

Business Worksheet



Introduction

How you approach a business prospect is extremely important because the first impression will impact the relationship from that point on. To differentiate yourself from the competition, you should be well prepared for the meeting.

Assessing the risk – preserving the asset

A key component of the business planning process is risk assessment. The use of probing questions is a time-proven technique that will work effectively with the business owner. The questions are designed to uncover the prospect's area of concern so that you can identify the problems that need to be addressed.

The business owner will almost always want to talk about their business. You might open with a question like, **“You must be very proud of what you have built. Can you tell me a bit about the history of your business?”**

Other probing questions during the early stages of the interview might be:

- **“What were those first years like?”**
- **“How do you feel about the way your business has grown? What’s**

the thing you are most proud of in the development of your business?”

- **“What has been your greatest challenge in building your business?”**

Pay particular attention to whether they talk about a key employee, are concerned about the amount of tax they are paying, if their children are coming into the business, etc. The probing questions you use should attempt to discover the needs and fears of the prospect. For business owners, their fears include losing the business, a drop in the business' value, overpaying taxes, the loss of a key person or owner, etc.

Probing questions seek to identify the problems and bring the consequences to the prospect's attention. Once that is done and the prospect acknowledges the problem, you can begin to discuss solutions.

Tips for using the General Information section:

- 1 The structure of the business is important in determining risks and opportunities. For example, an incorporated company will have different risks and opportunities than a sole proprietorship.
- 2 Small incorporated businesses have tax advantages. For example, on the first \$200,000 of annual taxable income, there is a lower tax rate applied.
- 3 Where a business has earnings in excess of \$200,000, it is a common business practice for the corporation to bonus out the excess earnings in order to take advantage of the small business rate.
- 4 Include other advisors in the business planning process.
- 5 It is important to know if any business planning has already been done, what it looks like and who has done it.
- 6 To do good business planning it is important to know who the partners and shareholders are and whether their participation is silent or active.
- 7 It is important to know if family members are involved in the business, what their involvement is and whether they plan to one day assume control of the business. Questions 6 & 7 are important in identifying who might be involved in eventual succession planning.
- 8 Proper recommendations can only be made with knowledge of any existing life, disability and/or group insurance policies.
- 9 Financial statements will identify cash flow, earnings, and business assets and liabilities.
- 10 More often than not, you will need to go back to your client for more information or clarification of issues. It is important that you position this potential need for follow up early on in the interview.

General Information

Name of business

Street address, city, province,
postal code

Area code & phone number

() _____

Nature of business

1 Form of business

- Proprietorship
- Partnership
- Corporation

If a corporation...

- Private
- Holding company
- Other
- Public
- Operating company

Are there any other related
companies?

- Yes No

Name _____

**2 Does your company qualify for
the small business deduction?**

- Yes No

**3 If yes, are you bonusing down
to the \$200,000 level?**

- Yes No

4 List advisors (i.e. lawyer, accountant, banker, etc.)

	Name	Profession	Address	Phone number
1				
2				
3				

5 Are you currently doing any business planning? If "yes", explain.

6 Ownership

	Owner's name	% ownership	Title
1			
2			
3			

**7 Are there any family members involved with the business who
are not shareholders?**

	Name	Relationship	Position
1			
2			
3			

8 Does the corporation own any life insurance policies?

	Insured	Amount	Annual cost	Purpose	Date purchased
1					
2					
3					

9 Are financial statements available?

- Yes No

**10 If I need to contact you for more information,
is there a best time to call?**

Buy-Sell Section

Many co-owners of small businesses tend to function on a trust relationship without a written agreement to govern their activities. Each owner trusts that the other owners will act according to the relationship they have enjoyed. It may put the business at risk to place too much trust in this verbal agreement.

In particular, four things can happen to affect the relationship of many business owners:

1. The death of one of the owners;
2. The permanent disability of one of the owners;
3. The retirement of one of the owners; or
4. Disagreement between the owners about how the business should be run.

In all of these situations, the owners can find themselves dealing with quite a different situation than the one governed by the verbal agreement.

If an owner dies, the remaining owners are now dealing with the heirs and executors of the deceased owner. Do the heirs know anything about the business? If an owner becomes disabled or retires, the remaining owners are now dealing with an individual concerned with getting his or her “fair share” but who is no longer actively contributing to the business. In the case of disagreement, the remaining owners are now dealing with a hurt and angry individual.

When the business loses an owner, the remaining owners find themselves with essentially four options:

1. They can close down the business, but who would want to do that after all the time, energy and money spent?
2. They can continue the business with the new owner of the former owner’s shares, but do they want to be in business with an unknown party?
3. They can sell the shares, but who will buy them, and at what price?
4. The fourth option is to buy the shares from the disabled, retired or departed shareholder or the estate of the deceased shareholder.

This option makes a lot of sense. However, the question arises as to where the remaining owners will get the capital to make the purchase. Usually, the owners have invested most of their available capital in the business. They can borrow if their debt load is not already too severe. They can start a sinking fund today, but do they have the available cash flow? How much should they save?

A business should always have a shareholder’s agreement in place, more commonly called a Buy-Sell Agreement. This legal document covers the terms of ownership and operation of the business and usually deals with the above-mentioned scenarios. The agreement often includes a formula or process for valuing the business to simplify the buy-out of an owner.

Simply put, the agreement should deal with:

1. Who will buy the shares;
2. What the terms of the sale will be;
3. When the sale will take place;
4. Where the money to buy the shares will come from; and
5. How much the purchase price of the shares will be.

To ensure the agreement is viable, proper funding must be in place. Without proper funding, agreements can fall apart. The remaining owners benefit from a funded buy-sell agreement because the business is able to continue on with no unknown players to deal with. The ownership transition is handled smoothly, quickly and effectively.

Tips for using the Buy-Sell section:

- ❶ Encourage the owner(s) to think about the future. What should be done if an owner dies or becomes permanently disabled? Who is qualified or motivated to take over the business?
- ❷ It is important to determine the fair market value of the business. If the business is sold as a healthy going concern, then it could attract a good price. However, if through lack of proper planning an orderly sale is not possible, then its value could be seriously impaired or the business could be driven into bankruptcy. When a purchase price or formula is determined in advance, proper business planning can take place.
- ❸ Many businesses fail not because they planned to fail but because they failed to plan. A properly drawn buy-sell agreement eliminates uncertainty. Owners, shareholders, families and employees can take comfort in knowing that there is an agreement in place to ensure the business continues and that individuals are identified for succession.
- ❹ With a buy-sell agreement in place the questions become, “**Where will the money come from to fund it?**” and “**What is the most economical source of money to fund the agreement?**”
- ❺ There are a number of strategies or methods that can be used by a lawyer drafting the buy-sell agreement.

Key Person Section

In many small businesses, the success of the business is built around the talents, skills, expertise, financing, or vision of either the owner, a key person or both. These individuals are able to drive the business forward, to motivate the employees and to attract clients. These individuals, in a sense, are the business.

How valuable are these people to the success of the business? Could the business survive without them? Would the business want to find out, after the fact, that it can't survive without them? These are important questions the business must answer. The survival of the business may depend on it.

When a business loses a key person, several things can happen. First and foremost, the business is disrupted as the owners try to understand what has happened and develop a plan of action. This disruption may cause a drop in sales. Sales that have already been made may not be closed. Creditors may become concerned and force the company to liquidate assets to pay back loans, etc. Even if the business is able to survive these factors, it must still replace the skills that were lost.

The business owner cannot prevent the death or disability of a key person. Fortunately, these contingencies can be insured. Businesses can purchase corporate-owned life insurance on the lives of their key people. If one of these people dies, the business receives a tax-free death benefit which can be used to meet expenses and repay debts, easing the fears of creditors. The money can also be used to pay the cost of replacing the lost skills.

Capital Gains Section

How many business owners are aware of the tax time bomb hidden in the value of their shares in the business? Owners work hard to build the value of the business. They may have started virtually from scratch, or with relatively little investment. The effort they have put forth has led to a sizable increase in the market value of the business.

The time bomb lurking in the value of the business is capital gains tax. Any growth above the investment made in the business is subject to tax if the owners sell their shares or die.

Tips on using the Key Person section:

- 1 It's important to identify qualified and motivated employees. If there are none, the owner may want to identify a family member or outside person and begin a developmental program.
- 2 Once a key employee is identified, it's important to place a value on replacing him or her.
- 3 An approach to determining the value of a key person is to identify how their loss would affect morale, sales, productivity, etc. Answers to these questions will assist in determining an employee's value.
- 4 When a key person dies or becomes disabled, there's one thing that will determine the business' survival – money. Arrangements can be made in advance that will ensure money is available. An inflow of cash during uncertain times is critical to preserving confidence and providing the time required to re-establish the business' profitability.

Tips for using the Capital Gains section:

- 1 It's important to determine the fair market value of the business. A few simple questions may help: **“If you were to sell your business today, while you are alive and well, what would you want for it?”** or **“If I wrote you a cheque today for your business, what amount would I fill in?”**
- 2 The value of the business when it was acquired determines the adjusted cost base (ACB). The ACB is important in determining the capital gains tax.
- 3 Qualified small businesses and farms are entitled to a \$500,000 capital gains exemption.
- 4 A successful and growing business is likely to have a growing problem. It's important to estimate the rate of business growth for future planning.
- 5 When a business owner dies, one of the most significant debts can be the capital gains tax. Money must be found to pay this tax and it is important that the most cost-effective method is used.

Key Person

Notes _____

- ① How many employees? _____
Do any of the employees stand out as being key to the success of the business? Yes No
- ② If "yes", who? _____
If this employee disappeared, would you try to replace him/her? Yes No
If "yes", would there be a cost to replace? (i.e. recruiting and training costs) Yes No
If "yes", explain. _____
- ③ Would the loss of this key employee impact any of the following?
 Morale Sales & productivity
 Day-to-day business activities Relationship with creditors
 Relationship with suppliers Ability to attract new employees
 Other _____
- ④ Would an inflow of cash at the time of the loss of a key employee help your business deal with this loss?
 Yes No

Capital Gains

Notes _____

- ① What is the fair market value of your business? \$ _____
- ② What was the value of your business when you acquired it? \$ _____
- ③ Have you taken advantage of the \$500,000 capital gains exemption? Yes No
If "yes", explain. _____

- ④ Is the value of your business growing? Yes No
If "yes", at what rate? _____ %
If you died, where would the funds come from to pay the capital gains tax liability?
 Cash (savings) Bank loan Sell asset(s)
 Life insurance Other _____
- ⑤ Is it important to you to take advantage of the most cost effective method of paying this tax? Yes No

Glossary of Terms

Adjusted cost base: The basis used to determine tax gains and losses on disposition (proceeds minus adjusted cost base equals tax gain or loss). Generally, it is the original amount paid for the property, but may be adjusted up or down according to the provisions of the Income Tax Act. (For example, the adjusted cost base of depreciable property is adjusted for capital cost allowance claimed.)

Bankruptcy: Defined in Canada by the “Bankruptcy and Insolvency Act”. It generally means the inability of an individual, organization, or business to pay debts.

Buy-sell agreement: Provides for the transfer of ownership of a business in different circumstances – death, disability, retirement or disagreement. Proper funding is required to ensure money is available to purchase the shares of a deceased or disabled owner or partner, when needed.

Canadian Controlled Private

Corporation: A specific type of corporation, defined in the Income Tax Act (The Act), that is resident in Canada, is Canadian owned and is not a “public corporation”. A “public corporation”, also defined by the Act, is a corporation whose shares are traded on a public stock exchange, or whose shares are owned (directly or indirectly) by a

corporation(s) whose shares are traded on a public stock exchange.

Capital cost allowance: A tax deduction allowed when capital assets are used in a business. It is usually a deduction of the original cost of the property spread over several years according to specific rules outlined in the Income Tax Act.

Closely held corporation: A corporation owned by only a few individuals or corporations which are often related and are usually known to one another.

Deemed disposition: A disposition considered by the Income Tax Act to have taken place, despite the fact that there has been no physical disposition of the property.

Disposition: Defined in the Income Tax Act as any transaction or event entitling a taxpayer to proceeds of disposition. This would include a sale, repossession, theft, or demolition of a property.

Fair market value: Generally the highest dollar value which can be obtained for a property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller dealing at arm’s length with each other.

Going concern: The presumption that a business will continue to operate and produce income.

Impaired value: Decreased value from what it otherwise would be (if not for the cause of the impairment).

Partnership: A contract in which one or more individuals or corporations agree to carry on an activity for the purpose of creating profit (i.e. a business). Each party agrees to contribute something to the venture and share in the profits and losses of the enterprise.

Professional partnership: A partnership formed by a group of professionals to carry on their profession as a group (accountants, doctors, lawyers etc.).

Recapture of capital cost allowance: An income inclusion for tax that results when capital cost allowance has been claimed on an asset and the asset is subsequently sold for more than the unclaimed capital cost at the time of sale. Unclaimed capital cost is generally the original cost of the asset less the capital cost allowance claimed to date. (Note that some assets are pooled together for the purpose of this calculation.)

Sole proprietorship: An unincorporated business owned and operated by one individual.

Widely held corporation: A corporation owned by many unrelated individuals or corporations.

Established in 1887, Manulife Financial (The Manufacturers Life Insurance Company) is an international life insurance company offering a variety of insurance and investment products to individuals, families, businesses, groups and associations.

Manulife Financial has a strong international presence with more than 16,000 employees and agents and more than 250 offices in 13 countries worldwide.

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