

Being an Incorporated Business

General information

Among the factors to consider in making this decision are the benefits of incorporating (versus operating the business as a sole proprietorship or partnership) and the implications that incorporation may have for the business. A corporation is a separate legal entity. It can enter into contracts and own property in its own name, separately and distinctly from its owners. It has to *pay tax* on its income, and therefore must file its own income tax return.

Getting Started

You can set up a corporation by completing articles of incorporation and filing them with the appropriate provincial, territorial, or federal authorities. For more information on how to incorporate your business you can visit <http://strategis.gc.ca/engdoc/main.html> or see the document entitled 'Incorporation instructions'.

We can also recommend help from a Paralegal service:

The Legal Link Corporation
60 Adelaide Street East
5th Floor, Toronto ON
M5C 3E4
416-306-3070

Advantages to incorporation

- **Limited liability:** Once you are incorporated your personal exposure is reduced to the investment in the company, usually one dollar
- **Perpetual existence:** Unlike a partnership or sole proprietorship it's not dependent on the life of the principal, or owner. It also provides flexibility
- **Expand or shrink the company:** By adjusting the number of shares outstanding
- **Credibility and prestige:** This is what an incorporated business will provide, which is important when you are dealing with clients and especially Canada Revenue Agency
- **Tax:**
 - Avoid high personal tax rates by retaining earnings within a corporation
 - Maximize business expenses to reduce tax payable
 - Access retained earnings by borrowing from the corporation
 - Disburse income in a tax effective way by declaring dividends
 - Perhaps one of the most important steps is for your accountant to explore all options for an incorporated business to split income on a before and after tax basis. Like an unincorporated business, the corporate entity can justify splitting income with spouses and children over the age of 14 on a pre-tax basis.
- **Borrowing from the Corporation:** In order to fully utilize the benefits of incorporation you should also explore the advantages of borrowing money from the corporation. Most commonly used for the purchase of a house or car, the loan can also be structured as a single purpose loan that is paid back by the end of the following fiscal year.

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- **EI & CPP Savings at Source:** Those who choose the corporate vehicle are not required to have Employment Insurance (EI) and Canada Pension Plan (CPP) deducted at source by placement agencies. Incorporation can be a factor in determining independent contractor status. Generally, related parties who do not deal at arm's length with their corporation become EI exempt, although eligibility to collect EI is removed.

Disadvantages to incorporation

- Closely regulated
- Most expensive form to organize
- Charter restrictions
- Extensive record keeping necessary
- Shareholders may be held legally responsible in certain circumstances
- Personal guarantees undermine limited liability advantage

Here at Head2Head

Over the years we have found that personal incorporation has provided a great many of our successful clients with the benefits and safeguards they need. It's an option that we strongly recommend you consider.