

Are you considering Incorporation of your business?

The main advantages to incorporating are:

- 1) tax deferral and 2) potential for income splitting within the family.*

Tax Deferral

- The highest personal marginal tax rate is 46.4% less newly reduced corporate tax rate of 16.5% for small businesses (taxable income below \$400K) = 29.9% deferral of tax. Significant! Plus, current Conservative government is on a 5-yr rate reducing plan to further reduce corporate rate.
- Building Retained Earnings surplus (after tax) at a faster rate due to low tax rate generates larger pool of funds to invest for retirement funding. (Note that investment income such as interest, capital gains, dividends etc. are taxed at the same rate as if earned individually however.) Distribute this pool to shareholders as dividends in low income periods:
 - Retirement
 - Maternity/paternity leaves
 - Adult children in university to fund tuition costs.

Income Splitting Opportunities

- By setting up family members (spouses, adult children, parents) as shareholders with different share classes of the corporation, dividends can be paid out up to \$36K tax free if the recipient is not earning any other income.
- If family members do legitimate work for the corporation (administrative, billing, bookkeeping, cleaning, research etc.) they can be remunerated with salary to increase earned income eligible for CPP pension and RRSP room.
- Financing personal life insurance premiums through the corporation (although not a tax deductible expense on the T2).

Additional Considerations to be aware of:

- Incorporation requires significant administrative start-up and annual maintenance costs. Small corporations are required to comply with same corporate laws and regulations as large ones. For example, incorporate with a lawyer, have a separate bank account, monthly bookkeeping to reconcile bank account, annual filing of Financial Statements and Corporate Tax returns to the Federal and Provincial governments, annual shareholder meetings and resolutions filed in the corporate minute books, Industry Canada filing if Federally incorporated.
- Incorporation does NOT limit liability for professional negligence.
- Incorporation is recommended when you can afford to leave a minimum of \$30K to \$50K in the corporation to achieve the advantages of tax deferral.