



The Top 5 Reasons to Incorporate Your Business

At one point or another, almost every business owner ponders the question, 'Should I incorporate my company?' Most look at it as a question of when. 'When my company brings in more revenue,' 'when I have a large staff,' 'when I branch off into multiple divisions.' The question shouldn't be when, but *why*. Why would incorporating your company make more sense than leaving it as a proprietorship? Here are five reasons why it may be time to go corporate!

#1. To mitigate your risk exposure

An incorporated company can limit the liability for business debts and obligations. Limited liability means a safer you. As well, a properly structured and managed corporation in effect separates your personal assets from the corporate assets. If, God forbid, your incorporated company becomes the subject of a lawsuit, takeover, or injunction, you can rest assured that your cottage, SUV, and collection of 80's hair band concert stubs are not at risk.

Having said that, you'll need to keep in mind that the CRA can attach director's liability for unpaid HST and employee source deductions. If that happens and your incorporated company can't pay, guess whose door the CRA will be knocking on next! Remember, I said mitigate your risk exposure, not eliminate it.

#2. Credibility: with suppliers and customers

Business may be booming, and your word may very well be your bond, but the truth of it is that some suppliers will only extend credit to corporations. Even though a corporation can still be a one-person show, having "corp" "Inc" or "Ltd" after the name adds credibility to the business.

Credibility as a corporate business is not lost on your customers and clients either. When they are dealing with a corporation, they believe, rightly or wrongly, that they have a greater degree of protection. It seems 'safer' to deal with a corporation. That fact can help you with branding and marketing.

#3. If you plan on selling the business

Corporations live on after the death of the shareholders, or ownership changes. This continuous existence can make it easier for new owners to transition into the business with minimal business interruption. That's a good selling feature. Corporate ledgers and other accountabilities can also elevate a prospective buyer's expectations that there is a greater degree of administrative organization and process within a corporation over a proprietorship. That may or may not be true, but the optics are there.



#4. For tax planning

As a corporate owner, you MAY be eligible for tax-free benefits such as business use of home reimbursement and per KM vehicle reimbursement, or medical expense reimbursement through private health benefit service plans. Your decision to incorporate from a tax perspective depends upon:

- ✓ the total revenues of the business
- ✓ the amount of personal funds required to live
- ✓ whether your spouse or children can work in the business
- ✓ your eligibility for tax-free benefits

#5. For administrative benefits

As a corporate owner, you have flexibility in how you can receive your pay. You can choose dividends or payroll. Dividends can generate greater after-tax cash flow for you, but they don't create RRSP contribution room, CPP contributions, or eligibility for CPP disability (once you've stopped contributing to CPP for three years). Putting yourself on the payroll means you are building RRSP room and CPP contributions. How you choose to get paid means taking a look at your retirement plan and deciding which method will benefit you most after you've traded in your sensible shoes for golf cleats.

Another administrative benefit is in bookkeeping. Because the corporation is its own entity, it's easier to get into the mindset of keeping the personal and business transactions separate. And that can be half the battle!

Cash flow management is also easier as an incorporated company if you stick to the remuneration plan! That means you live on designated wages and dividends as if you were working for an independent employer. Dipping into the corporate piggy bank to pay down that 'business' weekend in Vegas will not only complicate your company's cash flow, but it will also very likely make you regret your decision to incorporate in the first place.

Not every business should incorporate. But as you're pondering the possibilities, ask yourself why it makes sense for your particular company. It could mean a move into a bigger game; with bigger gains.

Good luck and stay tuned. Next time I'll walk you through the 'how-to' process of making your proprietorship a corporate entity.