

Q: I just started a small, part-time business selling handmade crafts online. I'm wondering whether it makes financial sense to incorporate or remain as a sole proprietor?

A: Congratulations on starting your own business! Being in business for yourself can be a lot of hard work, but it can also give you a sense of accomplishment, not to mention the potential to make some extra money you can sock away for retirement, for a vacation, or any other important goal. You may even consider reinvesting in your business to eventually build a bigger company!



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Incorporation essentially means you are separating the business from yourself and making it an independent legal entity. There can be some potential benefits of incorporating, such as a reduced tax rate, a lifetime capital gains exemption, and the ability to income-split with family members. But there can also be potential drawbacks, such as higher administration costs, increased paperwork and record-keeping requirements, as well as some complexities around how you can use the profits from your business. Whether it makes financial sense for you to incorporate may depend on a few unique factors:

With your new business, are you opening yourself up to legal liability?

For example, could you get sued if one of your products harms someone? If so, incorporation might offer some liability protection.



Do you have partners? An incorporated business can have multiple owners and different share classes. That may allow various shareholders to have different entitlements to voting, dividends and capital.

Are you already turning a profit? If you are in the early days of your business and still experiencing losses, you may wish to remain a sole proprietor. As a sole proprietor, you may be able to write off some business losses against other income, including the salary you may earn from your day job. It might be better to consider waiting until you have some profits to incorporate, especially since there may be extra expenses that come with incorporation, such as increased accounting costs and incorporation fees.

Ultimately, whether to incorporate or not should be a decision based on an extensive conversation with your lawyer or accountant. They can help you determine whether incorporating makes sense for your business.

Not every business can derive the benefits of incorporation. In fact, if the Canada Revenue Agency determines that the work you are doing is more like that of an employee, and not an independent contractor, it may deny you those write-offs and tax savings, so it's not a bad idea to speak with a financial professional before making this decision.

Jeff Halpern has more than 30 years of experience as a tax and estate advisor in Canada, and around the world. In recent years, he helped to build a business succession planning advice service at TD Wealth. When he's not helping TD clients grow and manage their businesses, he enjoys spending time with his wife, three daughters and grandson. Jeff last appeared in MoneyTalk's [Business succession planning: It makes very good sense](#).

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