QUASAR FINANCIAL
PLANNING GROUP

THE TOP 4 FINANCIAL MISTAKES BUSINESS OWNERS MAKE IN BC

Business Owners in BC Series

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I *hate* losing money.

Sure, 'losing money' in the pursuit of leisure, pleasure, or generosity is an exception. But most of us would agree, 'that kind' of loss is categorically different. I'm referring to the kind of loss that stems from a mistake or poor decision that has severe repercussions. We all hate losing money *like that*.

Some financial losses are substantial and arguably unavoidable, things *do* happen outside of our control. However, many financial losses in our lives are also substantial and *preventable*. When a loss is preventable it is because we knew that there was something we were supposed to do, but we failed to take the necessary action. For example, take the compounding effects of unhealthy eating or the breakdown of communication in a relationship.

At some point along our journey the *warning signs* began to appear telling us that *action was required to remedy the situation* - a counsellor ought to be called or a change in diet was needed - but that action was never taken. Perhaps we were temporarily blinded to the problem, afraid to address the facts, or maybe we just didn't know what to do. Whatever the reason for our inaction the consequences were real. We traded potential danger for *present* danger, smaller problems for substantially bigger ones. *Many of us know this story*. Unfortunately, it describes the financial lives of many business owners in BC.

Every successful business owner I know has labored, invested and risked for the purpose of *creating a better life* for themselves and their loved ones. This *better life* obviously includes making money, *but what about keeping it*? Once you've made it, how do you make sure that you aren't going to lose *it*? That's why I wrote this eBook, so you don't throw away your hard-won earnings.

As you read through the next few pages I will reveal 4 of the top financial mistakes *business owners are making in BC right now and what you can do about it*. After reading this you will have a clear picture of 2 things: 1) where you are most at risk of losing money and 2) what you can do to fix it. So, if you want to make sure you *don't lose what you've already won* commit to reading each section, determine what action steps you need to take, and then get it done. Let's go.

MISTAKE 1 Fractured Advice - Creating a Collaborative Advisory Board

Do you remember playing the game *Broken Telephone* as a child, the one where a statement was repeatedly whispered into the ear of each player? To win each player had to ensure a single message was communicated, unchanged, across the entire group. Fail to communicate effectively and you team was guaranteed to lose. The lesson from this game applies directly to *every system* that has grown beyond 1 person.

When a team is organized effectively roles and departments are established for the purpose of producing results unattainable by individual effort. Effective communication and collaborative work ensure different divisions remain in alignment, directing the actions of each department toward a shared goal. While it sounds simple, creating a preserving organizational alignment is extremely difficult. Left unchecked every business will dissolve into silos, twisting departments to focus exclusively on their own outcomes in isolation from the rest of the team. The bigger a silo becomes the more results are fragmented, leading to performance breakdown and financial decline. The same is true of your personal and corporate finances.

Nearly every business owner in BC is experiencing what I call *fractured advice* and it's costing them dearly. *If you don't already* work with an accountant, lawyer, and financial advisor it is likely because you're concerned with how much is it going to cost you. If that's where you are at today, you've fallen victim to short-sighted thinking about your bottom line. In reality your main concern should be how much you will lose by not working with the experts in financial planning. You have a team in your business to help you accomplish what you couldn't on your own. You need a team of financial experts for the same reason.

If you already believe in the value of working with professionals then you're ahead of the curve. Now you need to determine if your trusted advisors collaborate with one another or if they function in silos. The majority of business owners we come across, even the very wealthy ones, are in the dark about knowing whether their advisors work collaboratively or not. Though some may have the perception of a team, in actuality they have hired individuals - financial advisors, accountants, lawyers - to plan out their future in isolation from one another. And just like in your business when this structure persists, performance breaks down and the real potential of a 'team experience' is lost.

The danger of waiting to establish this kind of collaboration is real and is likely a major reason why you might not have the kind of peace you want about your financial picture. What most people don't understand is that collaborative financial planning across professional disciplines is the most effective way to build wealth and prevent substantial losses. *Every great strategy for a business owners' wealth accumulation and preservation in BC requires multiple parties to work in unison with one another.* This doesn't mean they have to work at the same firm, but they must work together. Let me give you just one example: you've heard of the capital gains exemption, right? The belief most business owners have is that they can sell their business, or at least a portion of it, tax free whenever they're ready. While that is potentially true, if you have a successful business you will be required to properly structure your corporation (legal advice), prepare your retained earnings (accounting), properly organize your investments and your insurance (financial advisor) *to even access* this benefit. If you don't properly attend to every one of these (and other) requirements you could lose out on millions of dollars.

The bottom line is this: *you need a team* and you need a team that works in unison to build a single plan, not multiple disjointed ones. If your existing team of professionals does not have a system for collaborating with one another then you need to do something about this immediately. You have 2 options: 1) you can choose to be the quarterback of your entire planning process or 2) you can find a team of financial advisors who already do this. This is where we come in.

At Quasar, we communicate regularly with our client's team of trusted professionals to establish a single unified plan. By helping our clients create a Collaborative Advisory Board we are able to overcome the breakdown of silos and unlock the true potential of their professional team. With each major strategy being collaboratively reviewed, agreed upon, and implemented we are able to ensure that every opportunity for building (and protecting) wealth is utilized. And lastly, when your team is truly integrated, peace of mind and the freedom to focus on what matters most is a reality. You don't have to do this on your own - we can help!

Action steps

1. Review your current Advisory Board (or lack of one)
   a. Who are your trusted professionals right now?
   b. Who do you need to add to this list (accountant, lawyer, financial advisor mortgage broker)?
   c. Is there anyone you need to subtract or exchange from this list?
2. After reviewing this list, make a decision around how your Advisory Board will function:
   - Are you going to make sure that each member of your team communicates with each other efficiently?
   - If not, connect with us and we will be happy to discuss what it would look like for our team to lead this process.
3. Ask your advisors what strategies you are missing to build wealth and protect against loss. You won't regret this decision.

MISTAKE 2 Failure to Understand Your Buy/Sell Provision

If you've been in business for a while you will likely have paid a lawyer to create a document known as a *Shareholders Agreement*. The content is expansive, explaining and recording your corporate structure, share structure, list of directors, secretary, who the president is etc. Truthfully, once this document is made most people sign it and never look at it again. While the importance of this entire document can't be overstated for the sake of our topic I need to direct your attention to a section *you definitely can't afford to neglect:* the buy/sell provisions

To make it simple, you can think of your buy/sell provision as a legally binding list of required or approved actions for shareholders. More broadly, the provisions of this agreement detail a number of specific actions that are to be taken in response to a number of different outcomes as it relates to buying or selling shares. If you clearly understand and approve of what your agreement says, specificity is likely your friend. Vagueness, on the other hand, is likely to get you in a lot of trouble. To demonstrate I am going to walk you through a list of questions that every shareholder needs to answer about their potential death or incapacity.

Do you know what is going to happen to your business (and everyone involved) *if one of your shareholders dies?* While many considerations have to be made, among pertinent are how much are their shares worth? How are you going to buy them out for their share value? Is their spouse now the new shareholder and are they going to replace them in the business? Even more, who is going to determine the valuation of the business and therefore the actual pay out the deceased's estate is to receive? Should the spouse of the deceased determine the value of their shares? Is an accountant going to decide? You need definitive answers to these questions.

What if one of the shareholders *becomes disabled*, whether physically or mentally incapacitated, and is no longer able to work? Or what happens if someone *becomes critically ill and gets cancer?* Maybe you started the business as partners or perhaps brought on new talent at a later stage, but regardless of when ownership occurred it was always under the belief that the individual *would add value to the venture*. So what happens when a circumstance outside of anyone's control occurs and now an owner can no longer uphold their responsibilities? While they are undergoing treatment and unable to work, are you going to continue to pay their salary and share profits with them? Likely. But for how long? And if this sickness does persist, what happens if the business valuation sees a dramatic increase without any of their effort? Is it just that they should benefit from the hard work of others? These are hard questions that need real answers.

These are just 2 of many scenarios that need to be addressed. Other essential considerations include what happens if a shareholder gets divorced or if someone must declare bankruptcy. And just as important as these considerations are for your other shareholders, *what happens if one of these things happens to you?* The financial loss you and your family will face if any of these things occur, and they *occur frequently*, is often in the 6 or 7 figure range. Failure to understand the specific requirements of your buy/sell provisions and not putting protective measures in place can be one of the costliest mistakes you make, both financially and relationally.

While many lawyers do a great job of creating these agreements, they do not always take the next step in directing their clients to fund *them*. The great news is that these are losses that can be prevented. By *utilizing personally and corporately owned insurance* you are able to prevent substantial losses

from occurring and preserve the corporate and personal net worth of each shareholder from disappearing. There is much more that needs to be discussed regarding your shareholders agreement, the buy/sell provision and *how to tax-efficiently structure this process*. For now, here are the steps that you need to take:

Action steps

1. Find your shareholders agreement (go ahead, dust it off or locate it somewhere in your hard drive)
2. Review your buy/sell provision –
   Do you have one?
    1. If not, you're going to need to create one.
    2. If you have one, what does it say?
3. If you have a buy/sell provision in place fund it with insurance

Putting this strategy in place will not only save you from losing a *lot of money*, but it may also save you from permanently damaging your closest relationships. Understand that you are not just protecting your business, but you're protecting your family, your wealth, and your legacy. If you take this step not only will you be protecting your own future but the future of every partner in your business.

MISTAKE 3 Unwinding Crossroads - Aligning Your Business with Your Life

If fractured advice was a disease, then failing to properly *align your business with your life* would be one of the most common and painful symptoms. Regardless of what stage of development your business is in you need to understand the opportunities in front of you and the risks you face. Collaborative advice will help you maximize your opportunities and minimize your risks each step of the way.

Starting a business is expensive, both in terms of financial capital and the investment of your time. Because of this almost every business owner begins their journey of wealth with their *business asset as a liability*. What many people miss when they start this venture is that quite often the business *will continue to be a liability* for a long period of time. Whether you leverage funding out of your home, borrow from a bank, or some other lender you are exposing yourself and your family to significant risk.

So if something happens to you or to the business, how are you going to recover? You need a plan to minimize your risk.

On the other hand, if you've made it to a place of success with strong compensation and retained earnings, are you prepared to make the most of your opportunity? Most business owners I meet do not have any idea about how to maximize the opportunity a successful business has afforded them. To ensure you capitalize on your potential here are 10 critical questions that you need to answer in great detail:

1. Why are you incorporated and what are its benefits to you?
2. Are you sure your corporate structure is set up correctly for you, your family, and your goals?
3. How are you paying yourself now and how will you pay yourself in the future: salary, dividends or both?
4. How much are you paying in corporate and personal tax?
5. Do you have a clear picture of how you are going to pay yourself in retirement?
6. How are you going to maximize your business' earnings to enhance your life?
7. What is your plan for using your business as an asset in the future?
8. What is your exit strategy when it comes time to sell your business?
9. If you have family members in the business, how are you going to buy them out? Or how are they going to buy you out?
10. Are you certain that you are not missing any key strategies to build wealth and minimize taxes?

Working hard is to be commended but working with your head down until you hit a pothole is foolish. If you have invested your life in building a business, you need to ensure that you take the time to learn how you can benefit from all of your hard work. Regardless of where your business development is at, *take time to make a plan so you can win.*

Action steps

1. Determine what stage of business development you are currently in (start up, growth, expansion, maturity).
2. Depending on your stage, identify the top 3 risks and opportunities in front of you.
3. Determine to find great answers to the 10 questions posed to you; leverage your Collaborative Advisory Board to help.

MISTAKE 4 The Silent Shareholder- Making Your Money Go Where You Want

Do you know what's going to happen to your wealth upon death? A lot of people think they know, but they *have no clue*. The day each Canadian dies the government records a deemed disposition of *every asset they own* - collectible motorcycles, RRSPs, shares in a corporation - everything. At this moment in time, whatever financial plan has been built is then 'tested' and assets are distributed to 2 of 3 potential beneficiaries: family (or closest relations), a registered charity of choice, or the Canada Revenue Agency (CRA). The good news is that you can *potentially* choose which 2 beneficiaries receive your estate. The bad news is that if you don't plan well in advance of your passing, *the CRA will always make it onto your list*. Worse still, depending on your net worth and the extent of your planning, *if the CRA makes it onto your list* it's quite possible that *over 50%* of your estate will be lost to taxes.

Our blindness to tax however does not end with estate planning. As I addressed in mistake #1, one of the biggest misconceptions business owners have is the notion they will be able to fully access their lifetime capital gains exemption without professional planning. Similarly, in the event a business owner dies without collaborative planning they are almost guaranteed to lose half of their corporate wealth. If you thought you would leave your business untouched as an inheritance to your family, you were mistaken. If you thought you would leave your entire RRSP directly to your children, you were mistaken. If you thought you would freely transfer your real estate, car collection, or non-registered accounts, you were mistaken. So, what can be done?

If you care about the preservation and direction of your estate I have great news: collaborative and comprehensive financial planning is exactly what you need. The reason business owners are paying far more in taxes and leaving substantially less to their families is because they haven't found or created the right team to help. If you want to avoid losing 50% of your estate value to taxes here are the next steps you need to take:

Action steps

1. Acknowledge that unless you plan effectively and seek the support of others you are guaranteed to lose substantial amounts of money to taxes.
2. Reach out to your collaborative advisory board to create a game plan for how to utilize your lifetime capital gains exemption.
3. Ask your accountant, financial advisor, and lawyer about how to mitigate your end-of-life tax bill.
4. Ask your financial advisor and accountant about the benefit of corporately owned insurance and the potential use of an Immediate Financing Arrangement (IFA). By doing so *you could end up saving millions in your lifetime and beyond.*

You've come to the end of this eBook and now *you need to decide what you are going to do*. As an incorporated business owner in BC if you want to avoid losing substantial money and build *real* wealth *you're going to need help*. Every business owner who suffered the consequences of these mistakes did so for one primary reason: they failed to create a *Collaborative Advisory Board* to help them accomplish their goals. If you're ready to take the next step and begin exploring what a team of advisors can do for you we are ready to connect.

At Quasar Financial we are business owners who have a passion for helping other business owners build and maintain their wealth. We hope this content has added value to your situation, provided clarity about what you need to watch out for, and direction about how to move forward. Now it's time for you to act! Determine what your next step is and go do it. If you would like to discuss any of the material you've just read or are curious to learn more about how Quasar Financial could help you succeed book into our calendar here.

Respectfully,

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