BENEFITS OF INCORPORATING

To Incorporate or Not Incorporate…

Once the business generates more income than you need for your living expenses, incorporating can save you money.

If your business is at the profitable state, or you are just considering incorporation, the following are some of the advantages of incorporating your business:

1. **Separate Legal Entity**

   A corporation has the same rights and obligations under Canadian law as a natural person. When a business is incorporated, its separate legal status, property, rights and liabilities continue to exist until the corporation is dissolved, even if one or more shareholders or directors sell their shares, die or leave the corporation. Among other things, this means it can acquire assets, go into debt, enter into contracts, and sue or be sued. A corporation's money and other assets belong to the corporation and not to its shareholders.

2. **Limited Liability**

   Incorporation limits the liability of a corporation's shareholders. The shareholders are not liable, in most cases, for the debts and other obligations of the corporation. Creditors only have rights against the corporation itself and not against the shareholders.

3. **Continuous Existence**

   A corporation would continue to live on even if every shareholder and director were to die. This is because, in the case of a corporation, ownership of the business would simply transfer to the shareholders' heirs, while a partnership or sole proprietorship ceases to exist upon the death of its owner(s).

4. **Favorable Financing**

   The assurance of continuous existence gives a corporation greater stability. In turn, this allows the corporation to plan over a longer term, thereby helping it to obtain more favorable financing.

5. **Capital Acquisition**

   A corporation can issue various classes of shares to raise capital, typically, is more attractive to investors.

6. **Credibility and Prestige**

   Incorporation may help provide your business with credibility and prestige in its business dealings.

7. **Tax Advantages**

   i. **Lower Corporate Tax Rates**

   Generally the corporate tax rate is lower than individual tax rates. Incorporation may offer you some fiscal advantages. An accountant and/or financial planner can help determine if incorporating makes sense.

   ii. **Capital gain exemption**

   One of the biggest tax advantages of incorporation occurs when you want to sell your business. When you sell a corporation, you sell an independent entity with its assets and liabilities as a unit. For a Corporation, as of 2014, and you can claim a one-time capital-gains tax exemption of $800,000 on the sale of a Canadian controlled private corporation that uses at least 90 percent of its assets in an active business, carried on primarily (50% or more) in Canada by the corporation or a related corporation.

   iii. **Income splitting and dividends**

   If you hire your spouse or children to carry out the work, the corporation can deduct the amount it pays them as an expense, and your family members pay tax at their own personal income tax rates, often substantially lower than your own.

   Even if you can't hire family members to carry out work, you can make them shareholders and pay them dividends, which are taxed at a reduced rate. The corporation still pays taxes on this money but, depending on the personal incomes of your family members and the province in which you are residents, there may be an overall tax savings.

   It's not always advisable to issue shares directly to your children (and if they're minors, this isn't possible), and so a Holding Company and Family trust can be utilized.

   iv. **Holding Company and Family Trust**

   If you're one of multiple shareholders in your Corporation, setting up a personal holding company for each shareholder can provide flexibility to each of you. Think of each holding company as a tap to control the payment of dividends to each of you personally.

The shares of the holding company can be held by a Family Trust. The beneficiaries of the trust will include you, your spouse, your children (regardless of their age), and your holding company. The advantages, include: The ability to sprinkle dividends to family members or the holding company as beneficiaries of the trust, at your discretion; the ability to multiply the lifetime capital gains exemption on a sale of the shares of your operating (assuming the shares qualify for the exemption); creditor protection over the property of the trust, including the shares of the operating company, among other benefits.

On the other hand, incorporating your business is subject to the following procedures:

i. **Start-up Costs**: The initial start-up costs (Government fees) are expensive when compared to the start-up costs of sole proprietorship and partnerships.

ii. **Double Taxation**: Income produced by a corporation is taxed at both the corporate level (its income) and shareholder level (taxes on the dividends- profits they receive from the Corporation). However, most of this double taxation may be reduced by offsetting the corporation's business expenses with its income.

iii. **Maintaining corporate records**: A corporation is required to maintain its corporate records (Corporate Minute Book), hold annual meetings, elect directors, appoint officers and provide shareholders with certain information.