What incorporating means for real estate professionals in Ontario

Real estate professionals in Ontario can now incorporate, meaning you can benefit from substantially lower corporate tax rates under the newly passed Bill 145.

This bill allows realtors the same tax planning opportunities as other professionals, such as doctors, lawyers and accountants.

Benefits: Why You Should Think About Incorporating

Reduced Tax Rates

Incorporation means your tax rate will be significantly lower. Prior to Bill 145, real estate professionals were taxed at rates as high as 53.53% on income over $220,000.

By incorporating, your company will be taxed at the appropriate corporate tax rate, which ranges between 12.20% and 26.50%

Deferred Personal Tax

Bill 145 allows incorporated realtors to defer personal taxes retained in the corporation and use that deferred tax to fund investments or save for retirement.

Personal tax rates still apply to salaries or dividends drawn out of corporate funds.

Flexibility

The key benefit of incorporating is the flexibility it gives you in tax, remuneration, and retirement planning.

You can take the money out of the corporation in three ways: dividends, salary, or a combination of the two – whatever works best for your situation.

What might incorporating mean for you?

After incorporating, you will be able to choose to pay yourself a dividend instead of a salary. The corporation is taxed at 12.20% for the first $500,000 of 'active business income' (26.50% thereafter), meaning that you can benefit from substantially lower corporate tax rates compared to the personal income tax rate you pay under your current status.

The following scenarios demonstrate the benefit received by realtors that incorporate and earn revenue through a corporation, taking a dividend equivalent to funds they need personally.

Scenario 1: Gross income from real estate transactions of $250,000 (net $150,000)*

	Self-Employed	Incorporated
Gross income	250,000	250,000
Less: expenses	(100,000)	(100,000)
Less: salary	0	0
Taxable income	150,000	150,000
Dividend	0	80,000
Taxes payable (corporate)	0	(18,300)
Taxes payable (personal)	(49,780)	(10,018)
Total taxes payable	(49,780)	(28,313)
After-tax cash flow (corporate)	0	51,700
After-tax cash flow (personal)	100,220	69,982
After-tax cash flow (combined)	**100,220**	**121,682**

Scenario 2: Gross income from real estate transactions of $600,000 (net $450,000)*

	Self-Employed	Incorporated
Gross income	600,000	600,000
Less: expenses	(150,000)	(150,000)
Less: salary	0	0
Taxable income	450,000	450,000
Dividend	0	300,000
Taxes payable (corporate)	0	(54,900)
Taxes payable (personal)	(206,668)	(105,474)
Total taxes payable	(206,668)	(160,374)
After-tax cash flow (corporate)	0	95,100
After-tax cash flow (personal)	243,332	194,526
After-tax cash flow (combined)	**243,332**	**289,626**

*Examples provided are for illustration purposes only. This does not substitute tax advice. We recommend that you speak with an MNP adviser for an accurate assessment of your own situation.

How MNP can help you

We can help you with your initial incorporation, enabling you to benefit immediately from the changes that Bill 145 brings. From the initial set up of your company to all of your annual filing and bookkeeping requirements, our teams across the country will help you - wherever business takes you.

For more information, or to get started today, contact your MNP advisor or speak with Matt MacDonald at 416.626.6000 or matt.macdonald@mnp.ca