



Is Incorporation Right for You?

Operating a business within a corporation is generally preferable to operating an unincorporated business. The corporate option offers many tax and other advantages.

When Not Incorporating Makes Sense

There are times where the unincorporated approach is better. Generally speaking, these are when:

- The revenues and profits of the business are not sufficient to warrant the extra set-up and ongoing administrative costs of a corporate structure;
- There is no substantial risk inherent in the business for which insurance cannot be obtained;
- The business is losing money and you have other income to offset the losses; or
- You need every dollar the business makes to cover your living costs.

Many young businesses fit these criteria, but as they grow will become candidates for incorporation. The accountant for the business should monitor the situation and recommend incorporation when the timing is right.

What is Incorporation?

Incorporation involves creating, with government blessing, a separate legal entity that will own and operate the business. Corporations are owned by shareholders who are entitled to share in the profits of the business through dividends declared by the Board of Directors. The corporation is controlled by these shareholders and operated by directors and officers.

Should I Incorporate On My Own?

While it is possible to incorporate on your own, getting input and advice from a lawyer and an accountant is an investment which you should make in the future of your business. They will get your incorporated business off on the right foot and build into its corporate structure the options that you need to reap the maximum returns and savings over time.

The Advantages of Operating an Incorporated Business

While the start-up legal and accounting expenses are greater and operating a corporation involves ongoing administrative, legal and accounting costs to meet regulatory and tax requirements, these are usually offset many times over by the tax and other savings available to business owners through use of a corporate entity.

The advantages of an incorporated business include:

- Limitation of shareholder liability to the investment of capital in the corporation unless shareholders agree to assume liability by signing personal guarantees
- Protection of personal assets
- Lower corporate tax rates that leave more money behind to invest in the business
- Access to dividends, with timing controlled by the directors thereby allowing you to withdraw funds when you are in a lower tax bracket
- Payment of business debt with corporate after-tax dollars rather than personal after-tax dollars
- Enhanced ability to split income with your spouse and children
- Exemption on the first \$750,000 of capital gains if you sell your shares in the corporation, provided certain pre-conditions are met
- Enhanced ability to do tax and estate planning
- Enhanced ability to defer payment of tax
- Greater assurance of business continuity, as the death of shareholders does not mean that the business dies with them
- More options for the transfer of control or ownership of the business

To determine whether or not incorporation is right for you, see a lawyer or an accountant. If incorporation is appropriate, your lawyer and your accountant should work together to maximize the benefits that you can reap from incorporation both now and in the future.

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