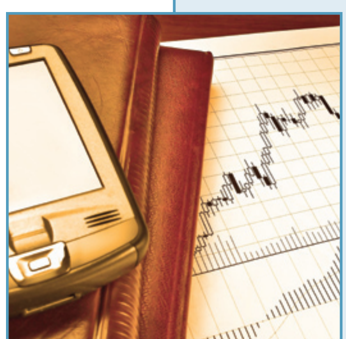
PROFESSIONAL INCORPORATION

Is it Right for You?

There are numerous benefits to incorporation, but the most significant advantage is the potential for tax savings. PCs may qualify for low corporate tax rates on active business income, allow for income splitting with family members (currently restricted to doctors and dentists), and may be used to access a capital gain exemption of up to $750,000 per shareholder upon a sale of the shares of the PC.

LOW CORPORATE TAX RATES

The small business deduction is a deduction available to Canadian-controlled private corporations which reduces the federal and provincial taxes payable on active business income earned through a corporation. The federal small business deduction is currently $400,000, and the Ontario small business deduction is currently $500,000. Utilizing the federal and Ontario small business deduction, eligible income earned through a PC would be taxed at 16.5% in 2009. When compared to the general corporate tax rate in Ontario of approximately 33.5% (2008), and the highest marginal personal tax rate in Ontario of 46.41% (2008), the low rate of tax obtained through the small business deduction is very attractive for higher income earning professionals.



INCOME SPLITTING OPPORTUNITIES FOR DOCTORS AND DENTISTS

The legislation governing PCs was amended in 2006 to allow "family members" to hold non-voting shares in a PC incorporated by a doctor or dentist. Family members are defined as a shareholder's spouse, children, or parents. As a result of attribution rules in the Income Tax Act (Canada), the benefit of income splitting is currently restricted to adult children, spouses, and parents. By issuing shares of the PC and paying dividends to family members who are in a lower marginal tax rate, a significant tax savings may be realized.

CAPITAL GAINS EXEMPTION

Upon a sale or disposition of the shares of a PC, it may be possible to qualify for a capital gains exemption of up to $750,000 per shareholder. With proper planning, the exemption could be used to reduce capital gains tax that would otherwise be payable upon the sale of a professional practice or the deemed sale of the practice upon the death of the professional. In order to qualify for the capital gains exemption, the vendor of the shares must satisfy a number of strict requirements contained in the Income Tax Act (Canada), and as such the advice of a tax planning professional is essential. If the capital gains exemption is available, based upon current tax rates, this could translate into significant savings.

While the incorporation process is relatively straightforward, in order to take full advantage of the benefits of a PC, professionals are urged to seek the advice of a lawyer and accountant familiar with professional corporations.

Business
Marco Dolfi 519.790.7468