



INCORPORATING A BUSINESS

As an entrepreneur, it's important to be aware of the financial, legal and accounting implications and benefits that incorporation can have, so you can make the best decision for your business.

WHAT IS A CORPORATION?

A business corporation (also called "corporation" or "legal person") is a separate legal entity and, accordingly, has its own specific rights and obligations.

(Source: Registraire des entreprises Québec)

In other words, it is an enterprise that aims to generate profit for its shareholders (the owners of shares of a corporation).

WHAT DOES IT MEAN?

- Your company is a separate legal entity, so it can “acquire assets, obtain a loan, enter into contracts, sue or be sued, and even be found guilty of committing a crime”
- There is a limited liability, i.e. generally, the shareholders are not personally responsible for the corporation’s debts (but there are some exceptions)

(Source: Government of Canada)

WHEN SHOULD I INCORPORATE?

- If you have significant financial needs and are looking to access financing
- If there is a potential liability that could seriously affect your personal finances (ex. allergens in food or cosmetic products that you produce)
- If you are looking to take advantage of exemptions or tax deductions

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- If you do not require all the income you earn to cover personal needs (ex. living expenses) and are ready to reinvest some of your earnings into your business

WHAT ARE THE BENEFITS OF INCORPORATING?

- Corporate Tax Rates are generally lower than individual tax rates (once your revenues surpass a certain point)
- It is generally easier to gain access to some forms of financing and usually at a lower interest rate (growth and scaling the business become easier)
- You could be eligible for some federal programs supporting and promoting entrepreneurship
- You could be eligible for the Small Business Deduction (reduction of corporate taxes)
- You could be eligible for the Lifetime Capital Gains Exemption when you sell your business

WHAT ARE SOME OF THE DISADVANTAGES?

- It is more costly to start a corporation (may involve accounting and legal fees)
- It is a more complex business structure (you must complete articles of incorporation, including a purpose and by-laws)
- If your corporation incurs losses, shareholders are not able to use those losses to reduce their taxable income
- Under certain situations, the limited liability advantages could effectively be eliminated (ex. provisions for certain taxes or credit facilities requirements for personal guarantees)

Don't get overwhelmed trying to weigh all the advantages and disadvantages of incorporating by yourself – a YES Business Coach can assist you in assessing all relevant information before deciding.

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LINKS

<http://www.registreentreprises.gouv.qc.ca/en/demarrer/constituer-cie.aspx>

<https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs06641.html>

<https://www.canada.ca/en/revenue-agency/services/tax/businesses/small-businesses-self-employed-income/setting-your-business.html#crprtn>

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