

SHOULD YOU incorporate?

Find out whether you and your business are ready to take that step *Text* BRYAN BORZYKOWSKI



When Dan Yurman started his business in 2009, one of his first tasks was to incorporate. The founder of Page 7 Copywriting Inc., a Toronto-based copywriting agency, could have operated as a sole proprietor, but he wanted to sound more official when approaching corporate clients. "It felt more credible," he says.

While credibility may have been the initial reason to add an "Inc." to his company's name, the ultimate impetus for incorporating was to save money on his taxes. He figured that he could keep money inside the company right from the start, and therefore only have to pay Canada's corporate tax rate rather than the much-higher personal tax rates.

For Yurman, the decision to incorporate was an easy one, but many others wonder when – or even if – they should move from sole proprietorship to corporate entity.

Are you saving or spending?

Incorporating makes sense if you are able to keep money inside

the corporation, says Alan Rowell, a Stoney Creek, Ont.-based accountant who works with small businesses. The dollars that stay in the company are taxed at a much lower rate than personal income taxes – 15.5% compared to a maximum 46% in Ontario.

If you can afford to keep your revenues in the business, you should consider incorporating when those revenues hit about \$100,000, says Rowell. But if you have a high standard of living, or simply need to use that cash to live on, then wait until you're making more to incorporate. "It comes down to real wealth management," he says. "What will allow you to keep the most bucks in your pocket?"

There's another key tax benefit to incorporation: you can pay yourself with dividends. Many incorporated entrepreneurs pay part of their own salary in dividends, which is also taxed at a favourable rate. A business owner in Ontario, who makes between \$136,700 and \$514,090, will only be taxed 29.52% on the dividend income they draw from

the company. But remember: you don't get RRSP room from dividend money, so it's a good idea to pay yourself a salary, too.

Protect yourself

You should also incorporate if you're in a position where you could get sued. A corporation is a separate legal entity – "like a third person," says Rowell – so if someone takes legal action they sue the corporation and not the business owner personally. In most cases, your own finances won't be on the hook – only the business will be required to pay.

Cost of incorporating

Some business owners aren't keen on incorporating because it takes time and money, says Rowell. To start, you'll have to pay about \$360 to the government to set it up, and about \$1,500 to a lawyer to properly structure the business.

You must also hold an annual meeting, which is really just a quick get-together with your lawyer – but that face-to-face will cost you whatever your lawyer's hourly rate may be. Plus, you have to pay an accountant about \$1,500 to file your taxes. Sole proprietors, meanwhile, can have their taxes done for \$500 (or less).

Incorporated business owners will also have to choose a year-end date. That's July 31 for Yurman. He picked the summer because that's when his accountant is the least busy. Rowell says to make the year-end date in the latter half of the year, in part so you know just how much personal tax you'll owe come April.

Yurman's happy about his decision to incorporate. He's been able to save a lot of money, and he thinks potential clients look at him with more respect. "It was when I said to myself that I'm going to make a real go at this that I incorporated," he says. "I've never looked back." ●