

money MAKERS

Ideas & Tips to Enhance Your Bottom Line

ATTENTION PROFESSIONALS: INCORPORATION PROVIDES OPPORTUNITY TO BUILD WEALTH ON A TAX DEFERRED BASIS

"The ability to incorporate gives professionals the opportunity to build significant wealth inside a corporation and defer tax." – Stephen Thompson, CA, CFP, Partner, Wilkinson & Company LLP and author of "Beat the Taxman: Easy Ways to Save Tax in Your Small Business"

Until recently, professionals practicing in Ontario were unable to incorporate. This is no longer the case. Legislation has been proclaimed and the by-laws of the various governing bodies have been amended, **allowing professionals to incorporate.**

There are many potential benefits to incorporating. For professionals, two stand out.

1. The ability to be taxed at the corporate small business rate of **19.1%**, which is significantly lower than the top personal tax rate of **46.4%**
2. The ability to invest accumulated tax savings inside a company

Take the example of two professionals, each of whom are 35 years old and have \$50,000 to save after living expenses.

Professional "A"

Income earned personally	\$ 50,000
Top Personal Tax Rate	23,200
Available for savings	<u>\$ 26,800</u>

Professional "B"

Income inside a corporation	\$ 50,000
Small Business Rate	9,550
Available for savings	<u>\$ 40,450</u>
Deferral of income tax	<u>\$13,650</u>

In this example, two things are clear:

1. Professional B has more money to save each year, after tax. This is a powerful advantage, as illustrated below.
2. Professional B will accumulate significantly greater wealth over time.

Savings accumulated by Professional A

\$26,800 x 20 years x *4% = \$798,052

Savings accumulated by Professional B

\$40,450 x 20 years x *4% = \$1,204,523

Conclusion

Professionals who have excess cash after expenses can benefit significantly from incorporation, because the lower corporate tax rate provides the ability to invest more cash and generate greater wealth.

Wilkinson & Company LLP can help you determine if incorporating is appropriate for your situation. To learn more, call a Wilkinson Partner at any of the three offices listed below.

* After-tax return shown for illustrative purposes

The commentary contained in Money Makers is not intended, nor should it be relied upon, to replace specific professional advice. We recommend that readers consult their professional advisors regarding issues raised in this publication.



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