



BC SHELLFISH
GROWERS ASSOCIATION

Introduction to Transition Planning

MNP

Transition planning is an essential part of securing the future of your shellfish business. Regardless of how long you've been operating, thinking ahead about how and when you will exit your business can help you preserve its value, minimize tax burdens, and ensure a smooth transition to the next generation or buyer. This guide will help you understand the key steps and considerations involved in planning your transition.

WHAT IS TRANSITION PLANNING:

Business transition occurs when a business is passed from one owner to another. This can be a family member, employee-share ownership program, or third-party sale.


Business transition is a process, not a one-time event. It is designed to help you clarify your long-term goals, avoid common pitfalls, and preserve the value of your farm. By considering your goals and exploring available options ahead of time, you'll be better positioned to make informed decisions and take advantage of opportunities as they arise.

As you begin planning, it's helpful to reflect on three key questions that will shape your transition strategy:

- When do you want to transition the business?
- What is your preferred exit strategy?
- How can you improve the value of your business prior to sale?

WHEN DO YOU WANT TO TRANSITION THE BUSINESS?

Our timeline for transitioning out of the business will depend on your personal goals, circumstances, and vision for the future. Whether you're planning for retirement, pursuing a new opportunity, or responding to a change in health or family needs, starting early allows time to adequately create and implement a successful transition plan.



Ideally, transition planning should begin at least 3 to 5 years before you intend to exit your business. Transitioning a business involves complex tax and legal considerations, and some strategies require years to implement. The earlier you start planning and engaging the right professionals ahead of time, the more options you will have available. Starting early gives you the best chance to get top dollar for your business and pay the least amount of tax.

HERE ARE A FEW IMPORTANT THINGS TO CONSIDER FOR YOUR TIMELINE:

Do assets you own personally or shares that you hold of your corporation qualify for the Lifetime Capital Gains Exemption or Intergenerational Rollover?

What Qualifies?	What Doesn't Qualify?
Real property used in the business	Equipment & machinery
Licenses and quota	Inventory
Shares in a family farming corporation	

Do you have updated financial information to provide the prospective purchaser?

Balance sheet (should include the following):

- Inventory
- Capital asset listing
- Intangible assets

Income statement

- Overall profitability

WHAT IS YOUR EXIT STRATEGY?

There are generally three options that we consider when transitioning a business.

1. Sell to a third party
 - Via share or asset sale
2. Sell or transfer the business to family member
 - May qualify for tax benefits through an intergenerational rollover.
3. Close the business

SALE OF SHARES

The Lifetime Capital Gains Exemption (LCGE) allows an individual to shelter up to \$1,250,000 of capital gains from tax. This is approximately \$362,500 in tax savings. The following requirements must be met:

1. The shares must qualify as a qualified small business corporation.
2. Holding Period Test
 - For 24 months, more than 50% of the fair market value of the assets were used principally in the business of Farming in Canada in which an individual, spouse, child or parent was actively engaged on a regular and continuous basis.
 - Rental or lease income does not qualify as active farming income.
3. Inactive assets such as real estate and investments may need to be removed from the company
4. The corporate structure should allow for the ongoing removal of inactive assets and excess cash
5. At the time of sale, 90% of the assets must be used actively in the business.

A sole proprietor or a partnership may also qualify for the LCGE, but it takes additional planning. This is why early planning is essential: it gives you time to take the necessary steps to remain compliant and qualify for the Lifetime Capital Gains Exemption.

INTERGENERATIONAL ROLLOVER

Selling or transferring your farm business to a family member could give you access to the Intergenerational Rollover tax strategy.

For an individual to be able to transfer fishing property to lineal descendants using the rollover provisions, the following requirements must be met:

1. Child is a resident of Canada (extends to children-in-law, grandchildren and great-grand children as well);
2. Individual: assets (see chart on pg. 1) are used principally in a farming business in which the taxpayer (or taxpayer's spouse, parents and/or any children) was actively engaged on a regular and continuous basis

Principally:

- i. Use test >50% of the asset used in farming business
- ii. Time based test: more farming years than non-farming years (>50%)

HOW DO YOU IMPROVE THE VALUE OF YOUR BUSINESS PRIOR TO SALE?

One of the key advantages of starting your transition planning early is that it gives you time to build the value of your business before you exit. Whether you're planning to sell to a third party or transfer ownership to a family member, taking steps now to improve your financials, operations, and market position can make a significant difference in the outcome.

Here are several areas to focus on as you prepare your business for transition:

Build a Strong Management Team & Processes	Build a capable management team and delegate responsibilities. Document standard operating procedures for continuity.
Maximize Revenues	Ensure all revenues are properly recorded and captured. There is a tendency to not report income to pay less taxes, however this does not show a potential buyer you have a profitable business. Review pricing strategies and identify opportunities to increase margins. Secure long-term or recurring revenue contracts to demonstrate stability.
Optimize Costs	Identify and remove any personal or non-business expenses from the company. Streamline operations and reduce unnecessary overhead.
Strengthen the Brand & Customer Base	Establish strong contracts, relationships, and networks that can continue after your exit. Highlight recurring or repeat customers to demonstrate reliability of future sales.
Maintain Accurate & Transparent Records	Keep financial statements, tax filings, and corporate records up to date. Document key business processes and internal controls to give buyers confidence. Ensure accounting reflects true performance of the business.
Diversify Products & Revenue Streams	Reduce reliance on a single customer, supplier, or product line. Explore opportunities to expand offerings or markets. Showcase growth potential beyond current operations.
Manage Legal Interests & Risk	Ensure contracts, leases, and intellectual property are properly documented and transferable.



A FINAL WORD

Successfully transitioning your business involves many important steps, and it all begins with answering these key questions. At the end of the day, the only certainty is that one day you will exit your business. The earlier you start planning, the better prepared you will be to ensure a smooth process that achieves your transition goals. As a business owner you've spent years building up the value of your business—don't wait until it's too late to protect it.

Additional resources and information are available at the BCSGA website at:
<https://bcsga.ca/transitionplanning/>.

Please consult a qualified tax advisor to determine how the information above applies to your specific situation. The tax rules related to business transitions are complex, and professional guidance is essential.