



# Readying Your Shellfish Business For Transition

PLANNING FOR THE FUTURE

February 5, 2025



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## Who We Are



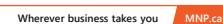
**Karen Guinan, CPA, CGA**  
Partner, Business Advisor

Drawing from 25 years of experience as a CPA, Karen provides accounting, tax, succession planning and management advice to business owners to help them make sense of their finances and plan for the future. Karen works extensively with clients in the agriculture, aquaculture and seafood sectors, including farmers, commercial fishermen, shellfish growers, and food and beverage processors.






**Sarah Witherow, CPA**  
Manager, Private Enterprise

Sarah is a Manager in MNP's Private Enterprise accounting team, leveraging six years of public practice experience to provide exceptional service to her clients. With a strong focus on tax compliance and business performance analysis, Sarah specializes in helping clients navigate their tax obligations while gaining valuable insights into their operations.




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# Transition Planning

1. What is transition planning
2. Why does it matter
3. When should you start




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# Transition Planning ...

1. What is transition planning
2. Why does it matter
3. When should you start


## Transition planning is:

- A process
- About family, people and relationships
- About ownership, management and estate
- About what is fair
- Driven by family values, wants and concerns

## Transition planning is not:

- An event
- One person's problem
- About minimizing taxes
- About equality

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## Why does planning matter?

- Protects the legacy of your business
- Builds value for your business
- Provides financial security for your family and stakeholders
- Deals with unexpected events (illness, accident or death)
- Prepares for the future

## Why does planning matter?

### Points of Departure - Triggers

- Retirement / succession – recognize the need for a transition
- Lack of capital for expansion – risk profile and age no longer match
- Personal issues - fatigue / loss of interest
- Market issues – competitive pressures
- Increase in business regulation / risk
- Problems with other shareholders
- Divorce
- Death





## When should you start?

If you expect to leave your business in the next 5 years, you should start now!

- Even if you are new to business, there should be a plan in place for the unexpected.
- Transition takes time, transitions can take up to 5 years and sometimes longer depending on the size.
- Family issues can complicate implementation of a succession plan. This is because most people are not comfortable talking about aging, death and finances.

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## Certainty

Decisions, decisions, decisions...

The only thing for certain is one day you will transition and therefore it's important to be well prepared to ensure a seamless transition that provides you the most clarity, security, and peace of mind.


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## Business Valuation




1. Key Considerations
2. Value Drivers

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## What is your business worth today?

1. Think like a buyer - take a critical assessment of your:
  - Business operations
  - Business structure
  - Business systems and the information they provide
2. Identify the value drivers in your business
3. Think about what makes you successful
4. Think about what sets you apart from your competitors




Planning early gives you time to build up the value

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## What drives value in your business?

### Things to consider

- Consistent or growing cash flows – drives EBITDA (Earnings before interest, tax, depreciation and amortization) and multiples
- Realistic growth strategies – growth for the sake of growth vs. growing your bottom line
- Secondary management team – transition
- Stable and diversified revenue streams – diversified customer base with limited customer concentration
- Strong financial controls and systems
- Stable employee group – tenure vs. age
- Timing the market and selling in a position of strength

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## What drives value in your business?

### Things to consider

- Shareholders agreement – impediments to value
- Review financing agreements, remove guarantees, watch for cross guarantees
- Remove non-essential assets
- Land and buildings in a separate holding company
- Document agreements with key parties (employees, suppliers, customers)
- Protect intellectual property
- Update corporate documents:
  - Minute Books
  - Licenses / Permits

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## Tax Planning



1. How to Transfer Ownership
2. Farm Transition Rules
3. Capital Gains Exemption
4. Planning
5. Trips and Traps









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## How to Transfer Ownership

### Options

-  Estate freeze and bring in new common shareholders - partial or complete
-  Estate freeze and bring in family trust
-  Incorporation of proprietorship or partnership
-  New partnership
-  Partial sale of shares or partnership interests
-  Complete sale of assets
-  Gift of shares / assets / partnership interests
-  Sale and bequest in will



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## Qualified Fishing Property (QFP) & Intergenerational Transfers

What can transition from one generation to the next?

- Fishing vessel
- Fishing licenses or quota
- Fishing partnership interests
- Shares in a family fishing corporation
- Flexibility in value transferred (anywhere between cost & fair market value)

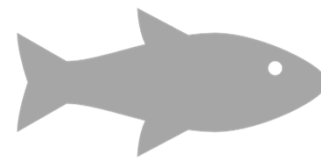


Stringent tests to ensure they are considered "fishing" and conditions must be met. 90% asset test on family fishing partnership interests and family fishing corp. shares

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## Lifetime capital gains exemption(Qualified Fishing Property)

- Allows an individual to shelter up to \$1,250,000 of capital gains from tax
- Effect in BC: **\$392,500**
- Capital gains inclusion rate changed from one half to two thirds as of June 25, 2024



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## Qualified Fishing Property (QFP)

### When were the assets acquired?

#### Before June 17, 1987

- In order to be considered qualified fishing property, it must have been used principally in fishing business in the year of sale, or for at least five years during ownership.
- There is no gross revenue test.

#### After June 17, 1987

- Property must be used principally in a fishing business, and for any two years, the gross revenue from the business of the fisher needed be more than all other income for the year.
- This is known as the gross revenue test

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## Capital Gains Exemption

### Partnerships and Corporations

- 1st condition – Previous 24 months
  - 24 month holding test
  - More than 50% of the fair market value of the property owned was attributable to property used principally in fishing by individual, trust, spouse, child or parent, family fishing corporation or family fishing partnership

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## Capital Gains Exemption

### Partnerships and Corporations

- 2nd condition – Time of disposition
  - More than 90% of the fair market value of the property owned was attributable to property:
    - Used principally (more than 50%) in fishing
    - By an individual, trust, spouse, child or parent, family fishing corporation or family fishing partnership
    - Shares of a corporation that meet this definition

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## Trips and Traps

### Watch Out!

- Corporation holds excess non-fishing assets (e.g., principal residence, rental property, investment account)
- Fishing property must be held for 36 months after gift otherwise original gift is taxable
- GST and Property Transfer Tax implications
- Capital gains exemption can trigger Alternative Minimum Tax, claw back of Old Age Security benefits, reduction of Child Tax Benefits, Pharmacare costs etc.

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## To transition, you must start from the basics

1. Establishing a solid business foundation
2. Organization of company documents
3. Required documents

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## Your Business Structure

Your structure impacts your strategy



**Proprietorship**



**Partnership**



**Corporation**

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## The Value of Good Records and Business Systems

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Bookkeeping is the foundation that all great businesses stand on.



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## Bookkeeping is a Financial Story

Where is your business going? What will it take to get there?

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Clear picture of revenues, costs, and cash Flow



Helps you design your next Business target



Claiming deductions & expenses



Taxes and governmental filing obligations



Financing



Budgeting and financial planning

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## Ways to organize Information



1. Excel – Client Synoptic



2. Accounting software

- Desktop software
  1. Sage 50
  2. QuickBooks Desktop
- Cloud Platforms
  1. QuickBooks online (Cloud)
  2. Xero



3. Personalized accounting software

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## Excel

- Simple
- Suitable for minimal transactions
- Least expensive option



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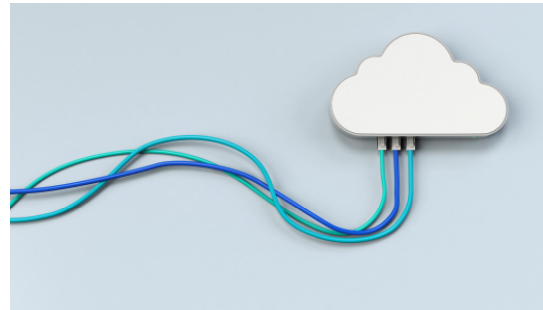
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## Cloud Software

- Remote access - access to financial information from anywhere
- Automation
- Share file with multiple users – file can be worked on simultaneously
- Can become paperless



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## Information Needed for Transitions



1. Updated Financials (3+ years)
2. Tax Returns (3+ years)
3. Updated Central Securities Register
4. Investment agreements in other companies
5. Fair market value of capital assets/leases
6. Intercompany balances – provide detail

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## Key Steps

### Legal Structure

- Review the business entity type
  - Corporation
  - Sole Proprietorship
  - Partnership

### Finances

- Getting your financial records in order
  - Balance sheet
  - Profit and loss statements
  - Tax returns (3-5 years)

## Key Steps

### Legal Documentation

- Ensure you have all critical legal documents
  - Central securities register
  - Incorporation documents
  - Business contracts
  - Lease agreements
  - Related party agreements

### Compliance

- Ensure your business is compliant with all relevant regulations
  - Tax obligations
  - Employee laws
  - Industry-specific requirements

## Tips

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## Record Keeping Tips

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- Separate business and personal expenses
- Reconcile bank account and credit cards monthly
- Keep your receipts
- Meals and entertainment – purpose and names
- Keep a mileage log for business travel
- Personal phone used for business calls? Track and reimburse yourself
- Track capital assets

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## Tax Tips

- File your tax returns on time
  - Corporation
    - Tax return due 6 months after year-end date
    - Taxes payable typically due 3 months after year-end date
  - Sole proprietorship with farming activities/business schedule
    - Tax return due June 15, 2025
    - Taxes payable due April 30, 2025
- Register for GST
  - Sales of shellfish are zero rated
  - Claim input tax credits (ITCs) on expenses paid

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## Key points

- It's never too late to organize. Start now.
- Get help if you don't know where to start
- Good financial records will help you receive the best price for your business and ensure a smooth transition
- Review financial statements annually:
  - Is your company in the position to sell?
  - Is it purified?

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# MNP Questions?

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## Contact



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