



SHOULD YOU INCORPORATE?

Advantages of Incorporation

There are some significant benefits of incorporating, such as:

- 1) Tax Deferral on “active business income” (ABI). The company will be subject to the low rate of tax of 13.5% on the first \$500,000 of net ABI earned within the company. The top personal tax rate is approximately 43.7%, which means you can defer tax of roughly \$0.30 on each dollar, which leaves more money in the company for investing or paying debt.
- 2) Income Splitting. If you set your company structure up correctly, you can enjoy income splitting opportunities with certain family members who are in much lower personal income tax brackets, thereby, reducing your overall family tax burden. By ensuring your corporation is structured properly, you could enjoy significant tax savings.
- 3) Liability and creditor proofing. Incorporation of your business could provide some protection from liability claims against you, depending upon your type of business. There are certain **professional service** businesses which may not be able to hide behind a corporate veil when it comes to liability matters, however, it could prove to be a worthwhile planning tool for other business types. When it comes to questions of liability and creditor proofing, my suggestion is to always consult a

qualified lawyer for this kind of advice, as they are the experts in the legal field.

Disadvantages of Incorporation

There are generally additional costs and complexity in administering the affairs of the company, such as incorporation costs, preparing financial statements, filing a corporate tax return and annual report filing requirements.

CHOOSING YOUR TEAM

It is my opinion that you must look at all aspects of your professional advisory team. Although the accountant is a key advisor and will be involved with most matters, I feel you should also remember that it is important to give some thought to an investment manager, insurance agent and lawyer.

To me, the trick is to develop a relationship with the various advisors whom all should share a common goal...helping you succeed in accomplishing your goals. It is crucially important for these professionals to be able to work together for that common goal and not view the other as competition, but rather as someone to compliment their own services by offering expertise in their respective areas. You may find that the various advisors are needed at different times in your personal and business life, but when that time does come, you want to know they will work well with the others on your team.

Too often, I see situations where people are not receiving the level of service and advice it seems they should be. Your advisors should be able to think outside the box and hopefully be pro-

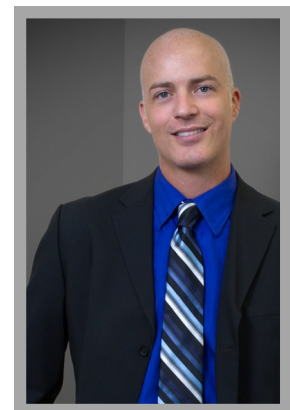
active in identifying new solutions for you, or putting you in contact with other professionals who may be able to bring some new expertise or suggestions to the table. Again, the purpose here is to make sure that your goals as the client are being met and that you have people working with you who can help achieve this.

ABOUT ME

I operate an accounting practice focusing on small and medium sized businesses and am dedicated to working with my clients by exploring various financial and tax solutions to help achieve their goals.

This newsletter is meant to provide general business and tax tips to business owners. You should discuss topics of interest with your advisors. Future issues can be found for reference on my website or you can request electronic versions via email.

Suite 1500 — 885 West Georgia Street
Vancouver, BC V6C 3E8
Phone: 778-552-0229
Fax: 778-373-1064
Email: rodney@rwmcga.com
Web: www.rwmcga.com



Rod McNeil, CGA