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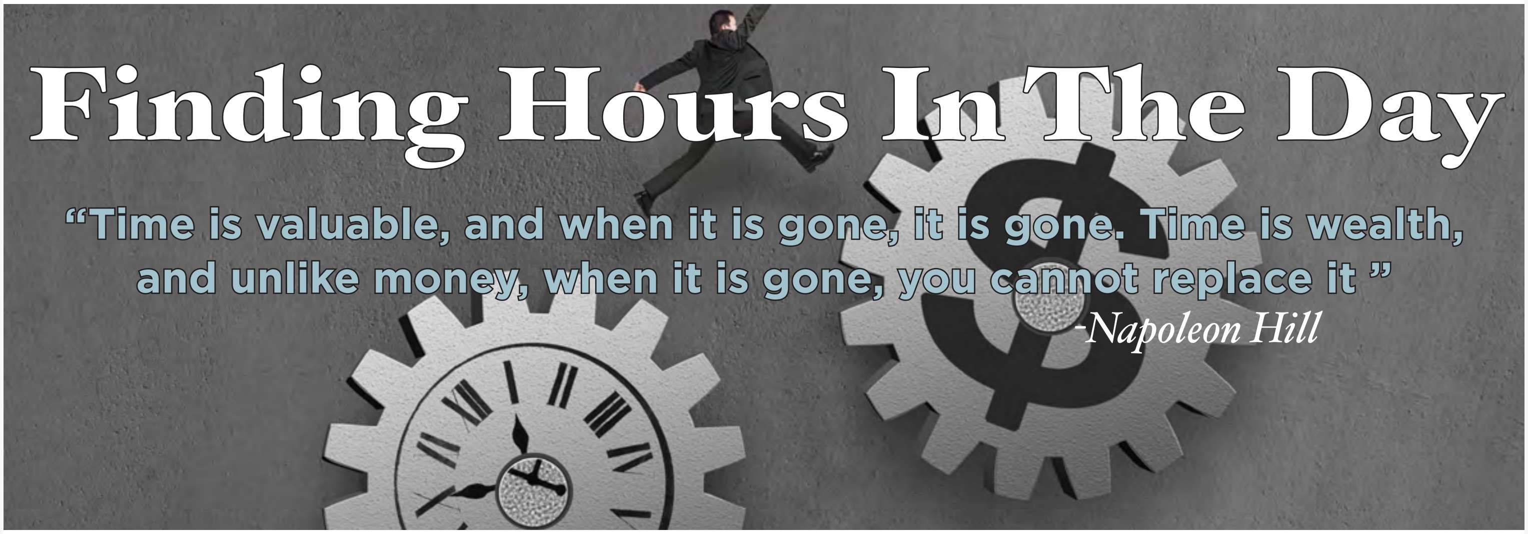

Finding Hours In The Day

"Time is valuable, and when it is gone, it is gone. Time is wealth, and unlike money, when it is gone, you cannot replace it"

-Napoleon Hill

TACTICS | APRIL 2015 | KOSTAS N. ANDRIKOPOULOS, CPA, CA, TEP | MANAGING DIRECTOR (EASTERN CANADA)

An increasing number of Canadians are reinventing their careers and becoming their own boss. More and more, Canadians are leaving their jobs to start their own business endeavors and embark on a journey of entrepreneurialism.

I know, when you think of "start-ups" you associate them with Generation-Y and the freshly graduated millennials; however, you may be surprised who else is dipping their toes into that pool. According to a recent CIBC report, Canadians over the age of 50 are the fastest growing segment of the startup population, owning nearly 30% of new businesses.

This growing demographic has distinct characteristics and unique needs. In my career as an advisor, I have worked with many business owners. If there is one constant trait amongst them all, it is their drive and unwavering focus on running a successful business. While the majority of these companies do succeed over time, the success often comes at a price – the disarray of their personal and financial affairs.

Why do so many intelligent and successful business owners fail to have a plan? Truth be told, the answers are often as obvious as they are complicated.

- Running a business can be all-consuming and most require time and energy to be successful.
- Financial planning requires effort and information which may not be readily available.
- There is a common misconception in that a successful business equals a comfortable future.
- If uninformed on the big picture, accountants, lawyers, and other professional advisors may not initiate discussions about planning for the future.

When working with business owners, the objective is to discuss their long-term vision for their company and personal financial plan. Once a complete vision is created, we generate a comprehensive financial plan to get them there; no different than the business plans they would prepare for their companies.

Their considerations when planning include:

- Compensation structure
- Share structure
- Succession planning
- Tax-saving opportunities
- Insurance & risk management
- Owner/operator exit strategy
- Wills & estate planning
- Investments and diversification

When discussing how we build a sophisticated financial plan for business owners, a particular family often comes to mind.

I first met with Sam, Leo, and Alan five years ago. These three siblings were busy growing and operating a booming maintenance business. The company was very successful and generated over $1 million in net income before income tax and equal compensation for each of the siblings.

Unlike the distribution of salary, the ownership of the company was not equal. On paper, the eldest sibling, Sam was the sole proprietor. He was the one that had started the business and eventually invited his younger brothers, Leo and Alan, into the business. Back then, Sam had committed that all of them were going to be treated equally. Leo and Alan had communicated to me that the fact that this was not yet the case was a source of worry and contention for them.

Collectively, these brothers were preoccupied with ensuring the business was in good health rather than addressing some of the long-term financial issues. Not realizing the risk associated with not having a plan, they all assumed that if the business was successful, the future would be bright – until they had a close call.

A recent cancer survivor, Sam was forced to slow things down and realize the impact of his illness on the future. Currently, with no company share structure, no insurance, and no plan, his business and his family would have been completely unprotected should anything have happened to him. Not only would there be emotional factors but also financial, legal, and logistical implications of losing an essential member of their family.

Now was the time to plan ahead. Sam's lifelong dream was to sail around the world. Given his recent win over the illness, Sam decided to retire at the age of 50 (approximately 10 years earlier than he and his siblings had expected), purchase the yacht of his dreams, and live a life of leisure with his wife Dorothy.

In consultation with Sam's other professional advisors, we assessed his current reality as well as established retirement, business, and legacy objectives. During our meeting, I quickly identified opportunities to set up Sam and Dorothy, as well as the brothers and the business, for the future.

In order for Sam to retire and purchase his yacht he needed to sell his part of the business; therefore, I broached the topic of creating a share structure that would include the younger siblings. Not only would an equal share structure be pivotal in the sale of Sam's portion of the company, but also, currently, some tax-saving opportunities were being missed. An example of missed opportunities included the establishment of an Individual Pension Plan (IPP) or the establishment of a holding company to "purify" the company of non-active assets. We looked at reducing the income tax liability for the economic unit.

The initial action we took was facilitating an estate freeze and created the shareholders' agreement which included Leo and Alan, for which the lawyer was instrumental. By creating a new class of shares we enabled Sam to sell shares, rather than assets and he was able to use his capital gains exemption. Aware of these changes, the accountant was able to analyze the salary/dividend mix, determining the optimum point where the shareholders and the corporation pay the least amount of income tax. We also recommended life insurance policies for the shareholders to reinforce the new financial plan.

It is important with tax planning and insurance that the plan is put into place well ahead of the actual sale of the business occurring. Otherwise, Sam would potentially leave hundreds of thousands of dollars on the table during the sale of his business. Also, in the case of an unforeseen event, this family and business would be extremely vulnerable.

The result of this planning exercise was that Sam, Leo, and Alan were pleased with being treated equally, the overall income tax liability was reduced, and we were able to use the corporation as a mechanism to defer income taxes.

Ultimately, we were able to work together with the business owner and his advisors to secure the future of the individual, his family, and the business. As Sam comfortably navigates the globe, the remaining owners are now able to focus their time and efforts on their business with some piece of mind, knowing they are being steered in the right direction.

This is a hypothetical scenario of a common financial planning strategy. Any resemblance to real persons or circumstances is coincidental.

What traits should business owners look for in a financial advisor?

Attentive	Listens to your goals and objectives
Perceptive	Identifies, understands, and prioritizes your concerns
Articulate	Formulates clear and specific recommendations
Flexible	Helps business owners with issues unique to their situation
Efficient	Respects your time and ensures that every meeting provides value
Collaborative	Utilizes and works well with other advisors

BUILDING A PLAN

A major part of NWM's planning process involves uniting our clients' trusted advisors and creating a plan – essentially becoming a "financial quarterback." By facilitating this "game plan" and lightening the load, business owners can win back some of the valuable time they need to better manage their daily lives both in the office and at home.

Much like a business owner's corporate business plan, the financial plan we present includes:

- A review of the current situation including short, mid, and long-term financial objectives
- A budget (cash flow)
- A balance sheet
- A review of tax position (personal and corporate)
- Retirement income planning (utilizing dynamic income and asset projections)
- Risk management (protection – life insurance, liability insurance, disability and critical illness insurance, etc.)
- Capital investments (review of investments and asset allocation)
- Wills and estate planning

When implementing these plans, we take a look at the big picture which involves both the business owner's family and their business. It is very important that a business owner's significant other be in attendance, understands the plan, and acknowledges how it may affect their household. This holistic approach not only expedites the planning process, but ensures that, again, everyone involved is on the same page.

In my experience, this overview has always been appreciated by business owners. In many cases, it is the first time they've seen their entire financial future mapped in one place, let alone, accompanied by a plan for their future wealth building.

In terms of holistic planning, here is what Nicola Wealth Management offers that business owners appreciate:

1. Our integrated financial plan addresses all financial issues – not just investment issues.
2. Our exclusive investment pools provide access to institutional asset classes.
3. We offer private equity investments, typically reserved for the ultra-high net worth individual.
4. We offer the opportunity to invest in hard asset real estate.
5. We focus on cash flow – asset values will go up and down, but if we can ensure a stable cash flow it will address a client's needs long term.
6. We look at insurance as an asset class thus increasing after-tax portfolio returns.
7. We have third party custodians offering an added layer of asset protection.
8. We practice what we preach – NWM advisors and shareholders personally invest alongside our clients.

In the fast-paced life of a business owner their finances often get left behind. They see their work ethic and business success as security for the future when in reality, business owners have more on the line and are at greater risk.

There simply are not enough hours in the day for a business owner to identify and act on the opportunities available for their financial future. These opportunities are the details I seek out and share as a financial mentor and trusted advisor.

We help business owners find more hours in their day.

Things to Consider

A Checklist for Business Owners

These are all important points which your financial advisor can help walk you through in order to create your financial plan and, ultimately, your future.

Planning Ahead

- ☐ Define visions, goals, and objectives for the business (short and long-term)
- ☐ Perform a SWOT analysis for your business
- ☐ Establish a team of professional advisors (e.g. financial advisor, accountant, lawyer, etc.)
- ☐ Review suitability of business structure moving forward (e.g. sole proprietorship, partnership, corporation, etc.)
- ☐ Consider the use of a holding company (particularly if you have business interests outside of Canada)
- ☐ Consider creating a trust
- ☐ Perform a salary/dividend mix analysis

Your Retirement

- ☐ Determine your timeline to retirement
- ☐ Consider how you plan to finance your retirement
- ☐ Define your expectations for retirement income
- ☐ Contemplate philanthropy

Exit Strategy

- ☐ Think about a succession plan
- ☐ Decide if, after retirement/death, your business will remain in the family or be sold
- ☐ Plan who will receive an equitable share of the business in the case of retirement/death
- ☐ Schedule additional training for successors if needed
- ☐ Consider "Business Interruption Insurance"
- ☐ Analyze how much life insurance is needed and who should purchase it

Documents

- ☐ Contact List (business, personal, key employees, professional advisors, etc.)
- ☐ Shareholder Agreement
- ☐ Financial Statements
- ☐ Tax Returns
- ☐ Will(s)
- ☐ Trust Agreement(s)
- ☐ Letters Patent
- ☐ Property titles, mortgages, rental agreements
- ☐ Corporate records (including contracts)
- ☐ Key customers and suppliers