

The corporation conversation

Two opposing conversations within the same week just highlight that there's never one answer for all situations. The topic: corporations.

My first conversation was with a prospective client's spouse. She called because she and her husband weren't happy with the guidance they were receiving from their current accountant. She said they had created a corporation a few years ago but never used it and filed their taxes as sole proprietors.

However, they had contacted CRA and activated the corporation's HST account, thinking that incorporation would be better. I explained that the next step was to open a

corporate bank account when she dropped the bomb.

Apparently, the corporation already had a bank account, and it was in use. Their carrier would deposit payments into it and then they would move all the money to a personal account and run their business and personal lives from there.

I didn't know where to begin. A CRA auditor would blow this whole thing up and force corporate tax filings for the business and massively change their personal incomes.

As we discussed how to fix this situation I started gathering facts about the couple's personal lives.

They need their incomes to be

high for an upcoming mortgage renewal. They spend everything they make on debt servicing. And the wife does the accounting but can't do corporate accounting. We decided it was better for them to file as sole proprietors, keeping everything simple and as cheap as possible.

The husband called me the next day with the same set of questions. So, we reviewed the pros and cons, plus their personal details as I had with his wife the day before, and came up with the same answer: run the business as a sole proprietorship.

The couple is now contacting the carrier to get their pay in the husband's name and deposited into his



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

bank account. Everything with the corporate name will be closed.

Later in the week, I met with an incorporated client and our conversation reinforced the benefits of keeping business and personal issues separate. She and her husband own the majority of the shares, with their son owning a small part due to his involvement with the business. Mom's starting to worry about estate planning and how to be fair to their son and two daughters who are not involved in the company.

We talked about how shares are an asset that you can "will" to your family. This couple has a lot of options between their personal wills and possibly a shareholder agreement on how to handle the sickness or death of shareholders. After all, the business and family both want to survive such a tragedy.

I congratulated her on taking the initiative to sort this out now and to get everything in writing. But I also told her to talk to her daughters so they know what is planned and why. They can look mom in the eye and ask all their questions. Otherwise, it

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may look like the son was favored in the estate and strain relationships down the road.

I told her that the corporation is actually going to help in this planning, since it's totally separate from their personal estates. If the business had stayed as a partnership these issues would be much harder to deal with. Mom agreed and said that since they incorporated she has come to feel great relief as she can separate personal and business issues easier. In her words, "It just makes more sense."

There's no one right answer to the question of incorporation, but you do want to make a choice that's good for your business and your personal life at the time. Talk it over with someone you trust. **TN**