

Tax
Talk

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It's incorporation season

Lots of owner-operators see the new year as a good time to shift from sole proprietorship to incorporated entity. When it comes down to it, the act of incorporating is easy but choosing a business structure is a big decision. It will affect how you report your income, the type of returns you file each year, and how you support expenses.

With a sole proprietorship, there's no mistaking who's in charge.

You own the company operating either as an individual ("Scott Taylor") or as a registered, unincorporated business ("Scott Taylor Trucking").

You're responsible for all profits,

losses, expenses, and legal obligations.

You also assume all risk: claims may be made against you personally in order to settle business debts and lawsuits.

Incorporation makes your company a separate entity. You're still the boss but your relationship with the business is different: you're a shareholder, director, and/or employee (your income comes from the business in the form of a salary, bonuses, and dividends).

Your company has the contract with the carrier, load broker, or cus-



tomers. Your company collects the checks and pays expenses and payroll. From a tax and legal standpoint, you and the company are distinct.

Getting set up

Corporations are created by registering with either your provincial government or with the federal government. The governing body will issue a certificate of incorporation – think of it as your company's birth certificate (and no, you can't back-date it).

Next, your company will need its own business number (BN) to file GST/HST returns, make payroll deductions to, and for filing its income tax return.

If you're a sole proprietor now and converting to a corporation, you would close your GST/HST account and if you have one, your payroll account as well.

Federal or provincial?

A qualified accountant or business advisor can discuss the pros and cons of incorporating federally and provincially. Don't decide based on cost alone. It's probably cheaper upfront to incorporate federally (\$200 versus \$350 for most provinces) but will be more expensive in the long run because of additional filing fees and other requirements.

What's in a name?

I run into people who think that registering a trade name is the same as incorporating. Not true. Unless the business name has an Ltd., Inc., or Corp. on the end of it – meaning it's officially incorporated – you and your company are legally one and the same.

That said, the various endings all mean the same thing. Having one or the other is a matter of personal choice.

Share alike

Your business is controlled by its shareholders. Typically, with each share comes one vote. If your company has 100 common shares and you own 51 of them (maybe your spouse owns the rest), then you're the controlling shareholder.

Once a year, the shareholders are to have a meeting to review the performance and direction of the company. (Personally, I would have the meeting at a nice restaurant; the company can pick up the tab).

The shareholders elect directors and the directors hire the president, secretary, and treasurer. As the majority shareholder, you can vote yourself director and then hire yourself as president.

So, you get to have a meeting with yourself, decide whether or not you are doing a good job, and then re-appoint yourself as director. Then of course you have to decide whether to hire yourself again as president.

All of this may seem formal to you but running a corporation involves obligations that you don't have when you're a sole proprietor. With good advice, it's nothing you can't handle. There are enough incorporated owner-operators out there who are living proof.

And if you're a long-haul owner-operator then incorporating can almost definitely benefit you with better meal claim strategies.

If your accountant tells you incorporating does not have any advantages or benefits for you, give me a call to get the real answer. ●

Scott Taylor is vice-president of TFS Group, providing accounting, bookkeeping, tax return preparation, and other business services for owner-operators. Learn more at www.tfsgroup.com or call 800-461-5970.