



Incorporating Your Business

Many tax planning opportunities become available to you by incorporating your business. By changing your business from a sole proprietorship to a corporation, you become the shareholder and employee of a separate taxable entity. If the corporation qualifies as a Small Business Corporation, other possibilities can arise.

Who Can Incorporate?

Businesses, health care professionals, veterinarians, lawyers, pharmacists and accountants may incorporate.

Advantages

Limited Liability

- In general, a shareholder's personal assets are protected from creditor claims and any lawsuits or other liabilities arising in the corporation. Note: This does not apply to incorporated professionals as it conflicts with the concept of due diligence and professional conduct.

Small Business Deduction

- Active business earnings of Canadian Controlled Private Corporations are eligible for reduced tax rates both federally and provincially.

Tax Deferral

Corporate versus Personal Tax Rates

- A bonus declared by the corporation to employees can be deducted in its current fiscal year, but not taxed to the recipients until the following calendar year if an appropriate year-end is chosen.

- Leaving earnings in the corporation to be taxed at the small business rate can defer up to 30% in taxes. This permits the corporations to earn additional income on the increased cash flows.

Employee Benefits

- Benefits, which are deductible to the corporation, may be eligible for special tax treatment in your hands. In addition, the corporation can establish an Employee Profit Sharing Plan, an Individual Pension Plan, or a Private Health Services Plan, each of which provide extra tax benefits.

Estate Planning

- An appropriate share structure can allow you to retain control of the corporation while any increase in value accrues to shares held by your children minimizing taxes to your estate. A corporation survives its owner(s), which can ensure the continuity of the business after the owner's death.

Probate Fees

- If your business is incorporated, the value of your shares, rather than the underlying business assets, would be subject to probate tax. As the value of the shares is the fair market value of the assets less the liabilities, the probate fees could be significantly reduced. If your shares are transferred to members of your family, it may not be necessary to obtain probate.

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Income Splitting

- Your spouse and adult children may be able to subscribe to shares of your corporation, or an associated corporation, and receive salaries and/or dividends from the profits of the business.

Capital Gains Exemption

- If your corporation qualifies as a Canadian Controlled Private Corporation where all or substantially all of its assets are used in an active business carried on primarily in Canada, the disposition of the shares may entitle you to a \$750,000 capital gains exemption. Depending on the share structure, the exemption may be multiplied for numerous family members.

Allowable Business Investment Loss (ABIL) Treatment

- Should the business fail, the loss of your investment in shares or debt may qualify as a business investment loss, one-half of which may be allowable as a deduction against income from all sources.

Cash Accumulation

- Accumulation of excess cash and other non-business assets can affect a company's Small Business Corporation status, thereby jeopardizing the shareholder's ability to access their capital gains exemption(s).

Summary

Your decision on whether to incorporate your business requires careful consideration of the advantages and disadvantages of a corporate structure and your future plans for your business. The goal of any business structure is to ensure you are maximizing benefits from your business in achieving your personal and financial objectives.

Consult your Collins Barrow tax advisor on how to achieve the maximum benefit from your business structure.

Disadvantages

Increased Cost and Paperwork

- Filing for incorporation, drafting bylaws, maintaining a minute book, share subscriptions and annual filing fees all require legal assistance, which can be costly. Annually two types of tax returns need to be filed — personal and corporate.

Deduction of Losses

- Losses in a corporation may only be carried forward or back to reduce the corporation's income from other years whereas business losses from non-incorporated businesses may be used to offset other types of personal income of the proprietor in a taxation year.

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Why Collins Barrow Ottawa LLP

We are a well rounded **tax, accounting and business advisory firm**. Our extensive experience spans various industry sectors including manufacturing, retail, construction, service, not-for-profit, technology, petroleum, health care, education, and transportation. That means we can quickly and efficiently apply our cross-industry experience – and add significant value to the work we do for you.

With Collins Barrow Ottawa, you are always assured of **partner involvement** – someone that will oversee a dedicated team of professionals and researchers and ensure your requirements are met.

In addition, we are part of Collins Barrow, one of Canada's leading accounting organizations. We are represented globally in 110 countries through **Baker Tilly International**, an alliance of independent accounting firms. For you, this means we can:

- Access specialized resources and performance tools, if needed.
- Seamlessly service you across Canada, in the U.S. and around the world.
- Confidently tackle a wide range of complex financial and operational issues.

For more information on our approach, solutions for specific client groups, and the credentials of our experienced team, please visit:

www.collinsbarrowottawa.com

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