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Buying a Small Business in Quebec: Due Diligence Guide

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In this article

1. Start with the structure: buying shares or buying assets
2. The sequence of checks a buyer runs
3. Check 1: Identity and registrations
4. Check 2: Liens and security on the assets
5. Check 3: The financial and tax review
6. Check 4: Employees come with the business
7. Check 5: The lease and premises
8. Check 6: Contracts, permits and intellectual property
9. Check 7: Tax accounts, price allocation and the GST election
10. Protect yourself in the agreement
11. Financing the purchase
12. The buyer's checklist
13. Sources

Start with the structure: buying shares or buying assets

Every small business purchase in Quebec comes down to one of two structures, and the choice decides what you inherit.

- **Share purchase.** You buy the shares of the company that owns the business. The company stays the same legal person, with all its contracts, permits, tax history and liabilities, known and unknown.
- **Asset purchase.** Your own company buys selected assets (equipment, inventory, client list, brand, sometimes the lease) and leaves the seller's company behind with its liabilities, subject to the exceptions the law imposes.

BDC summarizes the difference: "Purchasing shares comes with a very different set of responsibilities compared to purchasing assets" (BDC, [Buying a business: protect yourself from potential liabilities](#)).

Why sellers often push for a share sale: BDC notes the seller may be eligible for the lifetime capital gains exemption when selling shares of a small business (same source). BDC's page gives a figure of "more than \$800,000," which is out of date. The lifetime capital gains exemption on qualified small business corporation shares is **\$1,275,000 for 2026** dispositions (\$1,250,000 for 2025), now indexed again each year ([CRA, indexation of personal income tax amounts](#)). The \$1.25 million increase is law: it was enacted by the *Budget 2025 Implementation Act, No. 1* (S.C. 2026, c. 3, s. 35, assented March 26, 2026), which amended [s. 110.6\(2\)](#) of the Income Tax Act. Quebec applies the same limit: Revenu Québec's form TP-726.7 (version 2026-10) shows a maximum cumulative deduction of \$637,500 for 2026, the taxable half of \$1,275,000 ([Revenu Québec, TP-726.7](#)).

	Share purchase	Asset purchase
What you get	The whole company, history included	Only the assets listed in the agreement

	Share purchase	Asset purchase
Past tax and legal liabilities	Stay in the company you now own	Mostly stay with the seller's company (with exceptions below)
Seller's tax position	Often better (capital gains exemption)	Often worse
Contracts, permits, lease	Stay in place unless a change-of-control clause applies	Must be assigned or renegotiated
Employees	Same employer	Labour law transfers them to you anyway (see below)
Due diligence depth	Deeper: you inherit everything	Focused on the assets and the exceptions

This article is general information, not legal or tax advice. A business purchase in Quebec should involve a notary or lawyer and an accountant from the letter of intent onward.

The sequence of checks a buyer runs

Organize due diligence as a sequence, so each finding can still change the price or the structure:

1. Identity and registrations of the seller and the business.
2. Liens and security on the assets.
3. Financial and tax review.
4. Employees and labour obligations.
5. Lease and premises.
6. Contracts, permits and intellectual property.
7. Financing, price allocation and closing.

Check 1: Identity and registrations

Confirm who you are dealing with. Searching the Quebec enterprise register ([Registraire des entreprises](#)) online is free and shows, for each enterprise, its names and other names used, address, establishments, activities, shareholders, directors and officers as declared, and whether its annual updating declarations were filed ([Québec.ca, Search the enterprise register](#)). Compare that with what the seller tells you and with the share register in the minute book.

BDC's list of documents to examine includes incorporation documents, company minutes, contracts, inventory lists and audited financial statements, and it recommends checking for pending lawsuits, human rights complaints or bankruptcy filings ([BDC, Owner liability](#)). BDC's due diligence guide adds corporate documents such as certificates of incorporation, by-laws and shareholder agreements ([BDC, How to conduct due diligence](#)).

Check 2: Liens and security on the assets

A business's equipment, inventory or receivables may already be pledged to a lender. BDC's checklist ([BDC, Owner liability](#)):

- **Search the personal property security registry**, which in Quebec is the **Register of Personal and Movable Real Rights (RDPRM)**, for hypothecs and other rights on the assets you are buying. You search by the name of the company (and of an individual owner, with date of birth) and by vehicle identification number; the RDPRM's fee page lists \$13 per name searched, indexed annually ([RDPRM, Tarifs](#)).
- **Check for Bank Act section 427 security**, a federal form of bank security on inventory and equipment that is not in the RDPRM: the bank's notice of intention is registered with the Bank of Canada agency for the province ([Bank Act, s. 427](#)), so a separate search is needed.
- **Obtain registration documents** showing that buildings and vehicles belong to the seller.
- **Confirm the business has paid all its taxes**. Neither the CRA nor Revenu Québec publishes a company's tax account; have the seller authorize your advisor (form MR-69-V in Quebec) or produce account statements from its online accounts.

Your notary or lawyer will normally run these searches and require that any lien be discharged at or before closing, with the payoff taken from the purchase price.

There is no bulk-sales protection or tax clearance for an arm's-length buyer. The Civil Code's bulk-sales rules (arts. 1767 to 1778) were repealed in 2002 (S.Q. 2002, c. 19), so Quebec law gives a buyer no statutory procedure for paying the seller's creditors ([Civil Code of Québec](#)). Revenu Québec's clearance requirement falls on the seller's side: after selling all or nearly all its assets outside the normal course of business, a seller corporation's directors who distribute the proceeds without first filing form MR-14.B-V, *Notice Before Distribution of Property* (and FP-352-V for a GST/HST clearance certificate), become personally liable for its tax debts up to the value distributed ([Revenu Québec, Liabilities of Directors](#)). The buyer inherits tax debts mainly in three cases: a share purchase (they stay in the company), a purchase from a related seller for less than fair market value (solidary liability up to the shortfall under s. 14.4 of the Tax Administration Act and s. 325 of the [Excise Tax Act](#)), and workplace-safety assessments: when an establishment is sold, the new employer assumes the CNESST assessment owed at the time of the sale ([Act respecting industrial accidents and occupational diseases, s. 34](#)). The federal section 116 clearance certificate matters only if the seller is a non-resident.

Check 3: The financial and tax review

BDC lists what you and your accountant should receive ([BDC, How to conduct due diligence](#)):

- accountant-prepared year-end financial statements for at least the past **three to five years**;
- interim year-to-date statements and the comparable period of the prior year;
- trial balances, financial forecasts, tax returns and bank statements;
- budgets, product margins and revenue by customer;
- inventory aging, accounts receivable and accounts payable aging;
- employee turnover and a list of all assets.

What to look for, per the same guide: tax liabilities, poor margins, needed equipment repairs or investments, slow-paying customers, operational inefficiencies, high employee turnover, slow or obsolete inventory, working capital levels, financial ratios, owner compensation and the effect of normalization adjustments.

Two tests BDC highlights:

- **Do the numbers agree?** "Do tax returns match the financial statements?" If the seller says the order book is strong, do year-to-date results show it?
- **Which way is it trending?** You pay a price based on past results, but your return depends on the future.

For a deeper look, BDC mentions a **quality of earnings report**, a third-party analysis of the accuracy of historical results and the sustainability of future earnings that adjusts for non-recurring items and irregularities (same source).

Owner compensation deserves its own line. Many small business owners pay themselves partly in dividends, run personal costs through the company or work 60 hours a week unpaid. Rebuild the profit as if you had to pay a manager market salary.

Check 4: Employees come with the business

This is the point where asset buyers are most often surprised. Quebec law protects employees when an undertaking changes hands:

- **The employment contracts continue.** "A contract of employment is not terminated by alienation of the enterprise or any change in its legal structure by way of amalgamation or otherwise. The contract is binding on the successor of the employer" ([Civil Code of Québec, art. 2097](#)).
- **Unpaid labour standards claims follow.** The alienation of all or part of an undertaking "does not invalidate any civil claim arising from the application of this Act... which is not paid at the time," and "the former employer and the new employer are bound solidarily in respect of that claim" ([Act respecting labour standards, s. 96](#)).
- **Seniority-based rights continue.** The alienation of the undertaking "does not affect the continuity of the application of the labour standards" (s. 97). Vacation entitlements and notice periods based on years of service continue to count.
- **Unions and collective agreements follow.** Under the Labour Code, the alienation of an undertaking does not invalidate a certification or collective agreement, and the new employer is bound "as if he were named therein" ([Labour Code, s. 45](#)).

What that means in practice:

Item to obtain	Why
List of employees with hire dates, pay, vacation balances	You inherit seniority and accrued entitlements
Employment contracts and any non-compete clauses	They bind you
Confirmation that wages, vacation pay and overtime are paid to date	Unpaid claims become solidary with you
Any complaints or claims before the CNESST	Same reason
Collective agreement, if any	It binds you

Item to obtain	Why
Payroll remittance confirmations (CRA and Revenu Québec)	Tax arrears in a share deal stay in your company

BDC also suggests contacting the workers' compensation board (in Quebec, the CNESST) to confirm the seller is in good standing ([BDC, Owner liability](#)). The CNESST file is not public before closing, so get the seller's written authorization to obtain its account status; any assessment owed at the sale becomes yours (see Check 2). For the obligations that start once you are the employer, see our guide to [Quebec employer obligations by team size](#).

Check 5: The lease and premises

For many small businesses (a café, a clinic, a studio), the lease is the business. Check:

- **Remaining term and renewal options.** A good location with eight months left and no renewal right is worth much less.
- **Assignment clause.** In an asset purchase, the lease must be assigned to your company. In a share purchase, look for change-of-control clauses that require the landlord's consent anyway. Our article on [assigning a commercial lease in Quebec](#) explains the legal framework.
- **Personal guarantees** the seller gave, and whether the landlord will want yours.
- **Additional rent, restoration and repair obligations;** see [commercial lease obligations under the Civil Code](#).
- **Registration of the lease**, which affects your protection if the building is sold; see [registering a Montreal office lease](#).
- **Municipal compliance.** BDC recommends contacting the municipality to confirm the business holds the right licences and that the current use of the property is permitted ([BDC, Owner liability](#)).

Check 6: Contracts, permits and intellectual property

From BDC's legal due diligence list ([BDC, How to conduct due diligence](#)): ongoing, pending or threatened litigation; past lawsuits; employment contracts; leases; customer and supplier agreements and warranties; laws and regulations affecting the company; licences and permits; real estate and intellectual property issues. BDC adds that you should make sure key contracts, such as leases, regulatory agreements and customer contracts, can be assigned to you if necessary.

Specific points for small Quebec businesses:

- **Who owns the website, domain, social accounts and software licences?** Often the owner personally.
- **Is the trade name registered?** Check whether the brand is a declared name, a registered trademark or neither.
- **Are key clients tied to the owner personally?** If so, negotiate a transition period with the seller.
- **Permits that do not transfer**, which must be reapplied for in your name.

Check 7: Tax accounts, price allocation and the GST election

Price allocation. In an asset purchase, the agreement should allocate the price among the assets. The CRA says the amount you attribute to each asset should be its fair market value, and the balance of the purchase price remaining after allocating fair market value to each asset and to inventory goes to goodwill. Those amounts "should coincide with the amounts the vendor determined when reporting the sale" (CRA, [Buying an existing business](#)). The allocation drives your future capital cost allowance and the seller's tax, so it is negotiated, not filled in at the end.

GST/QST election. If you buy all or substantially all (generally at least 90%) of the property reasonably necessary to carry on the business, you and the seller may jointly elect to have no GST/HST payable on the sale (CRA Form GST44, same CRA page). In Quebec, where Revenu Québec administers both taxes, one form covers GST/HST and QST: **FP-2044** (FP-2044-V in English, version 2023-04). The election is not available if the seller is a registrant and you are not, it does not cover taxable services, leases or licences, and a registrant buyer files it no later than the due date of its GST/HST and QST return for the reporting period in which the acquisition was made ([Revenu Québec, FP-2044-V](#); QST Act ss. 75 and 75.1).

Your own accounts. After an asset purchase, you may need a new business number, and you should review payroll accounts and GST/HST registration (CRA, [Buying a business](#)).

Protect yourself in the agreement

Due diligence reduces risk; the agreement allocates what remains. BDC's main recommendation is an **indemnity agreement** in which the seller promises to be responsible for unforeseen liabilities arising from the period before the sale, for a period after closing ([BDC, Owner liability](#)).

Clauses buyers commonly negotiate with their lawyer or notary:

- representations and warranties on taxes, employees, litigation, financial statements and title to assets;
- an indemnity backed by a holdback (part of the price paid later) or a balance of sale owed to the seller;
- a non-competition and non-solicitation undertaking from the seller;
- a transition period during which the seller introduces you to clients and suppliers;
- conditions precedent: financing, landlord consent, lien discharges, key employee retention.

Financing the purchase

Lenders will want your plan, your equity and the target's history. In Montreal, PME MTL offers support and financing for business transfers and buyouts, and its Fonds PME MTL (up to \$300,000) and FLS Montréal (up to \$150,000) loans list "acquisition of a business (relève et transfert)" as an eligible expense. Conditions include a business establishment in Montreal, REQ registration, a business plan or project summary, an equity contribution of at least 20% of total project cost, and Canadian citizenship or permanent residence ([PME MTL, Fonds PME MTL et FLS Montréal](#); [PME MTL, FAQ](#)).

Illustrative example: a \$250,000 purchase price plus \$30,000 of closing costs and working capital means a \$280,000 project. A 20% equity contribution is \$56,000. The remaining \$224,000 might combine a bank loan, a PME MTL loan and a balance of sale from the seller; the mix depends on each lender's analysis.

The buyer's checklist

Area	Item	Done
Structure	Shares or assets decided with lawyer/notary and accountant	
Registers	Enterprise register extract; RDPRM search; Bank Act s. 427 search	
Registers	Vehicle and building ownership documents	
Legal	Litigation, human rights complaints, bankruptcy search	
Financial	3-5 years of statements, tax returns, bank statements, agings	
Financial	Tax returns reconciled to statements; owner pay normalized	
Tax	Taxes and payroll remittances confirmed paid; seller's MR-14.B-V notice before proceeds are distributed	
Employees	List, contracts, vacation balances, wages paid to date	
Employees	CNESST standing; collective agreement if any	
Lease	Term, renewal, assignment or change-of-control consent	
Municipal	Licences and permitted use confirmed	
Contracts	Key customer and supplier contracts assignable	
IP	Domain, website, trademarks, software licences in the business's name	
Agreement	Indemnity, holdback, non-compete, transition period	
Closing	Price allocation agreed; FP-2044 (GST/HST and QST election) filed if applicable	
After closing	Business number, payroll and sales tax accounts updated	

Sources

1. Buying a business? How to protect yourself from potential liabilities (BDC)
2. How to conduct due diligence when buying a business (BDC)
3. Buying an existing business (CRA)
4. Buying a business: business number and accounts (CRA)
5. Line 25400, Capital gains deduction (CRA)
6. Civil Code of Québec, arts. 1767-1778 (repealed) and 2097 (LégisQuébec)
7. Act respecting labour standards, ss. 96-97 (LégisQuébec)
8. Labour Code, s. 45 (LégisQuébec)
9. Fonds PME MTL et Fonds locaux de solidarité Montréal (PME MTL)

10. Foire aux questions (PME MTL)
11. Indexation of personal income tax and benefit amounts, LCGE 2026 (CRA)
12. Income Tax Act, s. 110.6 (Justice Laws)
13. TP-726.7, version 2026-10, PDF (Revenu Québec)
14. Search the enterprise register: about (Québec.ca)
15. Tarifs de consultation (RDPRM)
16. Bank Act, s. 427 (Justice Laws)
17. Liabilities of Directors of Corporations (Revenu Québec)
18. Excise Tax Act, s. 325 (Justice Laws)
19. Act respecting industrial accidents and occupational diseases, s. 34 (LégisQuébec)
20. FP-2044-V, Election Concerning the Acquisition of a Business or Part of a Business (Revenu Québec)

If the business you buy needs a stable address for official mail during the transition, 2727 Coworking offers business addresses in Griffintown that can be used on REQ filings.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. <https://www.bdc.ca/en/articles-tools/start-buy-business/buy-business/owner-liability>
2. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html>
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17. <https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/fp-2044-v>
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19. <https://pmemtl.com/services/fonds-pme-mtl-fonds-locaux-solidarite-montreal>
20. <https://pmemtl.com/faq>
21. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-25400-capital-gains-deduction.html>

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