MaraCap

Tax Planning and Structuring

Advantages and Disadvantages

Incorporation – Advantages

- Annual small business deduction ("SBD") for Canadian-controlled private corporations ("CCPC") reduces the tax rate from a combined 33.5% to 18.6% on the first $400,000 of income
- Provides a significant tax deferral on profits retained and reinvested by the corporation
- Deferral of expenses, such as bonuses which do not have to be paid out until 180 days after year end
- Fiscal year end flexibility
- Entitlement to the $750,000 lifetime capital gains exemption on the sale of qualifying small business corporation shares

Incorporation – Disadvantages

- If profits are not retained by the corporation but distributed as dividends, then total taxes paid (corporate tax plus personal tax on income and dividends) could exceed the total tax paid through a sole proprietorship or partnership
- Increased paperwork and administrative costs
- Ontario Health Tax of 1.95% on salaries paid in excess of $400,000

Sole Proprietor / Partnership – Advantages

- For professionals who require the majority of their near term profits to service personal cash flow needs
- Less paperwork and lower administration costs

Sole Proprietor / Partnership – Disadvantages

- Income is taxed at full marginal tax rates (SBD is not available)
- Limited opportunity to defer income taxes
- Fiscal year end must be December 31