maybe I'm going to maybe we can like you

37:21

know not go to Samir Gupta yet, but we can

37:24

talk Durban. That makes sense. We can say okay like let's talk about an

37:27

example where like you know there had to be

37:30

so we'll say like okay we'll talk about SPN and be like now see like like you

37:34

know it's already taken so long we've gotten to this point and we'll say

37:38

what else is happening in or like when do clients approach you

37:41

typically. Yeah.

37:43

And why that's not a good way of doing it. And then talk about driven.

37:46

Sure. Okay. Yeah. No. Yeah. Yeah. That's fine.

37:50

That's I mean we'll riff it off. It's fine.

37:52

Okay. Yeah. Who's saying what? Okay, I'll pose the question.

37:57

Sure. Um

37:59

Um Okay, Sunny. So, they're reviewing the

38:03

SPNA. Um No, that's not what No one's

38:06

reviewing it. Um

38:08

Okay, Sunny. So, we've talked about all the things that could lead all the time

38:13

that has Yeah, don't worry.

38:18

Okay. Why are you laughing?

38:23

Okay. I have to enter like a different part in

38:27

my brain. Sound camera.

38:28

You know when your brain is like made up of like multiple different areas.

38:33

I need I need like my little person in my brain to enter into that different

38:36

room. I don't know if you know what I'm

38:41

talking about. I'm just like imagining an animation in

38:44

my head now. Like I'm seeing I'm seeing Pervine like

38:48

in her head like opening a door multiple doors

38:50

and like this light opens up and then it enters a different

38:54

personality. Yeah.

38:56

Podcast. Okay. Sorry.

38:59

Okay. Now that I've downloaded all of that

39:01

onto you guys. I need to figure out.

39:07

Okay. Sunny. So founders need to know that it takes a long time to get to this

39:12

stage. No, I don't want to frame it that No, not don't say long time. I would say

39:15

like while this is happening simultaneously, what else is like what

39:20

else is the buyer doing? Yeah.

39:22

With their team to make sure that

39:26

Oh, you want to set the stage because in that case the buyer hired

39:29

the buyer has an accountant or like a tax adviser, but like what specifically

39:33

other than like satisfying the buyer that the company has no issues per se

39:38

and this is a good purchase for them. Um, what is a B what is a seller doing

39:44

to make sure? All right. Because we talked a lot about

39:46

the due diligence from the buyer's perspective. Yeah. Okay.

39:49

So, like what is a seller doing to make sure that

39:52

um that that they are positioned correctly to pay the least amount of

39:59

taxes on the deal. Okay. Got it. Okay.

40:02

Okay. Okay. Sunny. So, we've spoken a lot

40:06

about the buyer side and what they may be doing during this process with all

40:10

their due diligence. What is happening in the background from the seller's

40:15

perspective? What are what are their objectives, right? And how are they

40:20

maybe looking at their structure if they're looking at their structure from

40:24

a tax perspective? Yeah. Typ typically, right? Like I mean

40:28

so far all the energy has been spent by the seller trying to find the right type

40:34

of deal, right type of buyer and now they're like so busy and like satisfying

40:39

them to make sure that they now come through with the deal, right? But oftent

40:44

times the accountant or hopefully they have people in their team to to help

40:48

them understand that look, your deal doesn't just stop from getting a deal.

40:53

You want to make sure you retain most amount of purchase price and not

40:59

lose a lot of it in tax. Yeah.

41:01

Although that process should have started long time ago, but you see

41:04

variety of different scenarios where the the seller has done no planning. They're

41:09

not prepared to sell and um we see variety of different um scenarios play

41:15

out, you know. So I can speak about a couple of scenarios like one was not too

41:20

long ago um it was a lab business and u uh in that business per se you know they

41:28

hadn't previously done any planning to position themselves for a sale and you

41:33

know typical and I'm going to give another example that contrasts this particular

41:38

scenario but to set the stage is that you've got one owner that owns one

41:42

corporation the corporation has all the business in it And the buyer uh the

41:49

seller didn't know that how much they will get after taxes cuz remember like

41:54

always that whenever you're selling something that's going to create a

41:58

economic gain or a capital gain for tax purposes and then there's going to be

42:02

tax event like you're going to pay tax on that deal. Well, how much is that

42:06

tax? Sometimes the buyers sorry sellers doesn't understand like what is the

42:12

outcome of this? Yeah. So oftentimes they'll they'll

42:15

ask the accountant like, "Hey, can you look at this deal and like tell me what

42:18

I will get after taxes and the accountant goes so far at this

42:23

point they're throwing out throwing numbers in the air of what the proceeds

42:27

are going to be. If you lose like a third or fourth or

42:30

even into tax, they might be they might be thinking,

42:32

oh, we're going to, you know, this is a 30 million deal. We're walking away with

42:36

\$30 million." That's not how it works. Yeah,

42:38

it's a tax event. So it's a tax event, right? So you might be

42:41

losing, you know, 30 40% in taxes sometimes if you're not prepared

42:46

properly. Yeah.

42:47

So what I would always recommend or what my process has been is that when we get

42:52

engaged, we say give us the if depending on when we came into the deal, if it's a

42:57

letter of intents already been signed, we know what the deal is. Um then we we

43:02

basically um on Excel, we will model out different scenarios.

43:10

Um well if you do nothing just sell as is you do no planning how much uh after

43:17

tax dollars will be in your pocket afterwards.

43:19

So that's like a base case do nothing scenario.

43:22

Then any good tax planner will look at alternative scenarios like can we

43:28

restructure this deal in a way that will change the outcome of taxes. either it

43:34

will reduce taxes or defer taxes, meaning taxes could be pushed down into

43:39

the future. So you get to keep the money for a longer period of time

43:42

with yourselves. Um and look at different outcomes.

43:47

Yeah. And then depending on the outcome that

43:50

that person finds, that's the outcome you pitch it to the client and you say,

43:55

"Hey, you can do you could do nothing, you get X. You do Y, you save X amount

44:00

of tax. Maybe the tax rate drops from like what would have been 30% down to

44:04

like 20% or 15% even sometimes. I'm just making up these numbers, but that can

44:09

happen. The question is like how does it happen?

44:11

Yeah. So that's the interesting part like you

44:14

know some things that it's not a magic that someone creates.

44:18

It's not a magic spell. No, it's not a magic spell that the tax

44:21

planner just suddenly reduces the tax rate for you.

44:24

Yeah, there's multiple steps to get to that point. There's multiple steps and

44:28

it depends on like uh what can be done, right? Like very commonly um I mean each

44:35

business owner generally knows this but or they find out about this

44:41

especially if they're selling is that there's something called a lifetime

44:44

capital gain exemption. Each individual who's resident in Canada has um

44:50

currently the rate it's about \$1.25 million of lifetime capital gain

44:54

exemption. this exemption is extremely limited to certain circumstances and

44:59

certain types of I I do want to say not everyone knows

45:02

about it. That's that's important to say because my dad's entrepreneur as you

45:07

know and he did not know about it at all. He's also someone that doesn't

45:11

think about exit and doesn't want to think about that at all because his

45:13

business is his baby. But you know not everyone's aware that you have this

45:18

exemption. Yeah. So maybe let's let's unpack that

45:21

also. What is a lifetime capital gain exemption? who gets it and how is it all

45:26

ties back into this this any any deal per se, right?

45:30

Yeah. So, like you were saying, every individual has um has this exemption

45:35

which is currently at 1.2 Canadian resident person. They have

45:38

Canadian Yes. A Canadian resident person um that and the in order to get access

45:44

to this exemption, you need to own as an individual shares of a qualified small

45:51

business corporation. Yeah, it's a mouthful.

45:54

Yeah. Yeah. We typically say QSBC, but yes, a qualified small business

45:59

corporation. And the conditions um that's defined in the act, right? And

46:06

there's multiple conditions that need to be met in order to qualify.

46:10

Yeah. And um depending on your structure, it

46:14

can get very complicated as well. It's not as easy. uh depending on your

46:18

structure as well as you know we have to be looking at your balance sheet right

46:22

because I think the main purpose is that um this is offered to Canadian um

46:28

controlled private corporations and they want to ensure that the business is you

46:35

know is an active business you know that you know there it's not something like a

46:40

passive investment you don't just have you know rent um rental income or

46:44

investment income and you're just selling cash in your business, but

46:47

you're actively you have an active business carried out in Canada, right?

46:52

And um the assets represented on the balance sheet um they have to you have

46:57

to make sure that you know I'm like losing.

47:00

Yeah, uh I'll kick you.

47:06

Okay, sure. No worries.

47:08

So maybe if you can explain um what does it mean? How do you get a

47:16

lifetime capital gain exemption? So speak about

47:20

um who gets it?

47:24

Um what conditions the individual has to meet,

47:28

what conditions the company has to meet in order for someone to get their

47:32

lifetime capital gain exemption. Yeah. So as Canadian residents, right,

47:37

we all have this lifetime capital gain exemption available to us to use. Um, if

47:45

you log into your CRA, you you'll see that

47:48

how much is it worth? Like I mean, it's one lifetime opportunity.

47:52

So, in tax, it'll save you around like \$370,000.

47:55

It's like 27 in on I mean depend on the province.

47:58

Yeah. 27% of your million. Yeah. That will be the tax.

48:02

So, call it like let's round it to let's say \$340,000

48:07

per person. Yeah. Yeah. Per person.

48:09

Like you're not physically writing the check for this amount. It's totally

48:12

exempt. It's totally exempt. Right. Um, and each

48:14

individual as a Canadian resident has access to this.

48:17

Yeah. And there are certain conditions that

48:19

have to be met. Um, one being that you're selling shares of a of a

48:26

qualified small business corporation, right? And what that means, there are

48:29

certain conditions. It's defined in the act. Um, they have to be shares of

48:34

Canadian controlled private corporations. So, public companies, this

48:37

doesn't apply to them. And what can be the makeup of the the

48:41

company? like company can obviously operate um any type of business.

48:47

So what's the makeup of this company that that makes it qualified?

48:52

Yeah. So it can be any operating company but it can't be just a passive company.

48:58

You can't just hold cash and stock like investments.

49:01

Investments investments won't qualify.

49:03

It won't qualify. You can't just, you know, sell your shares of your um

49:06

holding company that has all your investments and try to claim this

49:09

lifetime capital gain exemption. Yeah. Not you might not even find a buyer in

49:13

that. So what the government is trying to do

49:14

is that policy wise is basically saying that look

49:18

um we get that as a founder you've done a lot in terms of making sure you have a

49:23

business you've contributed to the economy.

49:25

We want to give you a taxive disincentive to walk away with at least

49:30

\$1.25 million tax-free and then anything over and above you're going to be paying

49:35

taxes as regular. Yeah.

49:37

Um you know let's say 27% capital gains etc. Yeah, but the requirements are you

49:42

know at a very high level speaking um you have to hold your shares for at

49:46

least two years. So if I started a company and it has

49:50

running a business I need to just own the shares for 24 months the business

49:54

for 24 months to two years. Yeah,

49:56

that will get me there. Yeah, that will get you there. And then

49:59

for that's easy.

50:00

Yeah, that's easy. And then for the past two years while you're running your

50:03

business. So from the date of this the selling date looking back 24 months

50:09

looking back 24 months um we want to look at your balance sheet when we're

50:13

hired to see if these conditions are met. We're looking at your balance sheet

50:16

and we want to see that more than 50% of your assets that you have on your

50:21

balance sheet relate to an active business. You know they're being used in

50:25

your active business carried out in Canada.

50:27

So let's use an example. So very commonly we see

50:31

is that you know companies um pay less corporate

50:37

tax generally on an active business the rate

50:40

can be as low as 12% in Ontario. Yeah.

50:43

Um or as high as 26 and a half%. Which contrasting to personal tax rate

50:51

which could be up to 54%. So people usually retain

50:55

their um after tax profits in the company after

50:59

corporate tax profits in the company and they accumulate that.

51:02

Yeah. In the beginning like we were talking like entrepreneurs you know

51:05

they're in the growth stage they don't know if the business is going to do well

51:08

not do well but they get to a point where they are doing really well

51:12

you know and then and they have some savings in

51:14

they have savings some investments and you know usually not always but they

51:18

might be just investing that within their same active corporation. So if

51:23

you're let's say if you can look at picture a corporation with two buckets

51:28

of assets. Yeah. Investments and your business.

51:32

Yeah. Your company is running two business at

51:34

the same time. One is like investment piece and the other is your active.

51:36

One's more of your passive investments and then one's your active business.

51:40

Yeah. So if if my uh active business to get this qualified

51:45

small business corporation test if my active business is always more

51:51

than 50% in value compared to other assets like investments

51:56

then then you meet that that one condition

51:59

the second condition the second condition generally speaking

52:02

over the the past 24 months you want to meet that 50% test. So your active is

52:07

more than 50% relate to your active assets employed in your business.

52:10

So if you have excess cash, GIC's, public stock, bonds,

52:16

those are considered bad assets for this test.

52:18

For this test. Okay. Yeah. So I got to make sure that throughout

52:21

the 24 months your corporation value uh more than 50% value is coming

52:28

from the Yeah. They are looking at the market

52:30

value assets market. The market value of these assets. Yeah. They're not looking

52:34

at the cost basis. So um from a practical standpoint,

52:40

how do you make sure that we meet that test? Well,

52:44

is it throughout there's like every minute of the day, every second of the

52:47

day for the last two years, like how do we practically get around that?

52:52

Like how of like when you say look at the balance sheet, right?

52:55

Yeah. How many balance sheets are you looking

52:57

at? So typically we look at the um monthly

52:59

balance sheets. Yeah. We go and get the um 24 month the 24 months of balance

53:06

sheets and we're testing for that 50% test at that point.

53:10

You need to have like a good amount of data, good bookkeeping records.

53:12

You need good bookkeeping records. You need to ensure that they're

53:15

representative of, you know, that time, right, for that month, but it's it's the

53:20

past 24 months, right? Okay. And then, yeah, go on. You

53:24

had a third test also. Yeah, there's also a third condition as

53:27

well. And uh that condition is that 90% at the time that you're going to sell

53:34

90% of your assets have to meet that active test.

53:39

So you only and and you know if you're even at 11% you know that

53:47

could put you offside. So

53:51

so excess cash or investments have to be less than 9%. less than 90%

53:55

the business assets needs to be more than 90%.

53:57

Yeah. Okay.

53:59

So um if you meet all these conditions then whoever is the shareholder in the

54:05

company gets to use their lifetime capital gain exemption

54:08

if they're selling the shares of the corporation.

54:11

If if they're selling the company themselves

54:13

the individual is selling and an individual. So you can't have a

54:16

corporation be the shareholder

54:18

be the shareholder. It has to be an individual selling the shares of the

54:21

corporation and you have to meet those conditions. So I mean let's tie it back

54:26

then right like oftentimes and we are looking at this lifetime capital gain

54:30

exemption you want to do this test make sure we meet it oftentimes

54:37

um we if we do meet the 50% test then we look

54:41

to see okay how do we get to 90 percent test right

54:45

so that's what requires the uh you know some sort of restructuring because you

54:50

need to now remove all the investments out of the company

54:52

yeah and you there's definitely things that you can

54:55

do in order to meet that 90% test. So, I mean, what would be the the most

55:00

common or most easier way to take out the the excess cash or investments or

55:06

bad assets as you call them is to just distribute taxable income to yourself as

55:10

like a dividend. Yeah.

55:11

But then you'll face like 50% tax on if you've been like saving a lot of

55:15

money and generating wealth over time in your investments, that could be a

55:18

significant amount that you're pulling out,

55:20

right? And then you can be losing 40 to 50% to taxes.

55:24

Right? So like from a tax planning exercise then your tax planner will see

55:28

okay do you meet this lifetime capital gain exemption.

55:33

If you don't meet it currently then if these investments are going to cost a

55:38

lot of tax to begin with in order to pull them out. Then you can do a

55:41

reorganization to

55:47

sorry you can do a reorganization

55:51

whereby you can move certain assets from the company that is being sold

55:58

to a new corporation and possibly do it on a tax deferred

56:02

basis without paying any taxes. Yeah. Yeah.

56:06

Yeah. That's okay. to your laptop.

56:20

You put it here. Okay.

56:40

Where were we? You were saying um

56:43

purification, right? Yeah.

56:44

Yeah. So, you put it into

56:48

the company. We should talk.

56:52

So, so let me just close that thought then editing team.

56:56

Yeah. The stuff.

56:58

So, you can move it to a new company. Um, and there are ways to move non-b

57:05

business assets or investment assets from the company you're selling

57:09

potentially to another corporation and they can that is not being sold, you

57:14

know, and that can be done on a taxfree basis or tax deferred basis.

57:18

Yeah. Uh, and this way now your company that

57:21

you are selling uh now qualifies for lifetime capital gain exemption

57:26

purposes. It becomes the USBC as you said it.

57:29

Yeah. And then you can get your exemption.

57:32

You can get your exemption which could save you around \$340,000 in tax that you

57:36

get to keep and not pay the government. So we want to have more people owning

57:42

the shares in the family. We do. But before I just want to finish,

57:45

I want to say one more thing. We do that for one to qualify, but also because a

57:51

buyer is not going to want to buy a corporation with all your investments.

57:56

Yeah, that's a good point. Yeah. Like I mean if I'm a buyer, I'm not about to

58:00

buy their investments. I have to pay for them.

58:02

You're going to have to pay for them. Yeah.

58:03

Yeah. So that's a good point. Like uh a lot of times people forget that you know

58:07

they're only interested in buying a business and not anything else.

58:10

Yeah. And what if you know we were talking about one of the clients that

58:15

had a life insurance policy in the corporation.

58:18

Yes. Yeah.

58:19

Big problem. like we you know life insurance is one thing

58:23

that sometime I mean in this particular

58:26

instance they had taken out life insurance 20 years ago it was all paid

58:29

up um meaning you don't pay the premiums

58:32

anymore it's permanent life insurance but it got put into this operating

58:36

company which is being sold and life insurance is one asset that it

58:41

cannot be moved without paying taxes and this is one asset that will you have

58:47

to pay taxes on attracts very high tax rate and often results in double

58:52

taxation sometimes. So, not a very pretty uh outcome, but sometimes it's

58:59

necessary to even get the deal done. Um especially if the insurance has already

59:03

been paid up and you just got to move it out. So, yeah, you're right. Like, you

59:07

know, it's um so many little things.

59:11

Yeah. That come into play when you're trying

59:14

to execute on a deal. So it's not as simple as like

59:17

no you know selling a house like we were

59:19

comparing it earlier. Yeah. Because you know when you are

59:22

trying to meet the test you want to make sure where you can you're saving tax.

59:25

Yeah. Right. Because each event each

59:27

transaction is a taxable event unless you know you're taking the steps

59:32

to see if you can get it tax deferred. Maybe maybe like this example

59:35

that I said you know I mean in one this particular exam we had an example where

59:40

like the there was only one shareholder who had their lifetime in capital gain

59:47

exemption so we could only use one exemption.

59:49

Yeah. But it's often always better to have

59:54

other family members directly or indirectly as shareholders.

59:58

Yeah. So that you can multiply their

1:00:00

exemption. Use everybody's exemption. Yeah. Because I think often not

1:00:03

everyone's going to use their exemption in their lifetime, right? Not everyone

1:00:07

have a business, not everyone has a business,

1:00:09

sellable businesses on top of sellable business. Not everyone's going

1:00:12

to want to start a business. So there's a lot of unused lifetime capital gain

1:00:16

exemptions, right? And I think within your family you have depending on your

1:00:23

the number in your family you know often we will see husband, wife, kids maybe

1:00:28

parents you can be looking at multiple exemptions and each individual has \$1.25

1:00:35

million available which is around 300k taxes.

1:00:38

Yeah. Like maybe speak to uh an example we did uh for you know Sam.

1:00:45

Yeah. uh what what we did several years ago to put him on a path.

1:00:50

Yeah. So Sam came to us early. It it wasn't during the time that he was

1:00:56

looking to exit right away, but he knew in his mind that he would exit one day.

1:01:00

That's the perfect time to come to us. Yeah. Because like we were saying,

1:01:04

there's so much going on during the time when you're in negotiations, looking at

1:01:09

share purchase agreements, finding a buyer that if you have your structure in

1:01:13

place, it makes it a lot more smoother. Right. Right. So, he came to us early

1:01:18

and um he was meeting multiple different objectives. One being we're looking at

1:01:23

if he does exit, can we multiply the exemption,

1:01:26

use exemption for all of his family members? So we so we did implement um

1:01:31

that for him by adding a family trust. Yeah.

1:01:34

Um to own the growth from that point on. So Sam had accumulated a value by owning

1:01:40

the shares of his corporation up until that point and then we passed the growth

1:01:44

from that point on to the family trust. So maybe let's talk about that. Like the

1:01:47

process we undertook was something called an estate freeze.

1:01:50

Yeah. It's just a more of a tax jargon to say

1:01:54

that uh Sam who owned the company and that had the business u a great

1:02:01

potential of sale like he could sell and you know get a purchase price. So we

1:02:06

took evaluation of the company of it business at that point and you

1:02:10

know what like we took it this process under happened

1:02:15

when it was co you know around 2020 2021

1:02:21

which meant that at that time the businesses were like all doing bad

1:02:25

the values had dropped they were forced closures

1:02:29

and the businesses were like just on life support by the government by giving

1:02:33

them subsidies and at At that point in time, the value

1:02:36

of his business also had dropped significantly because it was real

1:02:40

uncertainty about what will happen in the world. And it just so happened that

1:02:46

we were having those conversations. We

1:02:49

said, "Well, it's a good time for you to now carry out this estate freeze."

1:02:53

And we took a valuation of the company which was very low at that point because

1:02:58

hey like no one's about to pay him uh what his usual price would have been if

1:03:03

he were to go and sell with all that uncertainty

1:03:05

with all that uncertainty and uh got a very low valuation at that

1:03:10

point uh which was independently done and um

1:03:16

um and then through the course of an estate freeze we gave him uh fixed value

1:03:22

preferred shares to say if let's say your company's worth a million dollars

1:03:26

today based on the valuation we give you shares worth a million dollars and

1:03:30

they're fixed they do not grow and then all the future growth will now go to the

1:03:35

new shareholder which can be added in on a tax free basis or tax deferred basis

1:03:40

no buy all happening but they just get shares

1:03:42

and that shareholder happened to be um a family trust

1:03:46

yes in this case it happened to be a family trust

1:03:50

um which I will say for tax purposes, family trusts are seen as individuals.

1:03:56

Yeah. So they they when you do sell from a family trust perspective, there there

1:04:02

is poss you can allocate the gain out to the beneficiaries and they can use their

1:04:06

lifetime capital gain exemption. So if the trust is a shareholder and Sam

1:04:10

is a shareholder and now both of them are selling this company shares,

1:04:16

Sam will realize his million dollars of capital gain. Yeah. which presumably

1:04:20

he's got his exemption of lifetime caping exemption. He walks away taxfree

1:04:24

for his value. And then in the family trust there were Sam, Sam's wife, Sam's

1:04:31

children, Sam's mom and dad, and then the spouse's mom and dad.

1:04:35

Yeah. I think there were like seven to seven or eight individuals in there,

1:04:39

right? Yeah. Sam's already used his exemption because he sold his own shares

1:04:42

that you own. Yeah.

1:04:43

But there were like seven, eight other exemptions

1:04:46

that that were available that were available. Yeah.

1:04:50

Right. So when when the trust received the capital gain, the trust has the

1:04:55

ability to take the capital gain. I mean the trustee of the trust who manages the

1:05:01

trust, meaning Sam was the trustee. Yeah. He he looked at the capital gain

1:05:06

and then he he split the capital gain or distributed the capital gain to each

1:05:10

beneficiary within his family. I mean the money has you know uh um they all

1:05:17

realized the capital gains and then they all had their own lifetime capital gain

1:05:19

exemption. All in all I think there was about 9 to 10 million of capital gain

1:05:24

exemptions claimed and it was tax

1:05:26

and a lot of tax saved. Yeah. Tax completely taxfree. Yeah. There's not

1:05:30

many \$3.4 \$4 million, right? Like \$340,000 per person. Let's say 10

1:05:35

individuals. I feel like there's not many

1:05:36

opportunities to get things taxfree and that's one of the big ones. So each

1:05:42

adding each individual is saving you so much tax.

1:05:46

But I think we should also not make it so oversimplified, right? Like

1:05:51

yeah, um there are CRA rules that says, well,

1:05:54

you can't just like, you know, sham the system by

1:05:58

distributing the capital gains to each each person. They really do have to

1:06:02

receive the money. Yep. The cash has to go to their

1:06:04

account. Yeah. It's their money. If you're going to uh

1:06:08

have claim the lifetime capital gain exemption for your spouse, it's it's her

1:06:11

money. Yeah.

1:06:12

If you're going to give it to your children, it's their money,

1:06:14

right? If you give it to your parents, it's their money. So like you wouldn't

1:06:18

add like you should be okay with the fact that the individuals who are now

1:06:24

getting to use their lifetime capital gain exemption that they will actually

1:06:27
get that money. and and truly is uh even though it's taxfree, but that's one of
1:06:32
the things you have to be okay with. Yeah. The money is allocated to their
1:06:35
accounts, right? And and you have to be okay with that.
1:06:38
You have to okay with that and and be okay. I mean, overall the family wins.
1:06:42
Yeah. That they've kept a lot of their
1:06:44
often times what we see the people that are being added are trusted family
1:06:47
members. They're not just strangers that you say, "Hey, please."
1:06:50
They don't have their accountants, lawyers, or like
1:06:53
no, you know, other people, friends, and
1:06:56
even siblings sometimes. they just keep it within their nucleus, right?
1:06:59
Yeah. Um so yeah, I mean that's a great
1:07:01
example in contrast to um you know the lab example that I was talking about
1:07:06
which was just limited to one lifetime capital gain exemption. So like they
1:07:10
ended up paying um more taxes but there was certainly an opportunity. I mean
1:07:14
that family also had you know the husband, the wife, the kids. I mean
1:07:19
so yeah I guess the audience would want to know why in that case were they not
1:07:23
able to mult because there was only one shareholder.
1:07:26
There's only one shareholder. Only one person gets the capital gain. And
1:07:29
and why can't we introduce more shareholders right before sale?
1:07:32
Good question, right? I mean, we were talking about the valuation piece
1:07:35
earlier, you know, when you value when you
1:07:38
introduce the uh other family members into into your ownership. Their shares
1:07:43
have to have value. Yeah.
1:07:45
Right. So, um which is why it's it was so important in Sam's case when we did

1:07:51

the valuation. I mean, this is an not an exaggerated case case, but like it's

1:07:55

really an exaggerated scenario. I don't think we even said that Sam

1:07:58

actually sold ended up selling two years later or three years later.

1:08:02

Yeah. Yeah. I mean, yeah, that transaction actually transpired like

1:08:06

four or five years later. Four, five years later. Yeah.

1:08:08

So, the shares that the trust in his trust that received had four or five

1:08:13

years time that it owned those shares to grow in value. grow in value and

1:08:18

especially when co when he took his valuation of the company was like during

1:08:21

co so the value itself was like very

1:08:24

understated than its usual value would have been but that was the time and

1:08:28

point in time that the value was it really did drop like nobody would buy

1:08:32

his practice or his uh his company for the value that it

1:08:36

usually would have sold for because there was so much

1:08:38

uncertainty world uncertainty in terms of where

1:08:40

things were going like people were you know dying and etc and nobody was

1:08:44

thinking about businesses at that point. Yeah.

1:08:47

Yeah. So that's why it's really important to set up the structure and

1:08:50

introduce the family trust well in advance.

1:08:53

I think all business owners should like have a serious look at to as to how

1:08:58

they're structured. Yeah. um understand, have a foresight

1:09:04

five years away and try to gather um information as to what this might look

1:09:09

like and then start taking action. You know, however fast or slow, but you

1:09:16

know, if you have knowledge and education, start gathering that

1:09:19

information. And tax component is just as important as if you are now going to

1:09:24

prepare for a sale by now, you know, hiring that

1:09:28

hiring that key person who was going to be running the business in your absence

1:09:32

or doing other things to make sure come your company is sellable, right?

1:09:35

Yeah. Having the tax plan is just as

1:09:37

important. Yeah.

1:09:40

So, you know, when it comes to like like

1:09:44

that's um uh that's a that's a good scenario. But yeah, like comparing to

1:09:49

the lab case, we only had one exemption and just

1:09:54

adding the family members just before the sale would not have done anything

1:09:57

because the shares would not have been worth

1:10:00

Yeah. They wouldn't be worth anything. You just added them. So,

1:10:02

you just added them like what value do they have?

1:10:04

Yeah. And I think we should also say that a family trust is one of the ways

1:10:09

you can also add, you know, people directly into your structure if that if

1:10:14

if if that makes um sense. I think family trusts provide the flexibility um

1:10:20

because you're not giving up control in that way.

1:10:23

Well, you're not committing that this person owns anything.

1:10:25

Exactly. Yeah. Right. Like I mean that's a good segue

1:10:28

to understand like why why why why even consider

1:10:32

a family family trust

1:10:34

and just add like your family members like the the spouse the kids the parents

1:10:39

etc. Yeah.

1:10:40

But you know maybe explain like why is that a good good or bad idea?

1:10:46

Yeah I feel like it it depends but in a lot of situations you're giving them

1:10:50
direct control and you know a commitment to to that value right. Um the thing is
1:10:58
anything can happen within family dynamics. Anything can change, right? Um
1:11:02
if you're adding parents and children and there's siblings involved, um you
1:11:08
don't know what the future looks like from a family dynamic situation. So I
1:11:12
think a family trust provides a bit more flexibility when you are, you know,
1:11:17
giving out this value to the family members that you've added and you can
1:11:21
pick and choose. Yeah. The way I see it is like I don't
1:11:25
want any interference. Yeah.
1:11:27
If I am running a business of someone now owning the shares of my company
1:11:32
directly because then now they they own it.
1:11:37
I cannot take that away once it's given to them. It's really up to them.
1:11:40
Yeah. And they can interfere in the business.
1:11:42
Right. So you really it's a question of control
1:11:46
and the question of uh autonomy. Yeah. Right. And in contrast with the
1:11:50
family trust, um you're you're still the sole trustee. So you're going to be just
1:11:54
because the beneficiaries are added, they don't have discretion over those
1:11:58
those that value. The family trust gives you great amount
1:12:01
of flexibility. Yeah.
1:12:03
Because you can um as a you can have yourself as a beneficiary and if you
1:12:09
don't like if you want to unwind anything, you can
1:12:12
always take back the shares of the company that's owned by the trust to
1:12:16
yourself. Yeah. and just unwind the structure and
1:12:18
you haven't really given any shares to anybody, right? So, you're back to
1:12:21
square one. Uh but great amount of flexibility and I

1:12:25

think that's more more people go towards a family trust for many other reasons. I

1:12:30

mean, we we're not going into every single reason why a family trust could

1:12:32

make sense. Yeah.

1:12:34

But from autonomy, flexibility, and not committing to somebody receiving those

1:12:38

shares is like a great u pro. Yeah.

1:12:42

Of why this might work. I mean the other reasons maybe that's important is like

1:12:46

you know like you said you have to be qualified small business corporation you

1:12:51

can't accumulate a lot of investments. So like maybe speak about like how does

1:12:55

a family trust help you in that sense. Yeah. So having a family trust um helps

1:13:00

you in that sense because if you didn't you know and you and you own the shares

1:13:05

of your operating company and say you have another holding company right

1:13:09

you're moving assets between the corporations sister or parent companies.

1:13:14

So like you're you can have another corporation that's a beneficiary.

1:13:18

Yeah. So with a family trust what happens is that you're able to have

1:13:22

another corporate you're able to have corporate beneficiaries. So it's it

1:13:25

doesn't have to be just individuals and having a corporate beneficiary allows

1:13:29

you to stream value up to the trust and the trust can then pass it along to the

1:13:33

corporate beneficiaries tax deferred. So so say if I have an operating company

1:13:37

like let's pick Sam's case, right? Yeah.

1:13:39

What happened was Sam now had a family trust.

1:13:42

The family trust also had beneficiary that included a corporation that was

1:13:49

owned by Sam. So Sam was a beneficiary. His family was beneficiary as

1:13:54

individuals. Then Sam had a corporation that was just investment holding

1:13:59

company. That corporation was an investment. That corporation was also a

1:14:02
beneficiary. So you're saying that you can the
1:14:08
operating company can pay a dividend can pay a dividend up to the trust and
1:14:12
the trust can then allocate that dividend to that corporation that Sam
1:14:16
owns without triggering any tax. So it's like a flow through
1:14:19
as long as the corporations are connected. But in this case, in Sam's
1:14:22
case, they were they were both Sam's corporations,
1:14:25
right? So So it's a family trust is more of a
1:14:27
flow through in that sense. Yeah. So it ended up giving us uh an
1:14:34
advantage. Yeah.
1:14:35
That it kept the company operating company uh free of these surplus
1:14:42
excess cash investments. That's key to meeting the QSBC test or
1:14:48
qualified small business corporation test 50% and 90% test you talked about.
1:14:54
But also it also removed the assets that the
1:14:58
buyer would never want to buy. Yeah. So you're not you're you're
1:15:01
looking at before you're selling you're looking at your you know balance sheets
1:15:06
on an ongoing basis right because you want to stay on side to access this
1:15:12
lifetime capital gain exemption but you also want to credit proof your business
1:15:15
so I think it's achieving both object objectives by having that family trust
1:15:20
to flow kind of those funds to that every year the account yeah like I mean
1:15:24
the process I usually see as unfold is like every year the accountant prepares
1:15:28
their year in financial statements, tax returns as drafts. And then you say,
1:15:33
"Okay, well, I have so much surplus sitting in the
1:15:36
company and um we don't need this excess cash or that's been sitting in the
1:15:43
corporation. Let's just dividend it out."

1:15:45

But Sam doesn't need it for his personal lifestyle. His family members don't need

1:15:48

it. They don't need that money personally.

1:15:50

Yeah. They want to keep that what? They want to keep it in the company so

1:15:52

they can um invest it. Yeah. But if they invested in the

1:15:56

operating company, it would disqualify them over time for the lifetime capital

1:16:00

gain exemption. But then if they invested it through their holding

1:16:03

company, then it's okay. Yeah. And I think we should also talk

1:16:06

about what if there wasn't a trust and we have just this holding company and

1:16:11

we're just, you know, flowing the cash out of the corporation. Yeah. What

1:16:15

happens there is a a related loan or a intercomp loan is created.

1:16:20

We see that all the time. Yeah. Right. We see that all the time. And I

1:16:23

think it's important to say that that intercomp loan may not be eligible if

1:16:28

you're just using those funds to invest. It's not a good asset for that test.

1:16:31

Well, typically like you know investment opportunities come up throughout the

1:16:35

year like if you're not you're not going to wait till the year end.

1:16:38

No to make the investment decisions.

1:16:41

If you have an opportunity to invest you they're going to invest.

1:16:45

They're going to invest like operating company and move it.

1:16:48

Yeah. So if you move that cash from operating company to investment holding

1:16:52

company a sister company let's say then it creates a intracomp receivable in

1:16:59

operating company. Yeah.

1:17:00

Which is going to be considered to be bad asset for your QSBC test.

1:17:05

Yeah. Because it's seen as just as like an

1:17:07

excess cash. Yeah. So then that receivable is really

1:17:11
trapped um in the corporation and then but if
1:17:15
you had a trust but if you had a family trust you can
1:17:17
clear that on a tax deferred basis. Right. You can just give that receivable
1:17:21
to the holding company as a dividend. Yeah.
1:17:22
And then clear it. Yeah.
1:17:24
But it also I think adds another another value is that it also credit proofs you
1:17:29
Yeah. your corporate. So if some claim comes
1:17:31
up in your operating company, your savings or your nest is not impacted.
1:17:34
Yeah. And you don't want those intercomp loans, right? when when you're trying to
1:17:38
credit proof. So, right. So, in Sam's case, I think it all
1:17:41
worked out. He got 10 lifetime capital gain exemptions versus a lab only got
1:17:47
one. Yeah.
1:17:48
Um Sam was able to use um uh credit proof the company over time
1:17:55
and not be exposed to business risks to his to his savings and nestags.
1:18:01
And then buyer never wants to buy a company with investments in it. So you
1:18:05
always met that condition also. Yeah.
1:18:07
Right. That's that's I mean that these are model clients.
1:18:10
These are model clients, right? Like it it was a winner.
1:18:12
Yeah. Um so
1:18:17
um maybe now we I don't think we have uh
1:18:22
succession. I think Bill C28. Yeah. Yeah. You can like take a look at
1:18:29
what things we haven't covered. I think Bill C28 is one we haven't
1:18:34
covered. the questions at the end. Oh, we didn't talk about asset sale
1:18:39
versus share sale, right?

1:19:41

What happens if I never plan this out? Is structuring even worth it?

1:19:48

Then yeah, I mean from crediting I suppose

1:19:57

right actually

1:20:02

evaluation. Yeah.

1:20:55

Yeah. So asset versus should we do maybe asset versus share

1:21:02

sale we can do like at the very end because Bill C28 is like still

1:21:06

relatively uh like it's still a share sale in the

1:21:10

context like we're still talking about lifetime capital gain exemptions.

1:21:20

Y this week

1:21:26

I don't have n this week. So it's Where is he?

1:21:29

Oh, he's in Monton for

1:21:36

Thought he was back. Have you been?

1:21:38

I've been to New Brunswick. Monton. Yeah, it's like okay. Not much going on.

1:21:42

No, there isn't. Okay, so for BLC 208, I guess. How do we refer to it like as a

1:21:49

family succession? There are special rules.

1:21:52

Um we'll just be like let's shift gears

1:21:56

like what if the buyer is um what internal family succession?

1:22:02

How does that look? Um would you structure things differently and why?

1:22:08

Um yeah. Yeah.

1:22:16

like would we um talk a little bit more about like you know giving access like

1:22:22

with a bill C28 the plus is getting the promising

1:22:27

yeah you get to I mean no different than a particular

1:22:31

you don't need financing up front I suppose you can you can have the the

1:22:35

parent agree to just get paid I feel wouldn't that like how it's

1:22:40
typically work depends I mean some say, "I need my
1:22:45
money now." I've seen that happen. Yeah.
1:22:48
No matter what, later like I need my money and that's it doesn't happen very
1:22:52
often, but it does happen. But the whole like like before Bill C2A,
1:22:58
you wasn't you weren't able to use your exemption and extract the funds from the
1:23:02
company. Yeah. Yeah. You couldn't you had to pay you could crystallize
1:23:08
the exemption but not get money out. Yeah. You could crystallize the
1:23:12
exemption. It would be a soft ECB forever.
1:23:15
Yeah. Yeah. And then if you sold it to a third
1:23:17
party, that's when you get the cash for it.
1:23:20
Yeah. So with the bill C28, the main thing is you get access to the funds.
1:23:24
Yeah. You get to take out the you get to pay
1:23:27
basically the the seller would be able to the parent can take out money
1:23:32
basically source from Yeah. The whole idea of it though is for like
1:23:36
a like is for the people that are asking. Well, I think it's like putting
1:23:39
them into equal footing. Like if you can if you can sell to unrelated parties and
1:23:42
get your life exemption and get the money for it.
1:23:45
Yeah. Yeah. Why couldn't you do it otherwise, right?
1:23:47
Like for the longest time, you couldn't do
1:23:50
it. Up until like 3, four years ago.
1:23:53
Yeah. Since 1972, you couldn't do it.
1:23:57
Before you can before then 72 there was no capital gains tax.
1:24:01
Oh yeah, there wasn't. There was no tax on capital gains.
1:24:08
Can we go back to that time? Were you alive at that time?

1:24:12

Exemptions all the time, right? What exemptions?

1:24:18

This We don't even have to film this. Yep.

1:24:21

Um, we should do the a history on tax. We

1:24:27

should do a history on tax.

1:24:30

I have a for an episode.

1:24:31

I have the first tax act. Have you seen it?

1:24:34

No. I have the first tax act. It's like a

1:24:37

little pamphlet. Do you have it framed in your house?

1:24:40

I think I have it in the office. Do you have it framed?

1:24:43

No, I have it in the office, I think. Why isn't it framed?

1:24:47

I don't know. Cuz then I want to open it and

1:24:53

Oh, you be nostalgic about it.

1:24:56

Well, then you wouldn't really be employed, I guess.

1:25:00

Like what would your job be to read one page to people?

1:25:04

It was income tax war. It was income war tax something. It wasn't income tax act.

1:25:11

It was income war tax act. Income more tax act.

1:25:14

Like it was war tax because they introduced to people.

1:25:17

We should do a history of I don't know the history of tax system. So it seems

1:25:21

like you know. So we'll do an episode. I'll just ask you a bunch of questions.

1:25:26

You know those like um like stuff you should know type of episodes.

1:25:30

Yeah. Do one on text.

1:25:31

Yep. Some people like listening to them.

1:25:35

Trivia. We should do that in the Christmas thing.

1:25:38

I suck at trivia tax trivia.

1:25:42

And you're not playing, right? You're just asking the questions.

1:25:46

Well, I don't know everything. We're not meant to know everything.

1:25:50

That's why we have tools. We'll learn.

1:25:52

So, we have AI. Yeah.

1:25:55

Okay. We should talk because it's already 4:45.

1:25:59

All right. So, it's okay. You got one more hour, right?

1:26:04

How long have we filmed for? Uh, hour and 20 hour and 15 minutes.

1:26:12

That's good. Hour 15 or 15?

1:26:15

15. We wanted to get to two hours, right?

1:26:18

Um, let's see. Whatever. I can probably do half an hour more.

1:26:23

Yeah. So, let's go through.

1:26:30

Yeah. Why do buyers push for assets? Okay. Let's do the bill. Okay.

1:26:34

So, I'll pose the question, I suppose, right? Like, okay. So, let's let's shift

1:26:39

gears. I mean, we have spent a lot of time

1:26:42

thinking about selling to external buyers, but originally we were also

1:26:45

talking about you could sell to your family members, right? Let's say a

1:26:50

parent most commonly may want to bring in their succession to their child,

1:26:56

right? If they're old enough, they're interested.

1:26:59

um you can coach them, bring them on to the business and eventually give them

1:27:03

that business. Mhm.

1:27:05

And uh what are the tax consequences of the parent now transferring the business

1:27:12

to the child, right? Like I say child like you you're

1:27:15

talking about adult grown up. Yes.

1:27:17

Person who who can take over the business, not a not a minor,

1:27:21

not a not a baby to take over a business. CEO.

1:27:24

Yep. Baby CEO. Yeah. So, um I pro just up until recently, I think it was 2021.

1:27:31

Yeah. Um

1:27:33

you weren't able to selling to your child wasn't treated the

1:27:40

same as if selling to a third party or an unrelated person.

1:27:44

Yeah. In what way? Like I mean, you could always sell and pay the tax.

1:27:46

You could always sell and pay the tax, but you weren't capital gains tax. you

1:27:49

weren't able to sell and claim your exemption and then get

1:27:54

the liime Yeah. the lifetime capital gain exemption and

1:27:56

get the consideration. Yeah. That always seemed like very uh

1:28:01

uh unfair. Like I almost felt like you know since capital gains tax came

1:28:07

into play in the 1970s to 2021 or so all this time any uh

1:28:16

transaction within the family was treated unfairly. Yeah,

1:28:19

that you're motivated to sell. You have a better tax result because you have all

1:28:25

this exemption that we just spoke about so much

1:28:27

to get the exemptions if you're selling to external buyer. But if you sold

1:28:33

within the family, you could not use your exemption. You're saying?

1:28:36

Yeah. I Yeah. And I think like the government feared that there'd be a lot

1:28:39

of manipulation that you're selling using this exemption exemption lifetime

1:28:44

capital gain exemption and then extracting funds from your company

1:28:47

without actually genuinely transferring your business to your child.

1:28:51

But I think in a lot of cases with a lot of clients that we deal with as well um

1:28:56

there is an internal succession that is occurring.

1:28:58

There's a genuine desire that the child would actually take over and not just

1:29:02

like manipulate the system to get Yeah. I think that does happen often,

1:29:05

right? Um I think parents would be very proud to

1:29:09

have their kids take over and it's something that they would want for their

1:29:12

kids, especially if it's a successful business. Yeah.

1:29:15

And if you know the kids been child's been working there, um

1:29:20

and they want to take over. It was unfortunate that that wasn't

1:29:24

available to them to do so. Right. I mean, it's a lot of money that

1:29:28

if if I'm motivated to sell elsewhere, I think that's just I think the child has

1:29:32

no option. Yeah, they cannot change the rules. I mean to

1:29:36

equalize somebody to pay then you'll basically have to equalize them, right?

1:29:39

Like to say, "Hey, sell it to me. I'm a better buyer. I'll take care of your

1:29:42

business better." But if you sold it to them, you would

1:29:45

you would be disadvantaged because now you have to pay all this tax that could

1:29:48

have been, you know, very tax efficient if you sold externally.

1:29:52

Yeah. So, but from 2021, they've changed the

1:29:55

rules and now Yes. They've changed

1:29:57

allow you to use your exemptions. Yeah. You're they've changed the rules.

1:30:01

There are certain conditions that have to be met and proven.

1:30:05

Um, so let's go through them.

1:30:07

Yeah, sure. So, um, one of the main things that they want to see is there's

1:30:11

a genuine transfer of business. And the way they see that,

1:30:15

well, how how is someone supposed to say it's genuine, right? Like it's such a

1:30:19

funny concept like it's a feeling that it's a genuine or like

1:30:23

well they want to see that someone verify that

1:30:25

their verification is to see that you've given up control and not just voting

1:30:30

control that you see on paper. They want to make sure that you're

1:30:34

actually has relinquished

1:30:37

their reigns of the company and the business to the chart.

1:30:40

Yeah. And I think they do give a time period you know for some of the

1:30:44

succession to happen. And I think they've acknowledged that it doesn't

1:30:46

happen overnight, right? But the whole point of it is to, you know, there's a

1:30:52

genuine transfer. Yeah. Yeah. Yeah. I mean,

1:30:55

you know, I mean, I think there's always going to be some bad actors and people

1:30:58

trying to manipulate the system. But I think assuming that, you know,

1:31:01

vast majority of the people are like genuinely want to do a succession, I

1:31:06

think it's a good path to open up. Yeah.

1:31:08

And now currently, I mean, there's been changes and evolve. It's an evolution of

1:31:12

what the rules have come to be in 2025. Yeah.

1:31:15

But like let's talk about like what are the exact tracks that you can take

1:31:21

because now there's two options as to how you can do a succession and use

1:31:24

your lifetime cap exemption within the family.

1:31:27

Yeah. So let's talk about that.

1:31:28

Yeah. So there is an immediate immediate transfer um that occurs and there is a

1:31:35

gradual transfer is how they defined it, right? Immediate and gradual.

1:31:38

Yeah. Okay. So let's go through immediate

1:31:41

track. Yeah.

1:31:43

So help me understand like I mean other

1:31:47

than the fact that the QSBC test has to be met and all the things we talked

1:31:51
about has to happen. What are the other conditions in an
1:31:55
immediate track that you need to meet? Okay. Just wait. Can we just talk about
1:31:58
it? Yeah.
1:31:59
Just immediate transfer. Um they just want to see that voting
1:32:05
control is given up. Right. But but within the um 36 months
1:32:12
I'm asking you do you remember immediate is like you give up control
1:32:17
and then you walk away from the business basically at a high level it's an
1:32:21
immediate thing and then the as a buyer uh you know
1:32:27
no but I don't get how they define the 36 month period they just want you to
1:32:33
touch your structure right within that time
1:32:35
they don't want you to sell the business within 36 months.
1:32:38
Like you're locked out like the child cannot just
1:32:41
take the business and then sell it, right?
1:32:45
But what if an offer comes up? But what if an offer?
1:32:47
You can't. Then you then the sell there's going to be a deemed dividend to
1:32:53
the to the parent retroactively, right? They don't want you to do a non-genuine
1:33:00
transfer and then immediately sell it to somebody else. They don't want to see
1:33:04
that the business is continued. Okay.
1:33:07
Yeah. At a at a high level.
1:33:10
Yeah. I can bring up something.
1:33:14
Yeah. I just don't the two pass I'm like not that confident in, but I can
1:33:21
tell you about how a threeyear test and a 5 to 10 year test
1:33:29
before the transfer. never used it.
1:33:34
A parent can have legal control or factual control. A parent can still have

1:33:38

economic The oh the transfer of management has to

1:33:53

happen within 36 months. Yes. So even immediate they have 36

1:33:58

months. They have to retain child has to then

1:34:00

retain the legal control for at least 36 months.

1:34:03

So this is immediate right? Yeah.

1:34:06

Yeah. So immediate is basically to say the parent can't have legal control or

1:34:12

factual control. Legal factual. Yeah.

1:34:14

The transfer of management has to happen within 36 months.

1:34:18

child has to has to uh control the company for 36 months after the transfer

1:34:25

and then the child has to be engaged throughout the 36 months

1:34:30

engaged in the business. Yeah. Yeah. So there's a management test

1:34:33

there's a management test engagement test

1:34:36

and then the company must also continue must be carried on an active business

1:34:40

for 36 months period. Okay.

1:34:42

Right. So that's one. And then gradual is over five to 10 years.

1:34:48

That um Oh, they changed it to 10. I thought it

1:34:52

was just five. Should we keep it high level or do you

1:35:11

want to go through it? I can the media.

1:35:16

Yeah, let's go through it in more detail, right?

1:35:18

Not technically like but you want me to say this? Okay.

1:35:21

I think it'll be good to like be I think it's more value to

1:35:27

Oh, we can add another hour of value which is what

1:35:30

I'm sure we could. I'm just saying in interest of time.

1:35:34

Yeah. Okay.

1:35:51

Um Oh, it includes nieces and nephews as well

1:35:56

as grand nieces, grand nephews. Oh, yeah. Right. Yeah. I need this.

1:36:01

So, child is like very child is your child, grandchild, niece, nephew, grand

1:36:06

niece, grand nephew. So,

1:36:11

oh, all the grands and niece and nephew. Okay.

1:36:14

Niece, grand. So, my sister can pass it to Bonnie. Got it. Yeah.

1:36:18

And my dad can pass it to Bonnie. Yes. Yes. Yes.

1:36:21

Okay. Yeah. Or

1:36:24

I'll let him know that Bonnie is looking to take over. or Nav's

1:36:28

Nav's I'm just making Nav's Nav's parents if they have a business they can

1:36:33

transfer to Oh, they're siblings.

1:36:38

Siblings child. Oh, siblings child.

1:36:42

No, but can can Naz's dad if they

1:36:47

So, if you had a business Yeah.

1:36:48

you can pass it to your sister's child. Yeah. Yeah. Yeah, that's what I was

1:36:52

saying. Okay. Got it. So, it's gr Yeah. And and the grand nieces and nephews.

1:36:55

Got it. I I guess grand would include

1:36:59

my dad can pass it to but grand nephews grand nephew. Grand nephews like

1:37:06

dad's sister's kids and kids. Yeah. Like

1:37:08

like if my dad had a sister. So if let's say your sister had a kid

1:37:12

has a kid and then that kid has a kid. No, but wouldn't it be the nephew and

1:37:16

nieces of my dad and you going to dad? I'm just using you as

1:37:20

an example. So let's say you're a grandmother.

1:37:22

Yeah. Okay. this conversation,

1:37:25

right? I'm just going to say

1:37:27

let's say you're a grandma, right? Yes.

1:37:30

And then you can pass it down to your sister's kids.

1:37:33

Yeah. Okay. It's just harder for me to think about that than I just don't have

1:37:38

that. Yeah,

1:37:42

I can't do that. Okay. Okay. All right. So,

1:37:44

so how so what would the Punjabi term be or the Hindi term be for that?

1:37:48

Masi, right? No, but grand nephew and niece

1:37:54

I know. I know. I know. Okay.

1:38:00

I'm in Canada. That's why I'm asking. I don't know.

1:38:06

I've just never known. But and it's like weird if it's like the

1:38:11

nephew nieces have like multiple different words to them. It's confusing.

1:38:15

It depends on the the the mom's side or the dad's side

1:38:18

and it changes, right? Yeah, it changes otherwise his nieces and nephew also

1:38:22

easier that simply.

1:38:24

Okay. So, you want me to go through immediate transfer?

1:38:26

Yeah. I mean, what are you most most comfortable with? You tell me.

1:38:30

Um immediate. We haven't even discussed graduate. I think it's the same thing

1:38:33

but within 36 months. Yeah. Well, okay. So, let's talk about

1:38:36

like who gets qualified like who is qualified? Like what does a child mean?

1:38:43

What does a child mean? Yeah. Oh, like Okay.

1:38:46

who would call it like we were just talking about like your child, your

1:38:49

grandchild. Where did we end off?

1:38:50

I don't know. Okay.

1:38:53

Okay. So, we'll start. We were just talking about how it's it

1:38:55

was so Oh, I asked you like okay, what are the

1:38:57

rules of like that's when you said I need I need to know.

1:39:00

Yeah. What are the rules? The two tracks. Explain two tracks,

1:39:03

right? Yeah. It's too broad.

1:39:05

Okay. So, um to set the stage like Okay. So

1:39:11

let's talk about like who can qualify within the family in order to take over

1:39:16

the business. I mean very simply we've been talking about the parent and their

1:39:20

their child, right? But really is also Yeah. Well, anyone can take over the

1:39:25

business, but but in in order to qualify for, you know, the lifetime capital gain

1:39:31

exemption and to be treated as if you're selling

1:39:34

to an unrelated person, then it could be the children of the

1:39:39

parents, the grandchildren, um the nephews and nieces.

1:39:46

So, yeah. Yeah. Go on. Yeah. The nephew.

1:39:49

I'm just thinking about the relationships here.

1:39:50

Yes. the nephew and nieces and the grand nephew and nieces.

1:39:54

Yes. Okay. But I want to clarify one thing that it's not that you it just

1:39:58

occurred to me now is that it's not that you couldn't claim lifetime capital gain

1:40:02

exemption in the past. Um within the family.

1:40:05

Yeah. It just meant that

1:40:07

the the child had to buy the shares personally.

1:40:11

Yeah. From the parent. And that's usually very

1:40:14

inefficient because in order to pay the purchase price to the parent, the the

1:40:22

child had to first pay themselves personal tax after tax money. So they

1:40:28

would have to take out money from the company, pay personal tax

1:40:31

and then pay off the parent. So the the personal tax always got in the way.

1:40:36

Yeah. For for the child in order for them to

1:40:38

use their lifetime capital gain exemption. So like it took a lot longer

1:40:42

for the child to come up with the same purchase price.

1:40:44

Yeah. To come up with the funds and because you know sometimes the parents

1:40:48

aren't looking to entirely be paid out if it's within the family, you know, but

1:40:53

you're dealing with, you know, the funds are sitting in the corporation to fund

1:40:57

their their lifestyle. As a buyer, like if a third party buyer,

1:41:00

it's much more efficient that you somehow pay for the purchase price

1:41:05

without incurring any personal tax. So typically,

1:41:07

you know, you form a a holding company that typically buys the target company,

1:41:12

the corporation you want to buy and then usually,

1:41:15

you know, corporate taxes are paid throughout, but then you'd never incur

1:41:19

any personal taxes to pay off the the the seller,

1:41:23

right? And that was a key difference between if you did this type of holding

1:41:28

company type of structure whereby a child formed a holding company then that

1:41:34

holding company purchased the operating company shares from the parent.

1:41:37

Yeah. Then you then then that was a bad thing.

1:41:40

You couldn't claim the lifetime capital gain exemption.

1:41:42

So then now they have actually said that okay you can do this transaction. we

1:41:46

will we will allow the parent to claim the lifetime capital gain exemption uh

1:41:50

in the same way as any other buyer would and they typically would follow form a

1:41:54

holding company that way and then they would let me just get back to you now

1:41:57

like there's two tracks and then the child is defined to be like

1:42:01

you said you said it was child so they're their children

1:42:05

grandchildren their grandchildren

1:42:07

grand nephew and grand their nephew nieces or grand nephew

1:42:11

nieces nephew nieces and grand nephew nieces yeah

1:42:14

yeah So now that you've defined okay it it can go from you know downstream to

1:42:20

the next generation that way. Um let's explain what are the two paths. There's

1:42:24

an immediate path and then there's a gradual path. So explain the immediate

1:42:28

path to me. Yeah. So the immediate um path involves

1:42:32

a transition of control um legal control as well as you know de

1:42:38

facto control is kind of the word that is said in the act um

1:42:42

that you can you you must give up control in reality and also legally.

1:42:47

In reality and also legally and then you do have a time frame to

1:42:52

give up the management like how to run the business

1:42:55

how to run the business to you know download that information. So that the

1:42:59

children can take over operationally cuz how long is that?

1:43:03

That is 36 months. 36 months. Obviously

1:43:06

within 36 months you have to completely give up the management. You can't be

1:43:10

working in the business as and be management

1:43:14

in can't be a person who's like managing the company.

1:43:17

This is how they're defining it being an immediate genuine trans.

1:43:20

Okay. And then what else? The child has to own the shares.

1:43:26

Yes. The child has to own the shares. Um for how long do they have to

1:43:30

for 36 months? Also 36 months.

1:43:32

Yeah. So they're not able to just you know do this transaction um get access

1:43:36

to the corporate funds and you know the parent claim the exemption and then just

1:43:40

sell the business to a third party. Yeah.

1:43:42

So to keep things genuine they're saying uh you can sell it to your claim the

1:43:49

lifetime capital gain exemption but the the parent has to give up an immediate

1:43:52

control of the company. the management of the company has to be transitioned

1:43:57

within 36 months. Yeah.

1:43:59

During that 36 months, the um the child cannot sell the company. Yeah.

1:44:05

To someone else. Yeah.

1:44:06

And then I think there was one more test that the child has to work in the

1:44:09

business for the Yeah. The the child has to be actively

1:44:12

involved in actually working in the business for those 36 months to showcase

1:44:16

an immediate transition. Right. And I think that's I I mean seems

1:44:20

like these are all the signs of um someone who would want to genuinely take

1:44:25

on a business. Yeah.

1:44:27

You know, they will uh certainly take control of the company right away.

1:44:31

Uh they will certainly ask their parents to like show me the ropes how to run the

1:44:35

business. That transition can happen within 36

1:44:37

months. It's obvious that they would be active in the company not just not

1:44:42

active. Yeah. And then well also the fact that

1:44:45

they have to keep the company uh running for for the three or 36-month period.

1:44:51

Yeah. So that's what genuine really means in

1:44:53

the immediate path. And then if this does happen for a

1:44:55

client, let's talk about you know how does it

1:44:58

actually look for them. Typically what I I I see is that they

1:45:03

get to you know sell their shares if it qualifies the parents. they'll use their

1:45:08

lifetime capital gain exemption upon that sale and the the child will buy

1:45:13

through their holding company, right? And what ends up happening is that

1:45:18

there's a promissory note um usually owed to the parents which

1:45:24

the children don't have the money to pay for the purchase price. So the the

1:45:27

parent is like basically saying I give me an I owe you and you can pay me over

1:45:31

time. Yeah. and and and you know the parents

1:45:33

have the option to forgive that or gift that to their that promissory note back

1:45:38

to their children if they don't need that or fund their retirement.

1:45:41

Yeah. Um um through the corporation funds

1:45:44

without you know um seeing any personal tax up to that amount.

1:45:48

So um let's talk about the gradual um transfer. So immediate seems like

1:45:56

very quick. You got three years to meet all the tests.

1:46:00

Yeah. Maybe I can cover up the the um the gradual. So gradual can extend from

1:46:07

five to 10 years. The you have the the management

1:46:13

transition has to happen over 60 months. So five years and uh the child has to be

1:46:20

in control of the company um for about 60 months

1:46:25

um uh which is 5 years per se or the time that the um the transfer has

1:46:33

been completed. Yeah.

1:46:35

So why would someone I'm just thinking like

1:46:38

why would somebody take a gradual path versus an immediate path? I think it

1:46:44

really depends on the family member. Like some um some individuals that have

1:46:50

built this business for many years um don't want to stop being involved. Um I

1:46:55
think sometimes it's very difficult for them to you know give up all their
1:47:00
operational control to their children. Right.
1:47:02
Right. But they still this allows them to still have that 5 to 10 year time
1:47:08
period to do that. Right. to coach their children and to and them also feel that,
1:47:14
you know, they're they feel that they're ready to, you know, retire and play golf
1:47:19
all day. Yeah.
1:47:20
Like sometimes they don't want that lifestyle and they still very much want
1:47:24
to be involved in the business. I think this maybe speaks to the reality
1:47:28
that not every parent is ready to relinquish
1:47:32
their um involvement in the businesses that they've carried on for so long.
1:47:37
Yeah. And some people don't want to retire as fast.
1:47:40
Yeah. Right. So, um, in my practice, I we
1:47:44
haven't done much of gradual transitions yet because all the files we've seen
1:47:48
because these rules have only been around for some short period of time.
1:47:51
Yeah. That we haven't seen every single
1:47:54
scenario play out yet. But um it's it's it's interesting that they did open up
1:47:59
these two tracks to give you flexibility to recognize that there are some
1:48:04
realities within the families that some people are not ready to transition right
1:48:08
away. I do think typically if you're ready to
1:48:10
give up legal control at that point that they're okay to give up operational
1:48:15
but I think they like even in the gradual you have to give up the legal
1:48:18
control right away anyways. You do management can take a lot longer.
1:48:21
Yeah. I think that's why we've seen immediate transfers because usually I
1:48:24
think at that point when they're ready to give up legal control

1:48:28
they're they're usually ready to immediately give up.
1:48:30
They're just saying that if you take gradual path instead of 36 months of
1:48:35
giving transitioning the management now you have five years to do it.
1:48:39
Yeah. Right. Um which then also extends all
1:48:42
the other pieces that of the puzzle that the kid now has to be involved in the
1:48:46
business for a lot longer. Yes. You can't just sell to a third
1:48:49
party. You can't sell it to a third party. So
1:48:51
maybe like uh let's let's look at two other scenarios where like it can play
1:48:56
out like I mean I know um that if a child um
1:49:03
you know the these things like anything can happen in life like I mean the child
1:49:07
could be you know you have to keep the business uh running you have to be
1:49:12
active and all that stuff. What if the child cannot do it because they've got
1:49:16
uh mental illness or there's this disability or death.
1:49:20
Yeah. Right. So the rules have uh I think they have a carve out for that.
1:49:23
They have a carve out for that where like if you have a death physical or mental
1:49:29
disability then the rules will not we'll still honor the fact that
1:49:33
Yeah. Um there's no disadvantage per se,
1:49:36
right? So that's a good thing. Yes. Uh but at the same time like um
1:49:42
uh if you did somehow violated one of the rules to say okay
1:49:49
like I was supposed to hold these shares for 36 months in an immediate path or
1:49:55
track but you sold the child receives like an good to be
1:50:01
true offer. They may not be seeing the business their way and they don't want
1:50:06
to be involved because they didn't just didn't like the business to be taken
1:50:09
over. Yeah.

1:50:10

And they sold. Yeah.

1:50:11

And then so let's talk about what is the penalty? What's the downside, right?

1:50:15

Yeah. So um I mean we

1:50:20

this is probably not somewhere you want to go with but like what happens in that

1:50:23

sense? The deemed dividend.

1:50:25

Yeah. Okay.

1:50:27

Is there any penalties though? Well, there's a retroactive deemed dividend,

1:50:31

right? The capital gain converts to a

1:50:36

capital gain converts into a yeah into a deemed dividend

1:50:39

taxable. 48% tax rate. So, you go from taxfree to taxable 48%

1:50:44

potentially. Retroactively is a word that I wouldn't

1:50:47

have said, but okay. Don't say retroactive. Maybe I'm wrong.

1:50:50

It's retroactively. I'll just say de. So, what would have

1:50:53

been taxfree up to the 1.5 million is taxfree.

1:50:59

Yeah, you already asked the question. So,

1:51:02

so let's play out a scenario where like the child took over the business

1:51:07

immediate path or whatever and just did not like being in the business.

1:51:12

They wanted to be out.

1:51:15

Yeah. If they have like an amazing offer and they're just so tired of running the

1:51:20

business. Yeah. Um Yeah. If you do it within that time

1:51:23

frame, then CRA is going to treat that otherwise tax-free

1:51:28

amount as a deemed gain capital gain up to the lifetime capital gain

1:51:32

exemption. That amount that you had originally thought was taxfree is going

1:51:36

to turn into a deemed dividend or taxable taxable deemed

1:51:40

a taxable deemed dividend potentially. Um and you can be looking at anything

1:51:44

that's a disaster like a 48% tax rate.

1:51:47

That's huge. Okay. So like I mean hopefully the children know what they're

1:51:53

getting into and that parents know that they are you know that the that this

1:51:57

will be not a a test like they really know that the the child is ready to take

1:52:02

on and won't be just you know regretting that decision of taking over the

1:52:05

business and actually going through this. Yeah, it's really important to

1:52:08

understand that there is this time frame that Yeah. that that they're looking at

1:52:12

to make sure that the business is still with the child within that.

1:52:16

Yeah. You know, there's other situations that

1:52:18

I've always contemplated like what if the business fails,

1:52:21

the child mismanaged it and then the business fails.

1:52:26

That would be very unfortunate in many different circumstances.

1:52:28

Yeah. Because I think then it is what it is, right? Like

1:52:30

yeah, it is what it is. Like the I mean you can't predict what

1:52:35

can happen. business do wipe out all the time like I mean when COVID happened few

1:52:39

years ago um a lot of businesses had failed

1:52:43

yeah they weren't able to sustain during that time

1:52:46

yeah so I think I mean the ch the parent may have been out of the business um

1:52:52

maybe they never get paid either because if the child parent said well pay me

1:52:56

overtime I'll give you a promisory note yeah then they just

1:53:00

business runs down to the ground and then that's unfortunate I mean that's a

1:53:04

real But that's a real risk of like

1:53:06

it is a real risk and I think a lot of parents would take that into

1:53:09

consideration when giving up their business to their child.

1:53:11

They're giving to somebody capable. Typically their child's involved and has

1:53:15

shown that they can take over hopefully and then they would

1:53:19

they would do that. Yeah. No, absolutely.

1:53:24

Okay. We were doing asset for sure, but I

1:53:28

don't know how we're going to Which one? Asset. I don't know if you

1:53:30

have time. Oh, we also didn't talk about key

1:53:32

employees. Which what a key employee coming in.

1:53:36

Oh, key employee. Uh I don't think we need to. Okay.

1:53:42

Quite honestly, asset versus share can be a whole

1:53:44

different conversation. I feel like No, we can just kind of close it off with

1:53:48

that. Like, you know, like given that the lifetime capital gain

1:53:52

exemption, most in Canada form of shares, it's also easier to sell shares

1:53:57

because you have to resend the contract. Like I think we can just do a five.

1:54:02

How are you doing? Good.

1:54:05

You know, for me, she's not at Yeah. Where is she?

1:54:11

Oh, yeah. Yeah. Let's wrap it up.

1:54:24

Okay. So, Go on.

1:54:29

Go on. Okay. I don't know. How are we going to start this? Um Okay. So,

1:54:34

it could be just a question. So, I'll ask you a question. Okay.

1:54:36

Yeah. Okay. So, we talked a lot about share

1:54:40

sales. Yeah.

1:54:42

Do you What type of deals do you typically see? Do you see shares being

1:54:46

sold or do you see assets being sold or do you see a hybrid?

1:54:50

Yeah. Um, I mean there's we we we spent a lot

1:54:55

of time talking about a business sale by way of shares, but you can also sell a

1:54:59

business by way of a corporation. I mean, we keep speaking corporation, but

1:55:02

you could sell a business by way of selling the assets of the business,

1:55:06

right? So be it equipment, whatever it is you need to run the business,

1:55:10

equipment, the people, inventory,

1:55:13

inventory, your system, process, you can always like put values to each item

1:55:18

separately and then sell it to somebody as a as a basket of assets to someone. M

1:55:24

now um for the reasons we talked about so extensively related to lifetime

1:55:29

capital gain exemption most deals in Canada

1:55:33

at least in my experience right I see 80 to 90% of the deals are done by way of

1:55:38

share share deals because the seller is motivated to sell the shares of the

1:55:42

company because they see lifetime capital gain exemption being a huge

1:55:46

incentive that otherwise is not available if they sold the assets

1:55:51

contrast this to an asset Um, you know, if you were to sell

1:55:56

assets, you could do that. You could sell the equipment, the customer list,

1:56:00

the goodwill, etc. You can like bucket each of these items and sell the basket

1:56:03

of asset to someone else. But um, it also is a very

1:56:09

more time consuming uh, deal in most part. I mean, because

1:56:14

when you sell a business, right, like in form of shares, the company has

1:56:18

everything in it. It's got the people, the employees, the contracts are signed,

1:56:23

you know, vendors are set. Like you're basically selling a company that's ready

1:56:27

to go and just the ownership is changing, but it's not impacting the the

1:56:32

assets or the how the business is run internally to the company, right? And

1:56:36

that's an e much easier transition for a buyer

1:56:40

who can come to buy the shares of the company because it's the ownership is

1:56:43

changing. When you sell the asset deal, you have to potentially resign all your

1:56:48

contracts with your employees. You have to potentially resign your contracts

1:56:52

with your customers. Um there may be um you know uh and that on its own creates

1:56:59

a lot of friction because it might take a lot long to do that. Sometimes the

1:57:03

licenses are at stake where like particular license that the company has

1:57:08

is like attached to the corporation only and uh like in transportation for

1:57:12

example we had a client where like you know Ontario had issued a CVR uh which

1:57:18

is required for a transportation business well it was attached to the

1:57:21

company right and um the buyer really wanted to buy the shares of the company

1:57:28

in that case they weren't like going after the assets

1:57:30

no yeah uh but I And there are times where like

1:57:33

the buyer is encouraged or more likely than not want to prefer a an asset deal.

1:57:40

There are circumstances for that. Um and that could be like well if I'm buying

1:57:45

real estate assets, buying land, building, etc. Why do I need a company,

1:57:50

right? Yeah.

1:57:51

You want to buy the asset directly? because you can say it's a very real uh

1:57:56

because real estate transactions don't simply happen in former share deals

1:58:01

because uh there are tax disadvantages. Um you your cost bases don't get stepped

1:58:06

up when you actually if when you then have to sell the the land and building

1:58:11

later on because you as a if you did a share deal

1:58:14

and you bought a land and building through that. Well, you have a cost base

1:58:18

in the in the shares, but you don't necessarily translate that into the land

1:58:21
and building unless you did some postclosing. So, there's typically when
1:58:25
you buy the shares, there's when you're buying the shares, you're buying the
1:58:28
cost historical cost basis of the assets. So, there's unrealized gains
1:58:32
within the corporation. Yeah. So, if the company turned around
1:58:34
and sold the Atlanta building eventually, then double tax potentially,
1:58:39
right? Yeah. Now, you can probably do some
1:58:42
restructuring to reduce that kind of impact. But more commonly, land and
1:58:46
buildings, if they're staying in a company, even though they qualify as a
1:58:49
lifetime capital exemption because the land and building is used in active
1:58:53
business, more people prefer that they buy the actual land and building
1:58:57
separately. Yeah. Right.
1:58:58
Um there are other times like um you want to buy an asset such as um you
1:59:05
know, we had that other instance where like someone wanted to sell a basket of
1:59:08
royalties. Yeah, you know, because they had an IP,
1:59:12
intellectual property, which was earning a lot of um royalty income and that
1:59:18
company just simply didn't qualify for lifetime capital gain exemption. Just
1:59:22
didn't have a business. It was just literally an asset that
1:59:25
generated royalties for them. So, the buyer and the seller are okay to
1:59:28
transact at the at the asset level. But you know to say that um asset deals
1:59:34
definitely are more uh more involved because of the all the friction that
1:59:39
causes in the all the reasons that I said before
1:59:43
and sellers are more motivated to sell shares because they want access to their
1:59:47
lifetime capital gain exemption especially if there's lifetime capital
1:59:49
gain because they don't have that if they're

1:59:51

selling the assets like we said you have to sell shares of a qualified small

1:59:54

business corporation. Yeah. Yeah. I mean I had run into one

1:59:58

issue where like you know uh we had a we had a a corporation that had the

2:00:03

business in I mean this is the disaster. We had a corporation that had a business

2:00:07

in it like business that can be sellable has

2:00:10

value can be sellable. Um had whole special licenses

2:00:15

that is attached to the company. It also has land and building that is

2:00:20

not needed for the business. Also had life insurance in it.

2:00:24

Oh no. Then that company owned another private

2:00:28

company. That had pretty much similar makeup.

2:00:31

Like what a disaster of like structure that the the seller had.

2:00:36

Yeah. And really I mean that's one deal in my

2:00:39

experience in the recent times where the structure really killed the deal.

2:00:44

Yeah. Right. Because the buyer really wanted

2:00:46

the the the special licenses and you could not operate the business without

2:00:50

it. But then the seller wouldn't wouldn't sell the shares because there's

2:00:54

too much tax to to to to pay. There was no incentive.

2:00:58

Remove the life insurance, remove the the real estate, remove another

2:01:02

corporation that it owned. Um and truly that was a uh a disaster of

2:01:06

a file that we spent a lot lot of time on, you know, across the table

2:01:11

negotiating, looking at different scenarios. Ultimately the deal died at

2:01:14

the negotiation stages you know and both buyer and seller spent

2:01:18

a lot of money with advisers and whatnot trying to come up with a solution but

2:01:23

none of them got to a place where it was a good compromise by

2:01:26

so I think it's important also we we're talking about structuring but when

2:01:29

you're purchasing all these assets and this real estate and you're having these

2:01:32

investments to think about where you're putting them right is it in your

2:01:35

operating company is in a separate investing company how is that set up

2:01:38

be cog be cognizant ask the right people to tell you where to buy assets Mhm.

2:01:43

Because these these simple decisions that seem to be at the point

2:01:47

when you're buying them become a huge blockers of your deal in the future

2:01:52

and that can cost a lot of professional fees because you were involved in

2:01:55

helping. Yeah, I was involved like you know we

2:01:57

spent a lot of time trying to make this work and just couldn't make it happen.

2:02:01

That's like a an example of like a bad structuring but it can happen.

2:02:07

Okay. Good.

2:02:11

Okay. How are we going to close out? Oh yeah.

2:02:16

Close. What do we need? What did we do last

2:02:19

time? We did those questions, but I don't

2:02:21

remember how we actually close like what we said.

2:02:24

We never say like like No, I don't remember. What did he do?

2:02:35

Oh, I said haha. I remember that. Yeah, but that wasn't going to go in it.

2:02:39

No, no, but like we said something before. Haha.

2:02:42

Oh yeah. Oh yeah. We looked at like a JGBT clothing.

2:02:47

Yeah. Why can't we just think of our own

2:02:49

clothing? Like I mean we can I usually say is like I

2:02:53

usually try to go by myself. Junkie Junkie was saying when we start

2:02:57

we should like just be hanging out and be like, "Okay, Sunny, what's on your

2:03:00
mind today?" And then you it's a warm up
2:03:03
and then No, no, no. He's like that should be
2:03:05
like a hook. That should be the like we're just casually talking.
2:03:08
Make it a you know like a what is it called?
2:03:11
reality show, you know. Well, then we need to pick up this
2:03:16
camera and I'll follow around follow you around.
2:03:21
Um, okay. Anyways, how are we closing off? I got to go.
2:03:24
So, um,
2:03:28
we close it off. We need ch or something.
2:03:34
5:30. I got to go. Okay.
2:03:37
What do you want to say? So, as you can see,
2:03:40
as like we said, structuring is really important.
2:03:45
What does it say? What does it say? Timing is everything. Um,
2:03:59
sorry. The day the buyer knocks Oh, no. I think
2:04:08
it's even in earlier than that. Um, I think we have like core messages
2:04:15
maybe like we just run through. The best exits are built years in
2:04:29
advance when they're calm and not negotiating pressure.
2:04:37
Okay. What do you say? Um,
2:04:41
the best exits are built in built years in advance when you're calm in control
2:04:46
and mind. I don't want to say calm.
2:04:49
Quiet. When you're just quiet when you're
2:04:53
quietly exiting, you just slip out the door and leave the
2:04:59
bottle there. I'm just going to like walk out and you
2:05:07
should just Yeah. Okay. Well, we got to do this. Um Okay.

2:05:12

So, uh

2:05:17

do you want me to do it? Yeah. Yeah. Go ahead.

2:05:19

Tell me what to say. Go ahead.

2:05:23

Wait, where where am I? That's exactly There's nothing there.

2:05:27

I thought you were reading something. I was looking for something, but it

2:05:30

wasn't there. I thought you said you just read

2:05:32

something. Oh, I just make the stuff up. Oh, no. The best exits are built in

2:05:35

years in advance. I just won't say when you're calm.

2:05:38

The calm. Um, all to say that. So, all to say the

2:05:43

best exits are built years in advance, not when you're negotiating under.

2:05:47

Are you looking at me or looking at the camera? What did we do last time?

2:05:50

I don't remember. Okay.

2:05:53

It'll look weird if we're like telling each other.

2:05:56

But we're telling each other the whole time.

2:05:58

No, no, but we're talking, right? Yeah, we give conclusion to each other after

2:06:03

talking about ourselves. How should we do it? Okay, I'll look

2:06:09

I'll look at the camera and say it. Okay, but I think we got to keep the

2:06:14

iPad here because it's the whole time it was here.

2:06:16

Okay. Continuity.

2:06:19

Can should I say my takeaway and talk to you about it?

2:06:22

Yeah. Okay.

2:06:24

Or the audience takeaway? Uh I don't think we need to say

2:06:28

audience. I mean, I I usually see there's like one person we're talking

2:06:30

to. Oh, so it's my

2:06:32

That's how I imagine it. So, it's my

2:06:33

No, no, like as in like I see it's like I'm talking to I'm talking to like Sam.

2:06:37

No, we're talking to an audience. Like we have so many views.

2:06:41

We have like 10 million views. Oh, wow.

2:06:44

We're talking to Junkie. Okay. Diary of CEO.

2:06:46

Yeah. So, even he doesn't get 10 million.

2:06:51

I don't know how many gets like Joe Rogan only gets like three.

2:06:54

Okay. Okay. I don't know. Um, so Sunonny, my takeaway from this

2:06:59

conversation is I'm going to No, I saw my takeaway though. It's for clients.

2:07:04

Just say, you know, to summarize to summarize, it's important.

2:07:08

The takeaways are that, you know, okay, I got

2:07:12

what? Yeah. Okay. So, wait, how did you start? So,

2:07:17

in summary, so you know, just to summarize after

2:07:19

this conversation XY Z. Okay. Just to summarize the

2:07:23

conversation. I can't.

2:07:28

I don't want to start the 5:33.

2:07:35

Okay. You're making me late.

2:07:38

I'm making you late. Okay. Okay.

2:07:41

Um, to summarize the conversation, the biggest takeaway is it's important to

2:07:46

structure well in advance, to think about your exit 5 10 years out and not

2:07:52

to be planning your structure and and thinking about your exit when you have a

2:07:58

letter of intent come up because there's a lot like we spoke about things to

2:08:03

consider from a tax perspective, from an operational perspective.

2:08:07

Yeah. Be prepared. Um, think about things, have foresight. Uh, talk to your

2:08:13

accountant, your tax advisor. They will lead you down the path of like what are

2:08:17

the options available. Uh, look at different perspectives. Uh,

2:08:22

look at what you want. Yeah.

2:08:24

Think about what you want. Think about what you want. What type of

2:08:26

career do you want to have? What type of business exit? What type of legacy you

2:08:31

want to have and uh, you know, all the options

2:08:34

available to you. Yeah. Yeah,

2:08:35

but then you make one you make an informed decision

2:08:40

and also covering off all the other things like you know making sure you

2:08:44

know don't leave low hanging fruits like make sure you use lifetime capital gain

2:08:48

exemptions not only yours but also all the other family members available to

2:08:52

you credit proof the business you know don't leave your savings

2:08:57

exposed to the business risk don't leave assets in the company that

2:09:00

the com buyer would not want to buy and

2:09:04

it doesn't have to be a lonely process. There's advisors out there that will,

2:09:07

you know, prompt you and ask you the right questions to get to that end goal.

2:09:11

Yeah. Yeah. It's like these are like big ch

2:09:16

big changes to the structure perhaps, but then it will save you uh you know,

2:09:21

you spend thousands, but like it'll save you potentially millions.

2:09:24

Yeah. Taxes and efficiency and like less

2:09:27

headaches and smoother process down the line.

2:09:29

Yeah. And I think you'll have a a better

2:09:32

experience all around. So yeah,

2:09:35

that's the that's the takeaway from that's the biggest takeaway.

2:09:38

Yeah. Now we shake on it.