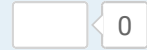



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## Recovering from debt following a business failure

By Carmen Chai

You've poured your savings, your time and the past few years into your business venture, but it isn't panning out. Now you're left with a pile of debt and you're on the hook to pay employees, investors and the bank.

While entrepreneurs have to take on a "go big or go home" mentality, the odds are stacked against them.

Eighty-five per cent of small businesses that enter the marketplace survive their first year, according to Nicole Troster, director of provincial affairs for the Canadian Federation of Independent Businesses (CFIB) in Ontario. At the two-year mark, 70 per cent pull through, and only 51 per cent of entrepreneurs celebrate their businesses' five-year anniversary. That's a lot of Canadian entrepreneurs grappling with a loss of a job, and sometimes a mountain of debt from small business loans.

"[Closing your business] is pretty common. It's the risk that comes with opening a business and it's disappointing," says Troster.

The stress is often emotional as well as financial. "It's really huge, a lot of people become ill over it." adds Elena Jara. director of education



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lot of people become involved," says Troster, director of education at Credit Canada Debt Solutions. "They feel isolated and won't discuss their debt with anyone as they mull over the situation on their own."

If you think it's time to pull the plug on your business, there are a number of things you can do to minimize the damage.

### 1. Look for the red flags

Jara and Troster agree: more often than not, entrepreneurs' first reaction is to sink more money and time into their failing business -- it is, after all, their baby. But doing this could dig your financial hole deeper, Jara warns.

These red flags could be a signal that it's time to consider an exit strategy:

- Your revenue has flat lined or is declining;
- You're finding it difficult to make payments to vendors or to meet payroll;
- You're paying for your personal needs on credit and dipping into loans;
- You're working more hours just to keep the business afloat;
- You feel your passion for the business is dwindling.

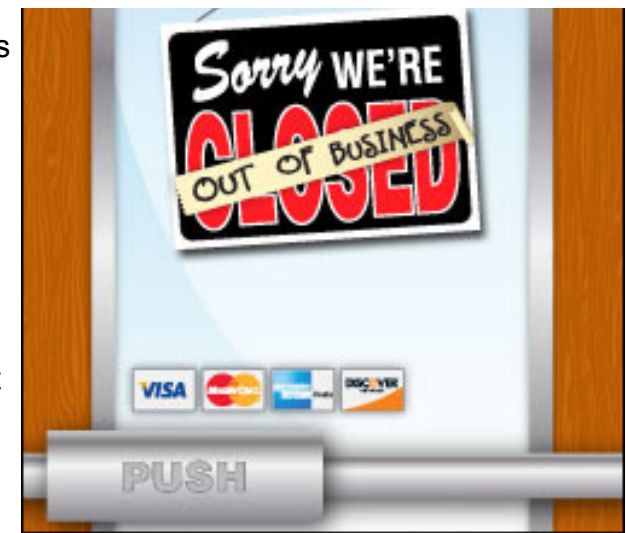
If you began your journey with a savings cushion -- enough to cover about six months to a year in living costs -- you won't encounter a hard landing. But that's a rarity, Jara says.

"Most people throw themselves into the business and rely on it to be successful to provide for them with the regular income they were accustomed to," she says. "By the time they come in for help, they're so overwhelmed with business debt and trouble at home with making ends meet. You need to see how much money you're sinking."

### 2. Pay what you owe

If you've decided that shuttering your business is your next step, you'll have a laundry list to make sure you're closing down responsibly. You have to be accountable to anyone with whom you've made commitments.

"You'll want to notify and pay all of your employees within required notice," Troster says. "There are legal requirements involved, so you have to make sure you're doing things correctly." These legal requirements vary from



province to province. Check with your provincial labour authority for more details.

You also need to pay vendors and investors, even if you aren't going to use the supplies or services. "We've had situations where businesses have suppliers who they still owe," says Troster. "You can't not pay it just because you're not in business anymore."

Ideally, you maintained records along the way so you know who you owe, and the line isn't blurred between business and personal expenses.

It isn't unusual for entrepreneurs to carry personal debt from business endeavours, though: 60 per cent of Canadian small-business owners used business loans and lines of credit to finance their business, according to [CFIB data](#). Forty-four per cent used credit cards, and 33 per cent used personal loans.

### 3. Moving forward

Whether you've shut your doors or are still trying to recuperate, there will be consequences for your credit. And if you've been missing payments, your credit is already taking that hit.

Bankruptcy is the best choice for some, but for others a consumer proposal or debt consolidation are better options because they're less damaging. Mike Gomes, a certified financial planner at Toronto's Ironshield, says a bankruptcy filing will stay on your credit report for seven years, compared to three years for a consumer proposal.

You're probably managing a repayment plan or starting from scratch if you filed for bankruptcy. In the meantime, you need to secure a steady income stream.

"The business owner now needs to think of their next steps in their career," Troster says. Career counsellors could pave the way in helping you look for new opportunities.

The experts say you should book appointments with a handful of other experts as well:

- **A bookkeeper or accountant:** Entrepreneurs could overvalue their products. An accountant can help you tally up inventory in a realistic way so that you have a fair estimate of how much you could recoup from selling leftover goods or office furniture, for example.
- **A lawyer:** You'll have contracts you need to revisit, with investors, clients, employees, the bank and maybe landlords, if you had a lease. There could be repercussions for breaking the terms of any contract. Lawyers could help you wade through the fine print and determine your best course of action.
- **A psychologist or counsellor:** What you're going through could be hurting your self-esteem, relationships

at home and your professional development. If you need to talk to a professional seek out help, Jara says.

- **A financial professional:** This could be a credit counsellor, a financial planner or your bank manager; each expert will provide you with different insights. These professionals may even advise you to broker repayment plans with your vendors. Suppliers may give you some wiggle room if you're upfront instead of evading your contracts.

**See related:** [Bankruptcy lite: when a consumer proposal is a better option](#), [Do you need a financial therapist?](#)


Published: April 21, 2015

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