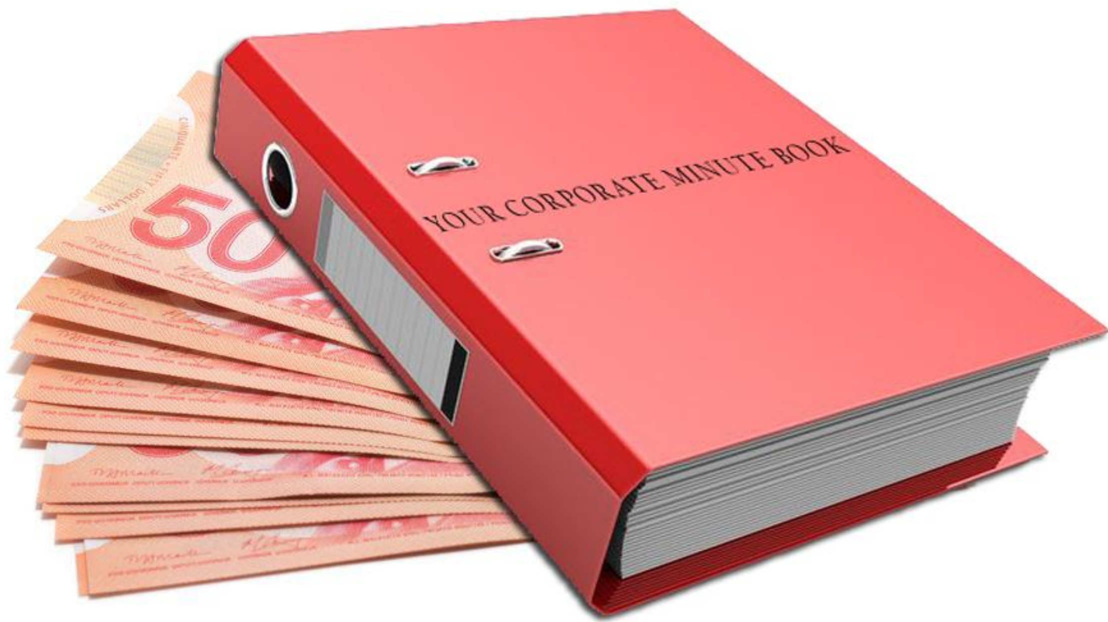
TaxWatch Canada LLP

The Seven Huge Advantages of Using a Corporation



Includes

- ✓ Crucial Tax, Administration and Management Benefits
- ✓ Tax Holiday for New Corporations

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This document is not meant to be professional advice or specific instructions for tax planning or compliance. Seek professional advice whenever possible, including second opinions.

ALERT:

Tax legislation, court cases and CRA policies are always changing, even regarding the use of small business corporations.

For 2016 – 2017, some income splitting and dividend tax credits (allowing for low tax to shareholders for modest dividends) treatments require careful scrutiny.

PERSPECTIVE

These comments will hopefully answer many of your questions and provide more details of the incorporation process, including the dilemmas, opportunities and potential outcomes.

The incorporation outcome intended herein will emphasize taxation of income and claiming of related expenses (for business activities chosen) via the Corporation. This enables the Corporation to accumulate wealth more quickly than personally because the corporation pays substantially less tax which automatically creates more after-tax cash that ultimately belongs to its shareholders because they own the company.

ASSUMPTIONS

There will therefore be an assumption that most shareholders now receive income in the form of self-employed income, salary or investment or pension plans and already have an average tax rate of approximately 35% to 53%. There is also the assumption that at least some of the monies accumulated in the Corporation are not needed for personal use or that personal use is somewhere in the future and there is flexibility about retrieving funds personally from a Corporation.

INCOME SPITTING - THIS IS OFTEN REFERRED TO AS THE GOLDEN EGG.

The benefits of income splitting with other individuals, usually family members, creates great opportunity and is part of the TaxWatch Canada LLP preview and incorporation process. This means that most corporate after tax income will eventually be retrieved by shareholders via tax free allowances, the tax-free portion of capital gains and most especially by dividends that provide dividend tax credits to ensure there is no duplication of corporate tax costs. The inherent flexibility provided by corporations regarding the timing and management of tax liabilities are an ongoing annual tax planning strategy. You will see that there are many ideas and possibilities for using the corporate venue. The following comments will touch briefly on many of these areas but they are by no means complete. By all means get professional help.

These comments are provided as an education source only and may not be appropriate for your circumstances and do not replace professional legal and accounting advice.

1 - EFFECTIVE TAX RATES

Corporations using the small business deduction have a flat tax rate of less than 11% to 13% (depends on provinces where income earned) on the first 500K of annual income if there are no associated (for tax purposes) companies with additional taxable income. In comparison, personal tax rates start at over 22% and progress rapidly, usually averaging 35 to 53% for annual income over $65,000, not counting CPP premiums which may have next to useless current paybacks (depending on exemptions and other deductions).

Comparison of tax rates is not as simple as it would suggest. Income splitting, timing, personal credits and deductions, unusual tax years and other factors will affect the overall tax benefit and cash flow outcomes. Overall, even considering lack of planning or uncontrollable circumstances there is no danger or drawback to corporate tax outcomes. Yet the alternative of the continuous benefit of the difference between corporate and personal tax rates, tax deferrals, and better availability of tax-deductible expenses are fairly easy to realize and are very real.

2 - SHORT-TERM TAX HOLIDAY

The plan is to provide choices to the shareholder(s) regarding the timing of payment of corporate taxes and payment of personal taxes (if any) on monies withdrawn from the Corporation for personal reasons (and therefore taxable personally).

Year 1 - Corp. There could be a short fiscal period of approximately 5 to 7 months. This means that the income tax payable for the Corporation for its first fiscal year could be for less than one half of its annual income. Corporate income tax is due three months after the corporate year end but the tax payment can be postponed with only interest costs (and no other penalties) if the corporate tax return is filed within six months of its year-end.

Year 1 – Personal. Personal withdrawals will be charged to the shareholder account in the corporate records. These funds are owed by the shareholders to the Corporation but will be offset by dividends (which are taxable personally at attractive tax costs) declared by the directors of the Corporation. The monies do not have to be repaid to the Corporation because of the dividend offset against funds withdrawn for personal use.

Comment: There are new rules effective for 2018 and beyond that deter income splitting via multiple corporate shareholders for any non arms length (related) shareholder not active in the business. Tax planning can be implemented to complete the corporate financial statements and tax returns usually 12 months ahead of when dividends have to be declared personally if there are personal monies withdrawn from the Corporation. This provides insight into future personal tax costs which provides greater opportunity to manage personal tax liability and payments thereof.

Year 2 – Corporate. The Corporation has its first full 12 month fiscal year and tax is paid three months after its fiscal year-end or later if necessary. The Corporation has use of its funds for a longer period of time and the corporate tax cost is still relatively low at 13% or less. See Tax Free Allowances below. Note that the corporate year-end will normally be late in the calendar year thereby facilitating pushing ahead personal tax liability for any withdrawals from the Corporation.

Year 2 – Personal. Here is an example: Accumulated personal funds withdrawn and due to the Corporation to December 2020; $55,000 (example)

Repaid by dividend (offset) Feb. 2021 (55,000)

Tax payable***** personally on this 02/2021 dividend in April 2022

Length of tax deferral = almost 2 years

*****Amount of tax to pay personally April 2022 on the $55,000 dividend - approx. $4,500 if there is no other income. Compare this to tax payable at your incremental personal tax rate. Dividends are declared only if Retained Earnings exist. Some provinces have different tax rates.

Even if this dividend is added to your other sources of income, the tax payable will not be any more than if the income was taxed personally in the first instance. There is no downside except OAS claw backs.

Future Years

Corporate taxes are due three months after the corporate year-end and payment terms with CRA are reasonably flexible. See Corporate Tax Instalments below.

Monies withdrawn from the company for personal use should always be offset within one year by dividends sometimes by using multiple classes of shares and multiple (active in the business) shareholders to split income. This tax deferral and income splitting technique is quite acceptable to CRA policies and tax law - one of the inherent benefits of the legislative emphasis to assist Canadian Small Businesses and their shareholders. Tried-and-

true standard techniques usually not subject to tax audit scrutiny unless there is perceived abuse.

3 - CREDITOR PROOFING

Traditionally called 'asset protection', it is better to be upfront and call the objective 'creditor proofing'. Who knows what financial issues will occur - especially from unforeseen personal or family circumstances (usually expensive), creditors without honour or government institutions. Rest assured they will occur.

Your personal assets still include the Corporate shares and planning for this circumstance is typical. It is not advisable to purposely avoid legitimate creditor claims.

There are two schools of thought:

School A) Create the corporate wall and veil. To maintain personal privacy and protection of valuable assets from personal creditors they put or leave plenty of assets in the Corporation. Some people are so concerned they have no personal bank accounts and use a Corporation for all financial transactions. Some have multiple Corporations with offshore transactions and possibly have trusts as shareholders. They understand that since the Corporation is a separate entity, it increases and complicates the effort of personal creditors. This application is sound for Corporations that have little business risk (e.g. holding corporate investments or not that active).

School B) Most businesspeople realize that business activities are risky and maybe it's not such a good idea to keep a lot of assets in the operating company. So, they create holding companies (not detailed in this material but a relatively affordable exercise) that owns the risky operating company. After tax profits from the operating company are paid by tax free cash dividends to the holding company (the owner). Only working capital requirements are kept in the operating company. The holding company (now holding excess cash) is then the vehicle to withdraw funds for personal use and accumulate the wealth relatively free from the creditors of the operating company. This is a typical creditor protection exercise for personal and operating company assets.

There is much more involved when considering the effective use of holding companies for tax and creditor proofing purposes. Professional legal and accounting advice is required. When there are substantial sums involved, the benefits far outweigh the risks and costs.

Please note that Professional Corporations (lawyers, medical, accountants, and engineers) are denied the use of holding companies to own the practice in certain provinces.

From our own professional experience, you would not believe how much more private, life-changing, protective and reassuring corporations have been for their owners.

4 - CRA AUDITS

Guess what? Corporate tax audits (1% of Corps) are undertaken at less than half the percentage of personal tax audits (2.2% of individuals). Reasons could be that:

- The corporate tax rate is lower so the tax recovery opportunity for changes to corporate taxable income is much less attractive to CRA.

- Corporations are allowed more liberty in characterization of their expenses since corporate activities are more inherently business like and there's less absolute distinction between business and personal use - although quite strict income tax rules apply to ensure shareholders exercise caution if receiving personal benefits from the Corporation.

- Corporations have multiple activities and do not fit into the typical tax audit programs or special taxpayer profiles CRA uses to choose its audit targets (e.g. numbered companies are such corporations).

5 - ASSET TRANSFERS THAT ESTABLISH TAX-FREE MONIES (THAT CAN BE WITHDRAWN FROM THE CORPORATION)

If there are actual values to capital assets held personally, there could be substantial tax benefits to transferring these active business related (income producing) assets to the Corporation.

For example:

Service contract income with the expectation of at least five future years income. This entitlement (goodwill) has substantial value to the Corporation if the contract is purchased by the Corporation from the individual (shareholder).

Low range value of a $36,000 per year contract estimated at two times annual earnings equals $72,000.00

Taxable capital gain to shareholder in year of sale to Corporation - 50%
<u>$36,000.00</u>

Estimated additional personal income tax to shareholder (who has other income) - 45%
<u>$16,200.00</u>

Now the company owes the shareholder $72,000 which can be taken out by the shareholder as <u>tax free</u> cash**.** Effective tax rate on the $72,000 is 22.5% (16,200/72,000). This tax rate can be much lower than the shareholder taking out dividends in future years that cannot be split among family members. Also, if the shareholder has low income in the year the company is formed (such as a short year for a proprietorship) the effective tax rate is lower.

Reasonable adjustments can be made to these amounts, perhaps discounting the purchase price even lower. It depends on the taxable income of the shareholder in the year of sale. Note that there is no reserve on goodwill so the sale price has to be declared as income in the year of sale.

In this example there must be some value attached to the management contract. The contract can either be rolled over to the Corporation with a tax-free election or a recording of the actual value such as the example above.

For those that have professional practices or existing businesses that are proprietorships, there are usually more assets (such as equipment) that provide the opportunity to create these tax-free funds.

<u>Important Notes.</u> *Declaration of the additional income described above in one year may reduce entitlements such as GST/HST credits and old-age security in that one year.*

If you have other assets that are attributed to the business the Corporation will be carrying on and you have not deducted the cost of these assets on your personal tax returns, consider having the Corporation buy them from you either initially or sometime in the future. Examples are libraries of business books, computers, phones and electronic devices used for business, supplies, and inventory. As long as the price is fair value paid does not exceed the lower of your original cost or the undepreciated capital cost there is no tax effect personally for these transfers of assets to the Corporation. The asset transfer value is recorded as a corporate asset and related due to shareholder amount, which are monies that can be taken out tax-free in future periods.

6 - TAX-FREE ALLOWANCES

Anytime a benefit is received by a shareholder from a Corporation it is usually taxable. But what about the benefits received by the Corporation from the shareholder?

The Corporation can pay to shareholders and officers expenses incurred personally while conducting corporate business activities.

The dollar amount and characterization of these tax allowances depend on how active your business activities really are. Examples include reasonable use of a home office and equipment, use of a home for storage of business assets, incidental expenses, travel, vehicle, home telephone, home internet and possibly cable bills etc.

TaxWatch Canada will help you determine which amounts are applicable. These expenses would be continued to be paid personally but the Corporation would reimburse the shareholder on a regular basis by issuing cheques for each category of reimbursement (separate allowance and cheque for vehicle, home office…). Since these are just recoveries of expenses there are no tax implications to the shareholder. These amounts received are tax-free but deductible to the Corporation.

For an active Corporation these allowances can range from $500 - $1,200 per month.

7 - CAPITAL GAINS EXEMPTION

For Canadian Controlled Private Corporations that consistently earn active business income there is the tax-free amount of $866,000+ on the sale of eligible company shares. This is a maximum tax saving of approximately $212,000 for each shareholder (if not used already). However there are many complications and restrictions. Potential reductions in the sales price are likely (e.g. the purchaser pays less because they are not buying depreciable assets and are taking more of a risk in buying shares – the Full Monty acquisition). As well, before the sale, excess cash in the company has to come out as a taxable dividend thereby possibly creating a much larger tax cost than the capital gain exemption provides. We like to think of the Company as the cash depository for retirement, asset continuity and estate planning. It is best to review all alternatives.

There's more…

MANAGEMENT ISSUES AND BENEFITS

LONG-TERM TAX HOLIDAY AND OTHER ADVANTAGES

The Corporation is a separate legal entity and carries on regardless of the lives or changes to its shareholders. Since there is greater wealth in the Corporation, shareholders have the opportunity to plan for the use of even greater amounts of cash in the Corporation.

There is no reason to abide by uninspired tax planning. Traditional and CRA thinking says it doesn't matter (about tax costs) whether you have a Canadian Small Business Corporation or not. They believe eventually the shareholders will remove the corporate tax paid cash from the Corporation and therefore pay tax personally equal to having declared the entire income earned by the Corporation as it was personal. That is why the current legislation and CRA policies are beneficial to Canadian Controlled Private Corporations paying tax on eligible annual income at low tax rates. They say that, just like RRSPs, you will be taking corporate monies out eventually and paying tax on it. Fortunately, diligent tax planning affords a more productive outcome.

As a case in point, most businesspeople can plan their affairs to legitimately postpone personal withdrawals from the company and have multiple active or older shareholders in the company (that can receive dividends at much lower tax rates than the principal shareholder).

Incorporation means more corporate cash accumulation because of low tax costs and the company's investment return opportunities create even more wealth in the company. The very corporate existence could allow for more deductible expenses, tax free allowances and more favourable tax treatments than what exists personally. If the business assets in the Corporation are sold – the Corporation would pay less tax and have more money accumulate. Perhaps the dividends paid to active family members could be loaned back to the Corporation. These are just some of the planning opportunities to create and sustain corporate wealth.

The Corporation becomes a financial holding company that can support its shareholders at any time - but with greater accumulated wealth. This is the new and insightful manner of wealth creation via corporations.

POTENTIAL ISSUES AND COMPLICATIONS WHEN HAVING A CORPORATION

These are some of the areas that should be considered to ensure your Corporation does not present onerous complications and surprising personal tax consequences.

Corporate business activity and documentation must always be in the exact corporate name. Failure to do so may result in personal liability when it really should be the corporate liability. At all times a Corporation must be seen as the entity conducting business.

Directors retain personal liability for certain conduct of the Corporation. Failure of the Corporation to remit GST/HST, payroll, and non-resident withholding amounts to the government will (failing a successful due diligence defence) place such liability directly upon directors who have not resigned within two years. Certain federal and provincial legislative acts place personal liability on directors for negligence or failure to comply with legislation requirements. These areas involve workplace safety, environmental issues, fraud and criminal acts, and failure to maintain adequate corporate records or file corporate income tax returns upon demand.

Payment of taxable ineligible dividends to any shareholder creates taxable income [grossed up an additional % of the actual amount (depends on the provinces of operation), subject to the dividend tax credit] on the shareholder's personal tax return. This additional income may place the total income into or beyond the threshold that is used to calculate government family child benefits and old-age security entitlements. These income threshold income entitlements are usually calculated in advance for the next taxation year. One has to be aware of these items to determine whether the planned payment of dividends is still tax favoured for any one year.

Canadian Controlled Private Corporations (most corporations having active business income) benefit from the small-business deduction which creates the combined low federal and provincial corporate tax rates of 11% or less on the first $500,000 (most provinces) of annual corporate federal and provincial taxable income. *This small business deduction must be shared by Corporations that are under common control or ownership.* If you have other Corporations enjoying the small-business deduction, please be certain to activate tax planning within the combined corporate group to ensure best use of this low tax rate threshold.

The ownership of the voting shares of the Corporation remain a personal asset that has to be disclosed if there are personal receiverships or bankruptcy proceedings. This is a manageable event.

Directors' fees paid by the company will have CPP, income tax and possibly GST/HST consequences. That is one of the reasons why the preferred method of retrieval of funds from the company is the payment of dividends.

Payment of dividends do not create CPP contributory earnings or eligible income for RRSP contributions. In effect, the accumulation of wealth in the company is intended to replace some of these CPP and RRSP retirement funds. CPP is not really a problem because most taxpayers have already contributed such that they will receive close to a maximum monthly benefit. RRSPs are somewhat problematic because you don't want to be receiving dividends from your Corporation at the same time you are receiving RRSP taxable annuities. Way too much tax will be paid. Many believe the use of RRSP's for retirement income is a shocking revelation (shafted is a better word) when one realizes the tax that has to be paid on these RRSP receipts. It is much better to have had a company all along where you withdraw dividends to live on at lower tax rates.

The CRA is very diligent in watching for shareholders using corporate resources, assets, and funds for personal use (see Vehicle, Real Estate, Investments below). At the same time the distinction between what is a business and personal expense seems to be more tax favoured if a company is involved (example -- less limitation on the number of conventions that can be expensed for business purposes if the Corporation is expensing these convention costs). Items such as use of corporate owned parking spaces and personal use of other company equipment or assets can be taxed annually at the annual fair market value of their use because they are deemed a shareholder benefit. These issues are usually not that debilitating but care must be taken.

There is a major tax rule that prohibits the tax benefits of a corporation if in fact the Corporation is really just a front for the shareholder who is really an employee of the person receiving the corporate services. In other words, people who are normally employees (single source income from only one customer or client) can establish a Corporation but that Corporation will the treated by CRA as almost nonexistent - the income will be taxed personally. This is called a Personal Services Business. Recent tax court cases have clarified this position. In the end, if CRA is not diligent in attacking these types of Corporations there would be a huge transfer of personal tax to lower corporate tax and you know they would never allow that.

SPOUSES INCLUDING COMMON-LAW RELATIONSHIPS

We are somewhat convinced that it does not matter who owns the family assets, including Corporate shares, because family law, which now involves common law relationships, usually splits entitlements 50-50. However, life is rarely typical, many taxpayers do not declare common-law relationships, and family law is constantly changing.

Hints: Is corporate income considered personal income for family support purposes? Where does that leave choosing which spouse owns the company? Which spouse should be protected from creditors? What about joint versus tenants in common ownership? What are the differences in tax positions, creditor and tax liabilities? Are there existing or possible family and health situations? Not to mention are the spouses and family members really getting along? Who is the one that doesn't care about finances? Who is the control person? There are many circumstances where flexibility is required.

Flexibility regarding this Corporation consideration and spousal participation is achieved as follows:

The shareholder wishing control receives voting and participating shares (sometimes using different classes of shares) in the Corporation. No other shareholders receive voting rights. Voting rights gain control of the directors and management of the Corporation, who then control the corporate assets and activities.

Other active family members or employees receive separate non-voting participating shares so they can receive cash from the Corp. (at the directors' discretion) at tax advantaged rates and times.

Other matters such as who becomes the officers, who can sign Corporate cheques, who wants to take on the duties and risk of being a director are all part of the intertwined decision-making for Corporations.

PRE-CORPORATION INCOME AND EXPENSES

Certain provisions of the Income Tax Act, including recent tax cases, allow for a determination of intent as to what income and expenses belonged to the Corporation prior to its actual incorporation. As long as there was serious and committed intent, a certain amount of income and expenses for a short period can sometimes be attributed to the Corporation.

These pre-incorporation income and expense transactions have to be summarized and the net funds should be placed in the Corporation for its use. If these funds are not placed in a corporation it will create an amount owing from a shareholder which has to be offset by taxable dividends.

TaxWatch Canada LLP can consider this allocation of pre-incorporation net income for your Corporation – if applicable. This blends with the purchase agreement for the Corporation to purchase business assets from the shareholder. See the section, Asset Transfers That Establish Tax-free Monies That Can be Withdrawn from the Corporation.

CORPORATE ASSETS OUTSIDE OF CANADA

Canadian Corporations can have assets and business activities outside of Canada. There may be tax consequences related to the jurisdictions where foreign source activities are conducted. If the Corporation is paying royalties or fees to non-residents of Canada there may be Canadian withholding tax requirements. Dealing with countries that have a tax treaty or do not have a tax treaty with Canada creates different requirements and outcomes. GST/HST legislations should be considered. The Canadian government realizes this is a global economy but you have to look at potential hazards of international business. Please conduct your own research and obtain professional advice.

ADMINISTRATIVE ISSUES AND BENEFITS

FINANCIAL INSTITUTIONS

It has been our experience that financial institutions look more positively on a Corporation because it is a more formal and well recognized business structure. It just seems their attitude and terms are more favourable if a Corporation is involved. They may still ask for personal guarantees on Corporate loans but they know that Corporate debt and risk are a better place to be than personal debt and risk - from their point of view.

VEHICLES, REAL ESTATE, INVESTMENTS

Vehicles should <u>not normally be owned by the Corporation</u> because there are taxable benefits to the shareholders automatically deemed to be taxable (standby charges) for the

vehicle being available for personal use. Therefore the Corporation should pay a regular allowance (that is deductible to the Corporation and tax-free to the recipient) to the shareholders for their business-use of their vehicle owned personally.

Vehicle costs would then be paid personally or paid by the company but allocated to the shareholder account.

Real estate that is a residence or recreational property should never be owned by the Corporation (unless perhaps as a trustee) due to extreme taxable amounts that will be attributed to the shareholders for the available personal use of these assets. So much for the fun assets. Don't go there.

Commercial and residential income producing real estate would not normally be advantageous to hold in the company due to rather complicated tax rules and difficulty in financing mortgages for a Corporation. However, the creditor protection aspects of holding these often risky assets in a corporation does merit consideration. It's just that a careful look and continual tax management of these assets in a corporation must be carefully attended.

The same goes with *investments* inside a Corporation. Investments that earn significant non-active income which is subject to high corporate tax rates. These high corporate tax rates can be offset by paying taxable dividends to shareholders that creates refundable tax in the Corporation. In fact, if trusts or possibly a holding company is involved (and considering the merits of asset protection of these investments inside the Corporation) once again this issue can be revisited. Eventually the Corporation will accumulate cash and investments itself (because that is the plan) creating this non-active income thereby creating some need for tax planning for this income. This is not that complex but has to receive attention every year.

CORPORATE INCOME TAX INSTALMENTS

The policy suggested by TaxWatch is to not pay tax instalments even though CRA will send instalment *notices* that could to be *demands* to pay instalments, a common experience for larger corporations.

The payment of instalments (tax paid for the current fiscal period prior to the year-end) should be considered to come extent. The cost of not paying federal and provincial tax instalments is the interest charged when the tax returns are finally filed. Interest rates are 6% these days, compounded daily. We have found that the interest cost, once calculated and assessed, is really not that high although it is not tax-deductible.

Each fiscal year is different and unless you are certain you want CRA to hold your funds *and* your current year will be definitely taxable (the Corporation has no use for the funds), it may just be common sense to hold on to these funds until the tax is actually due upon assessment (after the tax returns are completed and sent into CRA and the assessments are received about 5 weeks later). Be sure to file all tax returns on time because late filing penalties are way beyond excessive.

PERSONAL EXPENSES PAID BY THE CORPORATION

The Corporation will have its own Corporate bank accounts ($CDN and possibly a $US account as well) and all business income and expenses should be flowed through these bank accounts. The bank accounts then are the primary documents where transactions are gathered and have to be summarized for annual totals for completion of the corporate financial statements and tax returns. However, many of us have personal preauthorized payments, credit card payments and other personal expenses (possibly paid by corporate debit card) that may go through the Corporation. This is fine as long as these payments are allocated to the shareholder account as personal expenses. These are simply additional monies retrieved from the Corporation that are on account of personal use. Never claim a clearly personal expense as a business expense.

CORPORATE FINANCIAL RECORDS AND BOOKKEEPING REQUIREMENTS

Provincial legislation (Companies Acts) and CRA require Corporations to maintain adequate records of all transactions. That means keeping originals of all documents organized and accessible.

It is easier to have most transactions go through the bank accounts. The bank accounts can easily be summarized for whatever period necessary using bookkeeping software or MS Excel. The summary of the bank account will allocate income and expenses and changes to assets and liabilities for the fiscal period of the Corporation. Year-end adjustments would include paid by cash or credit card adjustments for business use, declaration of dividends, recording inventory, accounts receivable or accounts payable and that’s it - the year end summaries are done and tax planning can be completed to finalize the financial statements and Corporate tax returns.

ESTABLISHING CORPORATE BANK ACCOUNTS

Once you receive the Corporate Articles (Charter), this document can be taken to your bank to establish the Corporate bank accounts. Your bank will normally ask for proof of directors and officers of the company (identification and corporate resolutions). Your bank will normally provide you with a banking by-law authorizing that bank as the Corporate bank and there may be borrowing or other documents that bank requires.

You want to ensure the exact Corporate name is the name of the bank accounts. The address should be the Corporate head office although a different mailing address is possible to arrange with your bank.

Signing officers for the Corporation can be designated and the signing card signed by whoever you wish to grant authority to sign cheques. There are instances when someone can be designated to sign cheques that is not a corporate officer (sort of a backup). Consider whether you want single or dual signature requirements.

The Corporate bank accounts are normally current chequing accounts. You definitely want to arrange to have the cancelled cheques (at least a rendition of) and bank statements sent to you monthly. New banking laws and clearinghouse regulations may soon eliminate the paper version of the cancelled cheque but you want to be able to have your own electronic copies of all of these cheques and deposit slips accessible at all times.

Be sure to discuss with your bank any potential issues with establishing a Corporate bank account. Banking institutions are quite demanding regarding documentation and perhaps even credit history. You definitely have to clear with your bank whether there will be a hold on deposits (a normal routine for new bank accounts). If the bank is familiar enough with you they should be able to reduce or eliminate this constraint.

GST/HST

The Corporation will be required to register for GST/HST if expected annual gross income earned from Canadian sources will exceed $30,000. GST/HST must then be charged for taxable goods or services provided by the Corporation to Canadian residents. The Corporation will be able to then retrieve GST/HST paid for business expenses. Regular filing of GST/HST returns are required and proper recordkeeping must be established to track GST/HST related amounts.

GST/HST is governed under the Excise Tax Act which is almost as complex as the Income Tax Act. Normally the GST/HST reporting and filing requirements are straightforward.

GST/HST amounts owing by the corporation (net of GST/HST paid) are trust funds and must be remitted to the government with the GST/HST returns. Directors of the Corporation are personally liable should the Corporation fail to remit.

ACCOUNTANTS

If you require an assurance engagement by an accountant, (where the accountant attaches a report to the financial statements that is called a Review Engagement Report or Audit report) it will be expensive and perhaps unwarranted. Convince the third party reader who requests an assurance engagement that a Notice to Reader Report (NTR) will be sufficient. Financials usually do not change if prepared accurately. The benefit is that financials can be more tax driven. This NTR report provides no direct assurance by the professional to third-party readers regarding the veracity or completeness of the financial statements. However the professional is expected not to issue balance sheets or income statements that they consider false, incomplete or misleading. You will probably see this NTR on most financial statements for small businesses.

Remember this. Simply completing a financial statement does not mean the professional has conducted any tax planning unless you have told them to. Indeed, some professionals take the high road to protect themselves against any possible confrontation or threat from clients or third parties (think CRA) and are quite shy in providing opportunities and options for their clients. Due to the uncertainties and complexity of the business world (where outcomes are always uncertain) this is reasonable conduct. However, a more balanced approach is warranted. The more experienced, technically astute and thorough a professional is - the more proactive they can be to help you with tax planning and other non-run-of-the-mill services. The dilemma of course is that this takes more time and attention which will cost more in professional fees.

We hope you are excited and not overwhelmed. Corporations are amazing and not one of our clients ever regretted incorporating.

TAXWATCH CANADA HAS A SPECIALIZED EXEMPLARY SERVICE FOR HELPING YOU INCORPORATE THE RIGHT WAY.

Contact us for a free evaluation:
info@taxwatchcanada.com or 1-877-800-9343