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# Income and Tax Consequences of Selling Ownership Stakes: Evidence from Major Shareholders of Private Firms in Canada

By TERRY MOON AND LINDA WU\*

Selling a business happens frequently around the globe and often results in significant changes in overall income and tax burdens for the owner. The existing literature primarily examines the consequences of leveraged buyouts (LBO) or mergers and acquisitions (M&As) on target or acquiring firms' performance and on workers (Davis et al., 2014; Boucly et al., 2011; Arnold et al., 2026; Isen et al., 2026) without deep-dive analyses on individual owners who sold their businesses.<sup>1</sup> Understanding what happens to owners after selling their ownership stakes helps us assess whether the resulting liquidity induces new business formation (Holtz-Eakin et al., 1994), reduces labor supply (Cesarini et al., 2017; Nekoei and Seim, 2023; Golosov et al., 2024; Lien et al., 2026), or simply facilitates exit from both business and labor markets. An answer to this question helps policymakers design effective tax policies to promote entrepreneurship.

This paper assesses the income and tax consequences of selling ownership stakes in private companies using linked tax records of business owners in Canada. Comparing major shareholders who sell their entire stakes with matched counterparts who sell at a later time, we find large reductions in their overall income and taxes after selling their company, except for an initial spike in capital gains. Furthermore, they reduce their labor supply and wage income on average. We do not find evidence of serial entrepreneurship across ages or sectors, implying that business owners enjoy a "quiet life" after selling instead of starting new firms or remaining active in the labor market.

## I. Institutional Details

In Canada, income from unincorporated businesses is taxed on accrual as ordinary income. By contrast, incorporated business income is subject to corporate taxation, and distributions to owners are taxed again at the personal level.<sup>2</sup> Canadian-controlled private corporations with assets less than 15 million dollars (the vast majority in our sample) are subject to corporate taxes at much lower rates (than tax rates on personal income) on active business incomes up to 500,000 dollars annually.

Selling a corporation involves a change in ownership which may trigger changes in business name and number. Whether or not selling involves transfers of shares or assets, the seller pays capital gains taxes on business profits or appreciated assets (minus their value at purchase). Realized capital gains on corporate shares are subject to tax at one-half the shareholder's personal marginal tax rate. Taxpayers are eligible for a lifetime capital gains exemption (LCGE) from taxation of around one million dollars on selling qualified small business shares. For any gains above one million dollars, the effective tax rate on corporate earnings distributed as capital gains is  $\tau_e = \tau_c + \frac{1}{2}(1 - \tau_c)\tau_p$ , where  $\tau_c$  is the statutory corporate tax rate and  $\tau_p$  the shareholder's personal marginal tax rate. The effective tax rate on income paid out as capital gains has decreased over time relative to other income streams, with reductions on small business corporate tax rates during our sample period. Over time, federal and provincial top bracket marginal tax rates have increased, leading to a pronounced increase in effective tax rates on salaries and dividends, further widening the gap. In short, tax benefits are large for small business owners who sell their corporation and distribute their earnings as capital gains.

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<sup>1</sup>Isen et al. (2026) additionally examines what happens to owners of targets bought by private equity firms. However, selling to private equity firms accounts for only a fraction of overall M&A activities in North America and leaves out owners who sell their business in broader contexts.

<sup>2</sup>While corporate income is taxed twice, dividends from taxable Canadian corporations paid to domestic shareholders are "grossed up" to impute, with a personal tax credit applied to offset, corporate taxes that have been paid on the corporate earnings.

## II. Data, Sample Restrictions, and Variable Definitions

We use the following datasets from 2001 to 2019, all merged at the individual level using the unique identifier: (1) individual tax returns data (T1PMF) to identify individual income and tax information, (2) ownership data on incorporated businesses (T2S50), and (3) firm-level balance sheet data (NALMF) to identify corporate income and tax information. We focus on individual owners with the largest stakes or at least 10 percent ownership in a given firm and year (“major shareholders”). We drop a small fraction of individuals who have gaps in their tax records or who die during our sample period. Furthermore, we focus on major shareholders who own a single business. Figure A1 in Appendix A shows the number of individual shareholders, major shareholders, and major shareholders with a single business. Major shareholders have 60.5 percent ownership rates on average and account for almost all shareholders, while those with a single business have 47.8 percent ownership and account for 73 percent of individual shareholders on average.

The main outcome variables are measures of owner-level income, such as their pre-tax personal income, deferred corporate income (defined as changes in retained earnings plus corporate taxes paid), and total income that combines these two. We additionally look at the composition of personal income, such as realized capital gains (or losses) and wage income. To examine serial entrepreneurship, we define an indicator for starting a new business in a given year. Finally, total taxes are defined as the sum of personal taxes and corporate taxes paid both at the federal and provincial levels.

## III. Empirical Design

We focus on major shareholders with a single business for at least two consecutive years before selling. We define owners as “treated” if they sell their entire stakes of a company in a given year (without selling before) and as “control” if they sell their entire stakes at least 5 years later. In this way, control owners are not yet treated during the event window, avoiding comparisons with later treated units within the event time (Borusyak et al., 2024). In Appendix B, we show robustness tests where we use alternative definitions of events (selling at least 50 percent stakes) and control owners (who sell at least 9 years later), and focus on major shareholders with more than one firm. To ensure that treated and control owners are comparable, we match them on various measures of income, taxes, firm characteristics, sector, gender, age, and marital status in the year before the event (Appendix A3).

To examine post-selling outcomes, we estimate the following event-study specification:

$$(1) \quad y_{it} = \sum_{k=-4}^4 \beta_k 1(t = k) \times Treated_i + \omega_i + \tau_{t \times c} + \phi_{t \times p} + \psi_{t \times s} + \mu_{it}$$

where  $y_{it}$  is an outcome variable for owner  $i$  in year  $t$ ,  $1(t = k)$  equals 1 if event time  $t = k$ , and  $Treated_i$  is a treatment group indicator,  $\omega_i$  are individual-by-cohort fixed effects,  $\tau_{t \times c}$  are event-time-by-cohort fixed effects,  $\phi_{t \times p}$  are event-time-by-province fixed effects, and  $\psi_{t \times s}$  are event-time-by-sector (2-digit) fixed effects. The standard errors are clustered at the owner level.

To interpret  $\beta_k$  in Equation (1) as causal impacts of selling on owner-level outcomes, we need to assume that selection into a selling activity is independent of  $\mu_{it}$ , conditional on the observables that are used in the matching process. This may be a strong assumption in practice, and a priori, the sign of the bias is not obvious. For example, owners may sell their entire stakes in a company if they want to start a new firm, take new risks, and expand their business activities, which may or may not lead to increases in their overall income and taxes paid. By contrast, owners may sell their entire stakes if they want to simply exit the market and reduce labor supply. While parallel pre-trends on the outcomes help us make qualitative statements that the results are largely driven by selling ownership stakes, there could still be concurrent shocks that can bias our estimates. Therefore, instead of making causal claims, we interpret our findings as providing descriptive evidence on how owners’ income and taxes change after selling the entire stakes of a company.

#### IV. Main Results and Interpretations

We begin by showing owners' income evolution after selling the entire ownership stakes. Figure 1 plots the results from Equation (1) for total income, deferred corporate income, personal income, and realized capital gains/losses. Across all outcomes, treated and control owners follow parallel trends prior to the event. After the sale, treated owners experience a sharp and persistent decline in total income relative to control owners. Total income falls by about \$2,900 in the first year and by \$27,000 in the fourth year, equivalent to about 42% of the pre-event mean. This decline reflects movements in different components of income. Deferred corporate income drops by about \$4,600 in the event year and stabilizes at around \$12,000 below control owners thereafter. Personal income rises by about \$1,700 in the event year before falling to roughly \$15,000 ( $\approx 25\%$ ) below control owners by the fourth year. The initial uptick reflects a spike in realized capital gains of about \$8,700 at the event.

Table 1 presents these dynamics as average post-event effects and extends them to other outcomes. Columns (1) to (4) summarize the income results. Treated owners' total income falls by \$18,170 ( $\approx 28\%$ ) on average after the sale, driven by declines of \$9,822 in deferred corporate income and \$8,348 in personal income, which account for 54% and 46% of the total decline, respectively. The average effect on realized capital gains is small because they spike only in the year of sale. Additionally, recorded capital gains understate the true transaction value because the tax-exempt portion (via LCGE) is unobserved in our data. After selling, an owner may retire fully or remain economically active through employment or new ventures. We examine these possibilities and the tax consequences in Columns (5) to (8). Wage income falls by \$4,650 ( $\approx 11\%$ ), and the probability of working falls by 6.4 percentage points ( $\approx 8.7\%$ ). Scaling these effects by the average pre-sale firm book value of \$35,000 would imply a \$13,285 ( $\approx 32\%$ ) decrease in wage income and an 18.3 percentage-point drop in employment probability per \$100,000 windfall. The implied responses are larger than inheritance-shock estimates (Nekoei and Seim, 2023; Lien et al., 2026) and should be interpreted with two caveats: firm book values understate true transaction values, and a firm sale, unlike an inheritance shock, is a planned transition that could be endogenous. The probability of owning a new business falls by 2.8 percentage points, and total tax burdens fall by \$4,979 ( $\approx 37\%$ ). Our results suggest that after selling their entire stakes, owners reduce labor supply, rarely start new ventures, and pay lower taxes.

Table 2 examines heterogeneity by owner age, reporting each effect as the post-event average scaled by the pre-event mean, except for the probability of owning a new business (which is in percentage points). Column (1) shows that the declines in total income are broadly similar across age groups, ranging from 25% to 35%. The labor supply response in Columns (2) and (3), by contrast, rises with age. Wage income falls modestly for owners below 55 and more substantially for those above. The probability of working declines by less than 10% for owners under 55, 20.1% for those aged 55-64, and most strongly by 33.2% for those above 65. These patterns imply that for owners around retirement age, a firm sale marks a transition into retirement. Column (4) shows that the probability of owning a new business declines across all age groups but most among the youngest, likely because younger control owners actively start new businesses, while older owners rarely do so regardless of selling. A parallel analysis across sectors (Appendix B4) shows little variation across these outcomes.

#### V. Conclusion and Policy Implications

In summary, our findings suggest that selling a business is typically associated with a transition out of entrepreneurship rather than a reallocation to new ventures. These have implications for the design of capital taxation and related provisions such as the Lifetime Capital Gains Exemption. While policy discussions often emphasize the role of capital gains taxation in creating businesses and investment, we find little evidence that owners who sell their businesses subsequently start new firms. Although our results are descriptive, they suggest that a substantial share of capital gains realized from private business sales may reflect the conversion of accumulated business wealth into retirement resources rather than capital for future entrepreneurial activity. This distinction may be relevant for evaluating the life-cycle and distributional consequences of capital taxation and for considering whether tax preferences associated with business sales are best targeted toward reinvestment, retirement, or both.

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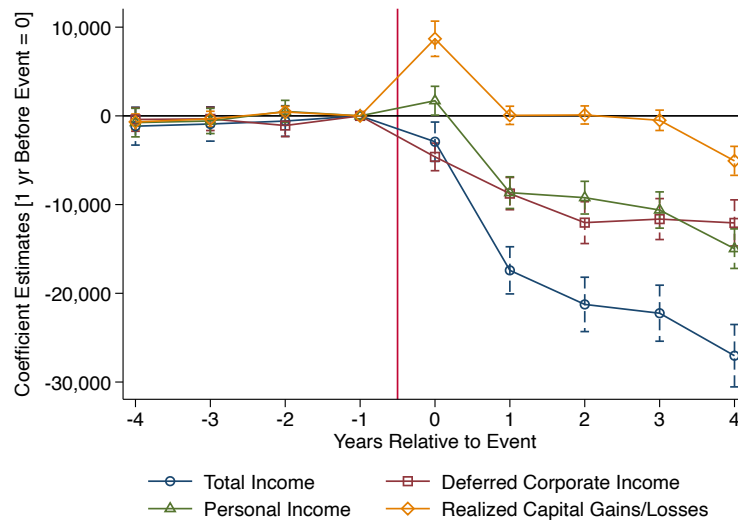


FIGURE 1. EVENT STUDY ESTIMATES OF SELLING ENTIRE OWNERSHIP STAKES ON OWNER INCOME

Notes: The figure plots the event study coefficients  $\beta_k$  from Equation (1) for total income, deferred corporate income, personal income, and realized capital gains/losses. The red line marks the sale. Markers are point estimates and bars are 95% confidence intervals. The specification includes individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level.

TABLE 1—EFFECT OF SELLING ENTIRE OWNERSHIP STAKES ON OWNER OUTCOMES

	(1) Total Income	(2) Def. Corp. Income	(3) Personal Income	(4) Capital Gain/Loss
Treated × Post	-18,170.0 (1,186.1)	-9,822.0 (819.8)	-8,348.1 (793.2)	657.3 (440.5)
Adjusted $R^2$	0.539	0.206	0.661	0.039
Observations	246,620	246,620	246,620	246,620
Treated Units	6,620	6,620	6,620	6,620
Treated Mean	64,048.8	5,049.7	58,999.1	1,106.5
	(5) Wage Income	(6) Pr(Work)	(7) Pr(New Business)	(8) Taxes Paid
Treated × Post	-4,650.1 (1,578.6)	-0.0636 (0.0061)	-0.0279 (0.0018)	-4,978.7 (281.0)
Adjusted $R^2$	0.495	0.488	0.038	0.655
Observations	246,620	246,620	246,620	246,620
Treated Units	6,620	6,620	6,620	6,620
Treated Mean	41,656.1	0.73	0.00	13,280.1

Notes: Each column reports the average effects of selling ownership stakes over the four post-event years relative to control owners. Columns (1)–(8) are total income, deferred corporate income, personal income, realized capital gains/losses, wage income, the probability of working (which equals one if wage income is positive), the probability of owning a new business, and total taxes paid. Income and tax variables are in CAD. Columns (6) and (7) are indicators. Treated mean is the pre-event mean of each outcome among treated owners. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level and reported in parentheses.

TABLE 2—RELATIVE EFFECT OF SELLING ENTIRE OWNERSHIP STAKES BY AGE GROUPS

	(1) Total Income	(2) Wage Income	(3) Pr(Work)	(4) Pr(New Business)
20 to 34	-0.256 (0.073)	-0.068 (0.064)	-0.047 (0.021)	-0.038 (0.006)
35 to 44	-0.319 (0.036)	-0.012 (0.044)	-0.031 (0.014)	-0.036 (0.004)
45 to 54	-0.254 (0.031)	-0.097 (0.037)	-0.068 (0.013)	-0.032 (0.004)
55 to 64	-0.289 (0.039)	-0.287 (0.146)	-0.201 (0.021)	-0.016 (0.003)
65 or above	-0.353 (0.059)	-0.246 (0.175)	-0.332 (0.071)	-0.009 (0.003)

Notes: Each entry reports the effects of selling ownership stakes relative to the pre-event treated mean (the estimated coefficient divided by the pre-event treated mean of the outcome). Columns (1) – (4) are total income, wage income, probability of working, and probability of owning a new business, respectively. The exception is Column (4), Pr(New Business), for which the entry is the level coefficient. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level and reported in parentheses.

## APPENDIX A: ADDITIONAL INSTITUTIONAL DETAILS AND DESCRIPTIVE STATISTICS

In this section, we provide additional institutional details regarding the Canadian tax system as well as descriptive statistics on our sample.

*A1. Tax Rules for Incorporated Businesses*

There are several tax advantages for incorporated businesses which lower the effective tax rate on earnings of small Canadian-Controlled Private Corporations (CCPCs) relative to business owners' personal marginal tax rate on personal income. For example, business owners may use CCPCs to earn passive investment income and engage in "income sprinkling"<sup>3</sup> and surplus stripping<sup>4</sup> transactions for tax planning and/or for estate planning purposes. In principle, the small business deduction is available only for income from active business assets of the corporation other than certain investment and personal services businesses. Other income is deemed to be passive investment income subject to additional taxes. But the passive income rules are complicated, leading to concern that CCPCs are used to reduce taxes on passive investment portfolios as well.

Furthermore, owners of CCPC have certain advantages in estate planning. In Canada, there is no estate tax, but there is deemed realization of capital gains at death. It is common for high-wealth CCPC owners to engage in "estate freeze" transactions that permit the transfer of shares in the business to family members without tax during the owner's lifetime, deferring indefinitely capital gains taxes that would otherwise be payable at death. In addition to the advantages just enumerated, CCPC owners can also use deferral to re-time income and arbitrage differences in tax rates over time and through the life cycle.

Due to these tax planning opportunities, the federal government enacted certain changes in 2018 to the rules just described. First, the tax on split income was expanded to apply to more types of payments to family members, including dividends paid to adult family members, except where the shareholder is "actively engaged" in the business. Second, the new rules reduce the small business deduction for corporations with more than 50,000 dollars in annual passive investment income and implement other changes intended to reduce incentives for tax-preferred saving through corporations. Third, the government proposed new rules to limit surplus stripping from corporations but, after strenuous objections from tax professionals, these proposals were ultimately withdrawn. Despite these changes in 2018 (near the end of our sample period), considerable advantages still remain for CCPC owners relative to the taxes they would pay if their income were classified as unincorporated business income.

*A2. Number and Average Share of Individual Owners*

Figure A1 shows the number (in millions) of individual business owners in the aggregate during our sample period, which has been increasing over time. Most of these individual owners are "major shareholders" who own either the largest share or at least 10 percent share in a company. Among individual shareholders, the majority (73 percent on average) owns a single business in a given year. During our sample period, major shareholders have 60.5 percent ownership rates on average and those with a single business have 47.8 percent ownership rate on average.

<sup>3</sup>Income sprinkling refers to the practice of paying salaries or dividends to family members who face a lower personal tax rate than the manager-owner. In Canada, the unit of taxation is the individual rather than the family, so CCPC owners may frequently face higher marginal tax rates than their spouses and children. While there are rules to discourage the practice, income sprinkling appears to be widespread (Department of Finance, 2017), leading to a persistent tax advantage for small business owners.

<sup>4</sup>Surplus stripping refers to transactions among related corporations with the effect of characterizing corporate cash distributions to shareholders as capital gains rather than dividends. In the canonical surplus stripping transaction, shares in an operating company with retained earnings are sold to a holding company, resulting in a capital gain to the shareholder. In some circumstances, cash in the holding company can then be paid out to the shareholder as a tax-free return of capital rather than as a dividend. The resulting distributions face lower capital gains tax rates. In addition, the taxpayer may claim the Life-time Capital Gains Exemption, exempting the first 1 million dollars of the distribution from tax entirely.

### A3. *Constructing Matched Sample*

To construct the owner-level sample, we extract all individual shareholders without any gap year and who do not die during our sample period. We focus on major shareholders who have a single business for at least two consecutive years before the selling event. For each treated owner, we choose a later-treated owner in the same 1-digit sector, province, age bin, gender, marital status, and decile bins in total income, taxes paid, personal pre-tax income, realized capital gains/losses, and deferred pre-tax corporate income. If more than one match is found, we choose the owner with the closest propensity score to the treated owner (one-to-one matching within a caliper), where the propensity score is estimated by predicting treatment using a linear probability model with 1-digit sector, age, gender, marital status, total income, taxes, pre-tax personal income, realized capital gains/losses, pre-tax deferred corporate income, as well as firm characteristics (total revenue and total assets) at  $t = -1$  and  $t = -2$ . In total, about 10 percent of treated owners are matched to control owners among the sample of eligible owners.

Table A1 shows the summary statistics for major shareholders who own a single business for at least two consecutive years before selling their entire stakes of a company. These individuals exist in our data without any gap year and do not die during our sample period. In the year before the event, there exists 68,560 individuals with total income of roughly 78 thousand Canadian dollars on average. The average ownership rate is 37 percent, meaning that they are not the majority shareholder on average. The average book value (total assets minus total liabilities) is around 46 thousand dollars. The age and gender are almost evenly distributed. Around a half of these owners hold businesses in the wholesale and retail trade, IT, finance, real estate, and management sectors.

Table A2 shows the summary statistics for major shareholders who own a single business for at least two consecutive years before selling their entire stakes of a company in our matched sample. The treated group consists of individuals who sell their entire stakes at  $t = 0$  and the control group consists of those who sell at  $t \geq 5$ . These individuals exist in our data without any gap year and do not die during our sample period. On the year before the event, there exists 6,620 treated individuals with total income of roughly 64 thousand Canadian dollars on average. The average ownership rate is 38 percent, meaning that they are not the majority shareholder on average. The average book value (total assets minus total liabilities) is around 35 thousand dollars. The age and gender distributions are slightly skewed towards males and older people. Around three quarters of these owners hold businesses in the wholesale and retail trade, IT, finance, real estate, and management sectors.

Even though the match rate from the matching process described above is around 10 percent, the matched individuals are relatively comparable to our overall sample of business owners described in Table A1. Therefore, we claim that this matched sample is quite representative of individual shareholders with a single business in the aggregate sample.

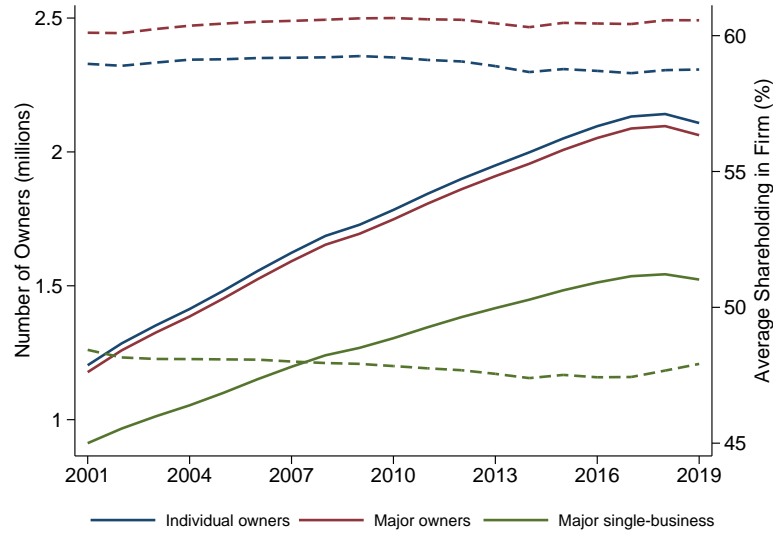


FIGURE A1. NUMBER OF BUSINESS OWNERS AND AVERAGE SHARES (2001 – 2019)

Notes: For each owner group, the figure plots two series over our sample period (2001 – 2019): a solid line for the number of owners (in millions, left y-axis) and a dashed line for the average shareholding in a given firm (in percent, right y-axis). The three groups, distinguished by color in the legend, are individual owners, major owners, and major single-business owners. Major owners are individual shareholders who own either the largest share or at least 10 percent of a given company in a given year; major single-business owners are major owners who own only one business in a given year.

TABLE A1—SUMMARY STATISTICS: MAJOR SINGLE-BUSINESS OWNERS (AT  $t = -1$ )

	Summary
Total Income	77,979.79 (104,372.03)
Deferred Corporate Income (before-tax)	2,567.62 (40,133.74)
Personal Income (before-tax)	75,412.16 (96,194.45)
Capital Gains/Losses	17,580.51 (81,015.54)
Wage Income	36,132.69 (92,188.75)
Has any wage income	0.73 (0.44)
Prob(Starting New Firm)	0.001 (0.036)
Total Taxes Paid	12,812.44 (22,752.05)
Average Ownership Rate	37.47 (23.88)
Number of Firms x Ownership Rate	0.37 (0.23)
Book Value	46,383.01 (160,109.42)
Male	0.538 (0.499)
Age Group: 20 - 34	0.15 (0.35)
Age Group: 35 - 44	0.22 (0.41)
Age Group: 45 - 54	0.25 (0.43)
Age Group: 55 - 64	0.23 (0.42)
Age Group: 65 or above	0.14 (0.35)
Mining, Utility, Construction	0.109 (0.31)
Manufacturing	0.05 (0.22)
Wholesale & Retail Trade, Transportation	0.21 (0.41)
IT, Finance, Real Estate, Management	0.25 (0.43)
Entertainment, Accommodation, Food	0.09 (0.28)
Other Services	0.06 (0.23)
Observations	68,560

Notes: This table shows the summary statistics (means and standard deviations at  $t = -1$ ) for major shareholders who own a single business for at least two consecutive years before selling their entire stakes. Furthermore, these individuals exist in our data without any gap year and do not die during our sample period. Total income is defined as the sum of deferred corporate income and personal income before taxes. Total taxes paid combine both corporate taxes and personal taxes paid at the federal and provincial levels. Book value is defined as total assets minus total liabilities.

TABLE A2—SUMMARY STATISTICS: TREATED AND CONTROL OWNERS (AT  $t = -1$ )

	Treated	Control
Total Income	64048.78 (92738.71)	65782.59 (102794.77)
Deferred Corporate Income (before-tax)	5049.73 (31039.93)	6965.06 (44370.47)
Personal Income (before-tax)	58999.05 (78839.26)	58817.53 (78995.40)
Capital Gains/Losses	1106.50 (16957.20)	1072.39 (16477.58)
Wage Income	41656.09 (130927.46)	41290.14 (86448.95)
Any Wage Income	0.73 (0.44)	0.76 (0.43)
Prob(Starting New Firm)	0.00 (0.03)	0.00 (0.03)
Total Taxes Paid	13280.05 (25939.99)	13629.76 (27756.57)
Average Ownership Rate	37.82 (24.15)	55.30 (27.95)
Number of Firms x Ownership Rate	0.38 (0.24)	0.55 (0.28)
Book Value	34499.87 (146346.32)	57376.54 (216881.74)
Male	0.57 (0.49)	0.57 (0.49)
Age Group: 20 - 34	0.13 (0.33)	0.12 (0.33)
Age Group: 35 - 44	0.27 (0.45)	0.27 (0.44)
Age Group: 45 - 54	0.31 (0.46)	0.31 (0.46)
Age Group: 55 - 64	0.22 (0.41)	0.23 (0.42)
Age Group: 65 or above	0.07 (0.26)	0.08 (0.27)
Mining, Utility, Construction	0.10 (0.29)	0.10 (0.29)
Manufacturing	0.02 (0.15)	0.02 (0.15)
Wholesale & Retail Trade, Transport	0.30 (0.46)	0.30 (0.46)
IT, Finance, Real Estate, Management	0.43 (0.50)	0.43 (0.50)
Entertainment, Accommodation and Food	0.07 (0.26)	0.07 (0.26)
Other Services	0.04 (0.19)	0.04 (0.19)
Observations	6,620	6,620

Notes: This table shows the summary statistics (means and standard deviations at  $t = -1$ ) for major shareholders in our matched who own a single business for at least two consecutive years before selling their entire stakes in our matched sample. Furthermore, these individuals exist in our data without any gap year and do not die during our sample period. The treated group refers to individual owners who sell their entire stakes of a company at  $t = 0$  and the control group refers to those who sell their entire stakes at  $t \geq 5$ . Total income is defined as the sum of deferred corporate income and personal income before taxes. Total taxes paid combine both corporate taxes and personal taxes paid at the federal and provincial levels. Book value is defined as total assets minus total liabilities.

## APPENDIX B: ROBUSTNESS TESTS AND ADDITIONAL HETEROGENEITY ANALYSIS

In this section, we first assess the robustness of our main findings along three dimensions: the length of the post-event window, the definition of the sale, and the sample of owners, re-estimating Equation (1) in each case. Next, we conduct an additional heterogeneity analysis across 1-digit sectors and discuss the results.

*B1. Extending Post-period Window*

Our baseline specification follows owners for four years after the sale, using a control group that sells at least five years later. To examine whether the effects persist over a longer horizon, we instead use a control group that sells at least nine years after the event, which allows us to trace outcomes for eight years following the sale.

Figure B1 plots the event study estimates over the extended window, up to the eighth year after the sale. Similar to the baseline results, treated and control owners follow parallel pre-trends. Total income changed little in the event year, as the drop in deferred corporate income is offset by a temporary rise in personal income, reflecting the spike in realized capital gains at the sale. From the first year onward, total income falls steadily, driven by declines in both deferred corporate and personal income. The decline magnified over the longer horizon, reaching about \$30,000 ( $\approx 46\%$ ) of the pre-event mean in the fourth year, close to the 42% in the main results, and about \$49,000 ( $\approx 76\%$ ) in the eighth year.

Table B1 summarizes these dynamics as the average effect over the post-event years. Total income falls by about 45% of the pre-event mean, larger than the 28% in the main results, with wage income, the probability of working, and taxes paid declining as well. The larger average reflects the longer horizon rather than a stronger response, since the trajectory through the fourth year is similar to the main results and then continues to decline. Overall, these dynamics indicate that the declines in income and labor supply after the event are persistent in the long run.

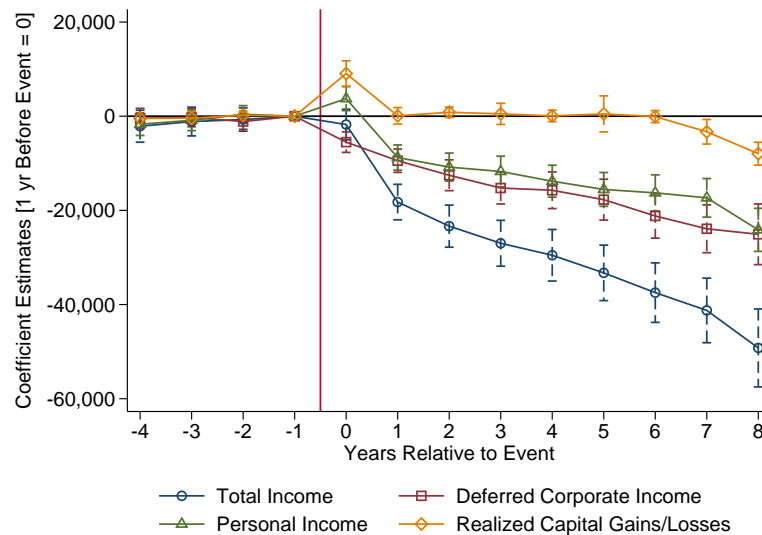


FIGURE B1. EVENT STUDY ESTIMATES WITH LONGER WINDOW

Notes: The figure plots the event study coefficients  $\beta_k$  from Equation (1) for total income, deferred corporate income, personal income, and realized capital gains/losses, using a later control group that sells at least nine years after the event so that outcomes can be traced for eight years following the sale. The red line marks the sale. Markers are point estimates and bars are 95% confidence intervals. The specification includes individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level.

TABLE B1—ROBUSTNESS: LONGER POST-EVENT WINDOW

	(1)	(2)	(3)	(4)
	Total Income	Def. Corp. Income	Personal Income	Capital Gain/Loss
Treated $\times$ Post	-29,005.6 (2,103.6)	-16,263.0 (1,375.3)	-12,742.6 (1,369.0)	-33.2 (580.8)
Adjusted $R^2$	0.532	0.205	0.650	0.029
Observations	96,590	96,590	96,590	96,590
Treated Units	2,580	2,580	2,580	2,580
Treated Mean	64,878.9	6,225.1	58,653.9	932.2
	(5)	(6)	(7)	(8)
	Wage Income	Pr(Work)	Pr(New Business)	Taxes Paid
Treated $\times$ Post	-6,328.4 (2,156.5)	-0.0740 (0.0106)	-0.0320 (0.0025)	-7,529.6 (548.7)
Adjusted $R^2$	0.481	0.499	0.044	0.642
Observations	96,590	96,590	96,590	96,590
Treated Units	2,580	2,580	2,580	2,580
Treated Mean	42,363.5	0.74	0.00	14,033.3

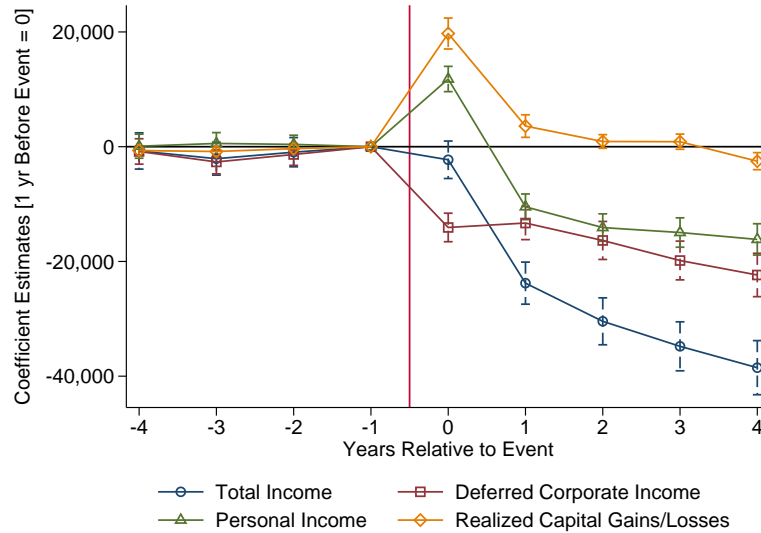
Notes: This table repeats the main specification using the later-treated group (owners who sell after nine years) as the comparison group, which extends the post-event window to eight years. Each column reports the average effect of selling ownership stakes over the post-event years relative to control owners. Columns (1)–(8) are total income, deferred corporate income, personal income, realized capital gains/losses, wage income, the probability of working (which equals one if wage income is positive), the probability of owning a new business, and total taxes paid. Income and tax variables are in CAD. Columns (6) and (7) are indicators. Treated mean is the pre-event mean of each outcome among treated owners. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level and reported in parentheses.

*B2. Alternative Definition for Selling Ownership Stakes*

The baseline specification defines the event as the sale of an owner's entire shares in the company. However, owners can also exit by selling a controlling stake (i.e., more than 50 percent). We therefore re-define the event as the sale of at least 50% stakes in the company.

Figure B2 plots the event study estimates based on this alternative definition. Total income changed little in the event year, with the drop in deferred corporate income offset by the personal and realized capital gains at the partial sale, before falling sharply from the first year onward. The magnitude, however, is more muted in proportional terms. By the fourth year total income is about \$38,500 below control owners, which is roughly 33% of the pre-event mean, smaller than the 42% decline in the main specification. This is probably because owners who sell partially retain income from the portion they keep, so their proportional income loss is smaller than that of owners who sell out entirely.

Table B2 reports the average effect over the post-event years. Total income falls by about 22% of the pre-event mean, again somewhat smaller than the 28% in the baseline, with the decline driven by the same deferred corporate and personal income components and accompanied by lower wage income, a lower probability of working, and lower taxes. Overall, partial sales generate a similar qualitative pattern to full sales but a smaller proportional income loss.

FIGURE B2. EVENT STUDY WITH SALE  $\geq$  50% OF STAKES

Notes: The figure plots the event study coefficients  $\beta_k$  from Equation (1) for total income, deferred corporate income, personal income, and realized capital gains/losses, defining the event as the sale of at least 50% of an owner's stakes. The red line marks the sale. Markers are point estimates and bars are 95% confidence intervals. The specification includes individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level.

TABLE B2—ROBUSTNESS: EVENT DEFINED AS SELLING AT LEAST 50% OF STAKES

	(1) Total Income	(2) Def. Corp. Income	(3) Personal Income	(4) Capital Gain/Loss
Treated $\times$ Post	-25,961.6 (1,524.8)	-17,183.4 (1,141.4)	-8,778.1 (969.9)	4,516.4 (483.8)
Adjusted $R^2$	0.533	0.223	0.652	0.049
Observations	378,290	378,290	378,290	378,290
Treated Units	10,110	10,110	10,110	10,110
Treated Mean	117,259.0	26,351.6	90,907.4	2,050.0
	(5) Wage Income	(6) Pr(Work)	(7) Pr(New Business)	(8) Taxes Paid
Treated $\times$ Post	-6,122.9 (2,467.5)	-0.0680 (0.0048)	-0.0163 (0.0015)	-7,665.6 (379.4)
Adjusted $R^2$	0.477	0.487	0.030	0.655
Observations	378,290	378,290	378,290	378,290
Treated Units	10,110	10,110	10,110	10,110
Treated Mean	61,920.5	0.76	0.00	27,226.5

Notes: This table repeats the main specification defining the event as the sale of at least 50% of stakes, rather than 100%. Each column reports the average effect of the sale over the four post-event years relative to control owners. Columns (1)–(8) are total income, deferred corporate income, personal income, realized capital gains/losses, wage income, the probability of working (which equals one if wage income is positive), the probability of owning a new business, and total taxes paid. Income and tax variables are in CAD. Columns (6) and (7) are indicators. Treated mean is the pre-event mean of each outcome among treated owners. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level and reported in parentheses.

### B3. Multiple-business Owners

Our baseline sample consists of treated sellers who own a single business at least for two consecutive years ( $t = -1$  and  $t = -2$ ) before the event. Owners who hold several businesses may respond differently, since selling one firm does not represent a full exit. We therefore restrict the sample to owners with at least two businesses in the two years before the event.

Figure B3 plots the event study estimates for this sample. The estimates are less precise than in the baseline analysis because there are far fewer multi-business owners. Total income shows no significant changes before the sale and then declines afterward, becoming significantly negative from the first year and reaching about \$246,000 ( $\approx 27\%$ ) below control owners by the fourth year. As in the baseline, this decline operates almost entirely through the income of the firm they sell. In proportional terms, however, it is more muted than in the main results. By the fourth year, total income is down about 27% of the pre-event mean, compared with 42% in the baseline, since the firm they sell accounts for a smaller share of these owners' larger total income.

Table B3 reports the average effect over the post-event years. Total income falls by about 19% of the pre-event mean, driven almost entirely by reductions in deferred corporate income, and taxes paid decline as well. The labor supply response, however, is much weaker than in the main sample where only single-business owners are included. The probability of working falls by only about 5%, compared with roughly 9% in the main sample, and the effects on personal and wage income are not statistically significant. The large dollar magnitudes reflect the greater levels of income of these owners. This pattern indicates that multi-business owners remain more economically active after a sale compared to single-business owners.

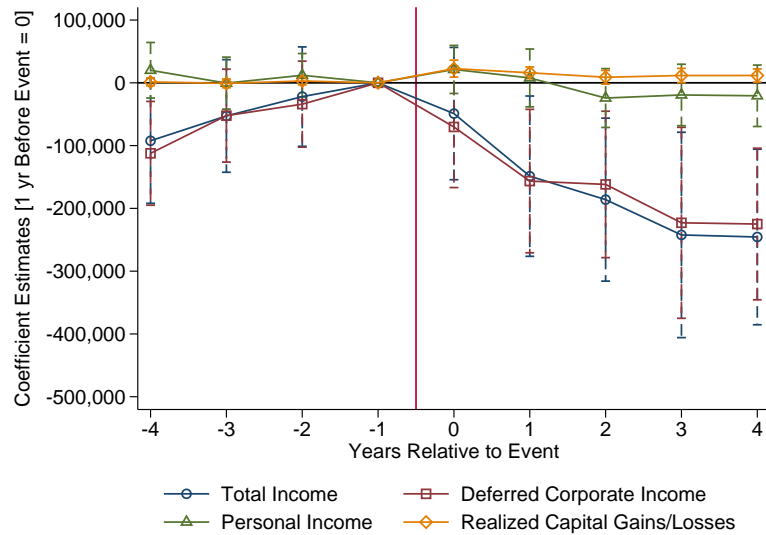


FIGURE B3. EVENT STUDY ESTIMATES, MULTIPLE-BUSINESS OWNERS

Notes: The figure plots the event study coefficients  $\beta_k$  from Equation (1) for total income, deferred corporate income, personal income, and realized capital gains/losses, restricting the sample to owners with at least two businesses in the two years before the event. The red line marks the sale. Markers are point estimates and bars are 95% confidence intervals. The specification includes individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level.

TABLE B3—ROBUSTNESS: MULTIPLE-BUSINESS OWNERS ( $\geq 2$ ) AT  $t = -1$  AND  $t = -2$ 

	(1) Total Income	(2) Def. Corp. Income	(3) Personal Income	(4) Capital Gain/Loss
Treated $\times$ Post	-174,315.7 (49,263.2)	-167,294.3 (41,856.0)	-7,021.5 (19,403.8)	14,156.8 (3,746.7)
Adjusted $R^2$	0.348	0.177	0.575	0.073
Observations	76,000	76,000	76,000	76,000
Treated Units	2,030	2,030	2,030	2,030
Treated Mean	920,946.0	463,909.0	457,037.1	9,700.9
	(5) Wage Income	(6) Pr(Work)	(7) Pr(New Business)	(8) Taxes Paid
Treated $\times$ Post	-30,571.4 (21,795.6)	-0.0385 (0.0101)	-0.0457 (0.0104)	-39,152.8 (9,950.2)
Adjusted $R^2$	0.448	0.461	0.113	0.620
Observations	76,000	76,000	76,000	76,000
Treated Units	2,030	2,030	2,030	2,030
Treated Mean	308,751.9	0.79	0.15	243,400.9

Notes: This table restricts the sample to owners holding multiple businesses ( $\geq 2$ ) at  $t = -1$  and  $t = -2$ . Each column reports the average effect of selling ownership stakes over the four post-event years relative to control owners. Columns (1)–(8) are total income, deferred corporate income, personal income, realized capital gains/losses, wage income, the probability of working, the probability of owning a new business, and total taxes paid. Income and tax variables are in CAD. Columns (6) and (7) are indicators. Treated mean is the pre-event mean of each outcome among treated owners. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector fixed effects, with standard errors clustered at the owner level and reported in parentheses.

*B4. Heterogeneity Across Sectors*

Table B4 reports heterogeneity results by sector, re-estimating Equation (1) separately across 1-digit sectors. Column (1) shows that the declines in total income are similar across sectors, ranging from 27% to 39%. The labor supply responses in Columns (2) and (3) are negative in every sector and comparable in magnitude, with the smallest wage-income response in other services. Column (4) shows a negative effect on starting a new business across these sectors with little variation in magnitude. Overall, we find little heterogeneity in income, labor supply, and serial entrepreneurship responses across the six 1-digit sectors in our analysis sample.

TABLE B4—RELATIVE EFFECT OF SELLING ENTIRE OWNERSHIP STAKES BY SECTOR

	(1) Total Income	(2) Wage Income	(3) Pr(Work)	(4) Pr(New Business)
Mining, Utility, Construction	-0.311 (0.059)	-0.099 (0.072)	-0.047 (0.023)	-0.034 (0.006)
Manufacturing	-0.386 (0.101)	-0.343 (0.124)	-0.101 (0.047)	-0.024 (0.011)
Wholesale & Retail Trade, Transport	-0.266 (0.036)	-0.176 (0.049)	-0.110 (0.017)	-0.017 (0.003)
IT, Finance, Real Estate, Management	-0.297 (0.025)	-0.096 (0.060)	-0.084 (0.012)	-0.037 (0.003)
Entertainment, Accommodation, Food	-0.273 (0.108)	-0.146 (0.078)	-0.089 (0.031)	-0.035 (0.007)
Other Services	-0.274 (0.086)	-0.002 (0.098)	-0.070 (0.045)	-0.011 (0.008)

Notes: Each entry reports the effect of selling ownership stakes relative to the pre-event treated mean (the estimated coefficient divided by the pre-event treated mean of the outcome). Columns (1) – (4) are total income, wage income, probability of working (which equals one if wage income is positive), and probability of owning a new business, respectively. The exception is Column (4), Pr(New Business), for which the entry is the level coefficient. All specifications include individual-by-cohort, event-time-by-cohort, event-time-by-province, and event-time-by-sector FEs, with standard errors clustered at the owner level and reported in parentheses.