

FAQ ISSUE #15 Revised 1/6/12

LIFETIME CAPITAL GAINS EXEMPTION

Tax Question:

What is the best structure for selling a business?

Facts:

There are two methods to sell a business:

An asset sale—where you keep control of the shares of a company, but sell the assets owned by the company including equipment, receivables, payables, inventory and goodwill.

A share sale is where you sell your shares in the company. All the assets and liabilities associated with the company go along with the shares. You retain nothing of the company.

Discussion:

Both types of sale will generate taxable income.

With an asset sale if the sale proceeds are greater than the cost the company will have a capital gain generated inside the company. Half this gain will be taxable and half can be paid out to the shareholders tax free. The remaining proceeds from the sale that do not qualify for the capital dividend will be taxed in the hands of the shareholder as they draw them out of the company.

With a share sale the shareholder will have a capital gain generated in their hands. However, if the company is a Qualified Small Business Corporation (QSBC) and the shareholder is a Individual Canadian resident then the shareholder may be able to claim an exemption of up to \$750,000 of the capital gain using the Lifetime Capital Gains Exemption. This basically means that at the high rate of personal tax the exemption saves \$163,000 in taxes.

A QSBC is a Canadian Controlled Private Company where at the time of sale 90% of the fair market value of the assets are used in an active business carried on in Canada.

Recommendation:

If you plan to sell a company, please contact Gilmour Knotts Chartered Accountants to determine the most appropriate structure so as to benefit from the Lifetime Capital Gains Exemption. There are other rules and qualifications that apply and should be reviewed in this planning.

DISCLAIMER

The information contained in this newsletter is intended solely to provide general guidance on matters of interest for the personal use of the reader, who accepts full responsibility for its use. While we have made every attempt to ensure the information contained in this newsletter has been obtained from reliable sources and accurately described herein. **Gilmour Knotts Incorporated** is not responsible for any errors or omissions, or for the results obtained from the use of this information. Before taking any action that might affect your personal and business finances, you should consult a qualified professional advisor.

