



Advantages of Incorporating Your Business

A corporation is an entity created to do business. Many businesses in this country are set up in this fashion. They are recognizable by the various forms of identification attached to the end of their name such as: Inc., Ltd., Limited, Corporation, etc. They are generally owned by one or more shareholders, overseen by one or more directors, and may be administered by an executive staff that may include a president, vice president, secretary and treasurer.

Corporations are essentially new individuals unto themselves. Once the corporation is set up, all levels of government recognize that this new “individual” is now in existence and afford it many of the same privileges and obligations that we ourselves enjoy. Corporations can set up a bank account for which they are responsible for, enter into contracts, be taxed by various levels of government, incur debt, be sued and will generally survive any or all of its shareholders unless legally dissolved.

There are generally two major advantages to setting up and doing business as a corporation. The first involves tax considerations. Generally, once a certain revenue threshold has been reached, corporations enjoy a better tax rate than proprietorships or partnerships – the other main forms of business organization. The threshold often bandied about is \$40,000.00. This figure may differ depending on the type of business and the jurisdiction in which the business operates. An accountant familiar with corporate taxation should be consulted in regards to the tax benefit of incorporating on an individual basis.

The second major advantage is the limited legal liability of its owners and the protection this affords to them. In other words, in a lawsuit, the corporation is the “individual” being sued as it is the one that has conducted the business affairs that are being challenged. To some extent, the owners and their personal assets are protected from the lawsuit. That being said, the law is holding directors more responsible for the affairs of the corporation, especially in the event of criminal proceedings. A lawyer practicing corporate law should be consulted to discuss the legal ramifications of incorporating a business and the protection it offers. Ideally, the lawyer should be involved in setting up the corporation to ensure that it is done correctly. Part of the setup that the lawyer should be involved in is the creation of a shareholder agreement if there are more than one owner.

One additional consideration in setting up a corporation involves year ends and tax returns. Corporations enjoy the ability to select a year end that doesn't necessarily conform to the calendar year (December 31). The year end is often recommended by the accountant based on the advantages of any given date. Once the year end has passed, the corporation must file a tax return, the same as we do as individuals. It is again advisable to engage the services of an accountant to ensure that this is done correctly and that all tax advantages are taken.