



A GUIDE FOR CANADIAN BUSINESS OWNERS

Passing the Business Down to Family

*What every parent should consider before transitioning
their business to their children or other family members.*

INTRODUCTION

Keeping It in the Family Is One of the Hardest Exits to Get Right

For many business owners, there is no better ending to the story than handing what you built to your children. It feels natural, keeps your legacy alive, and keeps the business in the hands of people you trust.

Owners often assume that because it is family, the transition will be simpler than selling to an outside buyer. It is usually more complicated. When you sell to a stranger, you are simply the seller. When you transition to family, you are the seller, the parent, often the lender, and still the person at the head of the table at Sunday dinner. Every decision about price, control, timing, and fairness carries emotional weight.

A family transition can go wrong in quiet ways. The successor was never fully prepared. The parents give away more than they can afford and become financially dependent on the next generation. A large, avoidable tax bill lands at the worst possible moment. Or the siblings outside the business feel the transfer was unfair, and relationships fracture for years.

None of this is inevitable. It happens when the transition is treated as a single event rather than a planned process, and when the business plan is disconnected from the tax, wealth, family, and estate plans.

A successful family transition is not measured only by whether the business changes hands. It is measured by whether the business thrives, you remain financially secure, your tax is minimized, and your family is still a family when it is done.

This guide walks through the six dimensions we work through with every owner planning an exit: **Business, Wealth, Tax, Family, Purpose, and Legacy**. Each section outlines the key issues and closes with questions to ask yourself. Use it to start the right conversations.

THE FRAMEWORK

The Six Dimensions of a Family Transition

A family transition touches every part of your life, not just the business. Each one is covered in the pages that follow.

01	Business	Is the business ready to run without you, and is your successor ready to run it?
02	Wealth	Can you afford to transition the business on the terms you are considering?
03	Tax	Is the transfer structured to keep as much value as possible in the family?
04	Family	Is the plan fair, clearly communicated, and protected by the right agreements?
05	Purpose	Do you know what your role, and your life, will look like afterward?
06	Legacy	Does your estate plan protect the transition if the unexpected happens?

Most owners spend years thinking about the business side of a transition and very little time on the other five. In our experience, it is usually one of those other five that determines whether a family transition truly succeeds.

DIMENSION 01 • BUSINESS

Is Your Successor Ready, and Is Your Business?

It is easy to assume a child who grew up around the business can naturally lead it. Interest, capability, and credibility are three different things, and each one has to be tested honestly.

Start with whether they actually want it

Before designing any structure, ask directly whether your successor genuinely wants to own and run the business, or feels obligated to. A reluctant successor is one of the biggest risks to the business and the relationship. Learn this early, while other exit options remain open.

Assess readiness objectively

Owning a business and working in it are different jobs. Does your successor have experience managing people, cash flow, lenders, and key customers? Working outside the business first, an independent assessment, or a formal development plan with milestones can all help.

Reduce owner dependency before the handoff

If key relationships and critical decisions all run through you, they will not automatically transfer to your child. Plan a staged handoff of relationships and decision rights, and document what currently lives in your head.

Do not forget your key employees

Long-serving managers may have expected a path to ownership or leadership. How you communicate the plan, and any retention incentives, can determine whether your best people stay.

QUESTIONS TO ASK YOURSELF

- Have I asked my successor directly, and privately, whether they want this?
- Would I hire this person to run the business if they were not family?
- Could the business run for a month without me, and would customers, lenders, and staff follow my successor?
- Is there a written leadership development plan with milestones and a target date?

DIMENSION 02 • WEALTH

Can You Afford to Hand It Over?

Many parents want to be generous with the next generation, and many children cannot afford to pay full value. Before deciding how much to gift or how to finance a sale, you need to know what you need.

Know your number

Your number is not the value of the business. It is the after-tax amount you need to fund the lifestyle and retirement you want for the rest of your life. Until it is calculated, you cannot know how much you can afford to give away, and how much you need to be paid.

Gift, sale, or a combination

Transitions usually fall on a spectrum: an outright gift, a sale at fair market value, or a blend of the two, often combined with an estate freeze. Each has very different tax and cash flow consequences.

Be careful about becoming the bank

Family transfers are often financed with a vendor take-back, where you are paid over time out of the company's future profits. Your retirement then depends on your child running the business successfully. If you go this route, structure the note properly with security, interest, and clear terms, and do not rely on it for essential income.

Build wealth outside the business

The more of your net worth that sits outside the company, the more flexibility you have to be generous, patient, and fair, and the less pressure on both you and your successor.

QUESTIONS TO ASK YOURSELF

- Have I calculated, with a planner, the after-tax amount I need to be financially independent?
- How much of my net worth sits outside the business today?
- If my successor could not make payments for two years, would my retirement still be secure?
- Does my spouse share my view on how much we can afford to give?

DIMENSION 03 • TAX

Keeping More of the Value in the Family

In Canada, how a family transfer is structured can change the tax bill dramatically. Many of the most effective strategies must be in place years before the transfer, so tax planning should start first, not last.

Start with a proper valuation

Transfers between family members are non-arm's-length. For tax purposes, a gift or a sale below value is generally treated as if it happened at fair market value, which can create tax with no cash to pay it. An independent valuation supports your numbers with the CRA and gives the family an objective starting point.

The Lifetime Capital Gains Exemption

If your company qualifies as a Qualified Small Business Corporation, each eligible individual may be able to shelter more than \$1.25 million of capital gains from tax. The qualification tests often take time to meet, and with the right structure in advance, such as a family trust, the exemption may be multiplied across family members.

Intergenerational transfer rules

Selling your shares to your child's corporation used to risk dividend treatment rather than capital gains, penalizing family sales. Updated rules now allow capital gains treatment on genuine intergenerational transfers, if specific conditions about transferring control, management, and economic interest are met within set timeframes. The details matter. Where you are paid over several years, a capital gains reserve may also spread the tax on a qualifying transfer over up to ten years.

Estate freezes and family trusts

An estate freeze locks in the current value of your ownership so future growth accrues to the next generation, often through a family trust. This can cap your tax at death and keep flexibility over who benefits. Trusts carry their own rules, including a deemed disposition every 21 years, that must be planned for.

QUESTIONS TO ASK YOURSELF

- When was my corporate structure last reviewed with a family transfer specifically in mind?
- Do my shares currently qualify for the Lifetime Capital Gains Exemption, and if not, how long would it take?
- Do I know my estimated tax bill if I passed away tomorrow?

DIMENSION 04 • FAMILY

Fair Is Not Always Equal

The biggest risk in a family transition is rarely the business itself. It is the relationships around it. Families who navigate this well plan the conversations as carefully as the transaction.

Treating children who are not in the business fairly

If one child takes over and another does not, splitting the shares equally can leave an inactive sibling with influence over a business they do not work in, and an active sibling building value for someone else. Many families aim for fairness rather than strict equality, using other assets, life insurance, or a different share structure to balance the estate.

Communicate early and openly

A family meeting where you explain the plan and everyone can ask questions is far better than your children discovering it when your will is read.

Put governance in writing

A shareholder agreement should address who controls decisions, how shares can be sold or transferred, how disputes are resolved, and what happens on death, disability, or departure. With several family owners, a family charter or council keeps family matters separate from business decisions.

Protect the business from relationship breakdown

Under provincial family property laws, a successor's separation or divorce can put business shares in play. Marriage or cohabitation agreements and careful structuring of gifts and inheritances help keep the business in the family.

QUESTIONS TO ASK YOURSELF

- Have I defined what “fair” means for each of my children, and could I explain it to all of them?
- Have we held a family meeting where everyone heard the plan at the same time?
- Does our shareholder agreement reflect who will own and control the business after the transition?
- Is the business protected if my successor's relationship ends?

DIMENSION 05 • PURPOSE

What Is Your Role After the Handoff?

For many owners, the business is not just what they do. It is who they are. Without a clear plan for what comes next, it is very hard to let go, and a successor cannot lead while the founder is still quietly in charge.

Define your new role, and an end date

Decide whether you will stay on as chair, advisor, or mentor, or step away entirely. Set timelines, agree which decisions now belong to your successor, and resist overriding them in front of staff or customers. Staying too long, or too visibly, keeps a successor from earning the team's respect.

Plan the life after the business

Owners who transition well have something to move toward, not just something to leave: travel, family, a new venture, mentoring, or philanthropy. That makes it far easier to step back.

QUESTIONS TO ASK YOURSELF

- What specific decisions will I stop making, and on what date?
- What will I be doing on a typical Tuesday morning one year after the transition?
- Who outside the business will help hold me accountable to stepping back?

DIMENSION 06 • LEGACY

Protecting the Plan If the Unexpected Happens

Family transitions take years. Your estate plan needs to protect the business, your spouse, and your successor at every stage, not just at the end.

Align your will and powers of attorney

Your will should reflect the transition plan: who receives shares and how non-business children are treated. Enduring powers of attorney and personal directives (or your province's equivalent) should name people who can manage your business interests if you become incapacitated. In some provinces, a secondary will for private company shares can reduce probate costs.

Use insurance to fund what the estate cannot

Life insurance is often used to pay the tax triggered at death, fund a buy-sell arrangement, or create an inheritance for children not receiving the business. Without liquidity, an estate may have to sell the business to pay the bill.

Have a contingency plan

What happens if you, or your successor, pass away or become disabled halfway through the transition? A written contingency plan, backed by your agreements and insurance, keeps the business stable.

Pass down more than shares

Legacy is also the values, reputation, and relationships you built. Many families capture these in a mission statement or charter, and some formalize their charitable giving.

QUESTIONS TO ASK YOURSELF

- Have my will and powers of attorney been updated with this transition in mind?
- Is there enough liquidity in my estate to pay the tax at death without selling the business?
- If something happened to me tomorrow, does my family know exactly what to do?

PUTTING IT TOGETHER

A Typical Family Transition Timeline

A well-planned family transition generally unfolds over five to ten years. The earlier you start, the more options you have.

WHEN	FOCUS	KEY ACTIONS
5 to 10 years out	Explore and prepare	Have the first family conversations. Get a valuation. Calculate your number. Review your corporate structure and consider an estate freeze or family trust.
3 to 5 years out	Develop and structure	Build the successor's development plan. Reduce owner dependency. Put a shareholder agreement and family governance in place. Meet exemption qualification tests.
1 to 3 years out	Execute	Finalize the transaction structure and financing. Transfer relationships and decision rights. Update your will, powers of attorney, and insurance.
After the transfer	Step back	Move into your agreed role. Monitor any vendor financing. Revisit the estate plan and family governance regularly.

Who Should Be on Your Team

A family transition usually involves an accountant, a corporate and estate lawyer, a business valuator, an insurance specialist, a financial planning team, and sometimes a family facilitator. Each is essential, but each sees only part of the picture.

The most common gap is not a missing advisor. It is that no one coordinates them. As owner and parent, you are too close to the decisions to run the process objectively. Someone needs to quarterback the plan so the business, wealth, tax, family, purpose, and legacy pieces fit together.

The best family transitions start with a plan, not a transaction. The sooner the right people are around the table, the more options your family will have.



LET'S TALK ABOUT YOUR TRANSITION

You Don't Have to Figure This Out Alone

At **Three60 Wealth Family Office**, we help Canadian business owners plan their exit, whether that means selling to an outside buyer, to your management team, or passing the business to the next generation.

We act as the quarterback for your transition, coordinating your accountant, lawyer, and other advisors across all six dimensions so the business, your wealth, and your family all come out ahead.

BOOK YOUR COMPLIMENTARY PLANNING CALL

**Interested in talking through your family transition?
Send us an email at**

info@three60wealth.ca

and we will be in touch to schedule a complimentary, no-obligation planning call.

See How Three60 Can Help

This guide is provided for general information purposes only and does not constitute legal, tax, or financial advice. Tax rules and thresholds change and depend on your individual circumstances. Please consult your professional advisors before acting on any of the information in this guide.

THREE60 WEALTH FAMILY OFFICE