

TAX TALK

Serious business

Understand the benefits of incorporating

I recently met an owner/operator named Max who was leasing on with a new carrier. He'd been a sole proprietor for almost six years and during that time had built up a reputation as a skilled, dependable truck driver.

Max was paying a visit because he wants to incorporate. Rather, the company he's signing on with has strongly encouraged it. He told me the process is so daunting that he's having second thoughts about whether he should jump at this new opportunity.

I've worked with plenty of owner/operators who feel totally competent and comfortable guiding 120,000 lbs through rush hour traffic but shudder at the idea of shifting from sole proprietorship to incorporation.

I've also seen just as many successfully make the transition.

Over the next few columns I'll talk about what a corporation is, the pros and cons of incorporating a business, and help make sense of it all. Think of these articles as an extension of the "Tax Talk" videos I did with James Menzies at TruckNews.com/videos (be sure to check those out).

A separate entity

As a sole proprietor operating as an individual ("Scott Taylor") or as a registered, unincorporated business ("Scott Taylor Trucking"), you're fully responsible for your profits, losses, expenses, and legal obligations. Your personal and business lives are intertwined. To settle business debts or lawsuits, claims may be made against your personal assets.

For tax purposes, no business structure is simpler. To file your income taxes, you submit an income statement (form T2125) showing your gross business income less expenses and add this net income figure to any other personal income or losses you have. Your federal and provincial taxes as well as your CPP are based on this amount.

A corporation is a distinct entity for tax and legal purposes. You're still doing the work, of course, but the company signs the contracts to haul freight or buy equipment. It earns income and incurs expenses. It has a tax obligation. If there's work to be done, it hires someone (you, presumably) and in doing so conveys all the benefits that go along with being an employee.

If the company goes bankrupt, you may be out of a job but you probably won't lose your house to cover the debts of the business.

Registering the business

Corporations are created by registering with either your provincial government or with the federal government. The governing body will issue a certificate of incorporation (registering a trade name is not the same thing as incorporating).

A qualified accountant or business advisor can discuss the pros and cons of incorporating federally and provincially so you can choose what's best for you. Don't decide based on cost alone. It's probably cheaper upfront to incorporate federally (\$200

one, your payroll account as well.

Shareholders

A corporation 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, then you have more voting power and can control the company.

Once a year, the shareholders need to have a meeting to review the business and elect directors. The directors hire the president, secretary, and treasurer.

If that sounds too formal and structured for you, think of it this way: You get to have a meeting with yourself, decide whether or not you're doing a good job, and then re-appoint yourself as director (personally, I'd meet at a nice restaurant; the company can pick up the tab). The next tough decision is whether to hire yourself again as president.

Paperwork

Business taxes, contracts, lawsuits,

and loans are for the corporation to deal with, but as the owner, you're responsible for making sure the business meets its obligations in addition to managing your personal finances. But really, you're already doing this as a sole proprietor anyway.

The corporation is your baby, and it requires extra attention in the form of paperwork, bookkeeping fees, and compliance with tax and employment laws.

Generally, all that work pays off in the long run. Incorporating can help you protect personal assets, reduce your tax obligation, and kick-start a real strategy for managing and growing your business. I'll talk more about incorporation next time. □

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versus \$350 for most provinces) but will be more expensive in the long run because of additional filing fees and other requirements.

Taxes

The corporation will get its own business number (BN) to file GST/HST returns, make payroll deductions to, and to use as an account number for filing its 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

