



## 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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