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your BUSINESS

June 2012

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Many individuals operate their consulting business through a corporation to take advantage of the preferential tax rates, income splitting and deferral opportunities. However, if you are a consultant with a single client, you should be aware that you may be considered a personal services business.

Consulting Corporations Beware

If you run your consulting business through a corporation you should be aware of the tax rules surrounding personal services businesses.

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Small business corporations are afforded preferential tax treatment on their income by means of the small business deduction. However, certain types of corporations are specifically excluded from claiming this deduction and can have many of the other benefits afforded a business denied as well.

One such business is the personal services business.

Personal Services Business

A personal services business of often referred to as an incorporated employee. This situation arises when:

1. The person performing the work on behalf of the corporation, owns (directly or indirectly) 10% or more of the corporation, and
2. If the corporation didn't exist, the person would reasonably be considered to be an employee of the entity making the payment to the corporation.

The same general principles that apply to determining if someone is an employee or self-employed would apply.

There is an exception to this rule. If you employ more than 5 full-time employees or the services are provided to an associated corporation (in which case the small business deduction is shared).

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What's At Stake?

A CCPC (Canadian Controlled Private Corporation) that has active business income may claim the small business deduction on the first $500,000 of taxable income. The effective combined federal provincial tax rant in Ontario is 15.5%.

If the corporation is a personal services business, the small business deduction is denied and access to deductions are limited to:

- Salary or wages paid to the incorporated employee,
- The cost of benefits or allowances paid to the employee,
- Any amounts that would have been deductible as an employee, and
- Legal expenses to collect amounts owing.

In effect, the corporation is denied most expenses other than salaries and the tax rate increases to 26.25% (this may increase to 39.25% if the general rate reduction is eliminated for personal services business).

The impact is compounded when funds are withdrawn from the corporation in the form of dividends and the combined corporate/personal tax rate could exceed more than 50% if the general rate reduction is eliminated.

If you feel you may be considered a personal services business, please give a call today to discuss your situation and how we can help.

Dean Paley CGA CFP is a professional accountant and a financial planner who serves the needs of business and individuals. Dean has appeared in major medial such as the National Post, Globe and Mail, Money Sense Magazine, and The Toronto Star.
If you would like to find out how Dean can add value to your business, please call **289-288-1206** or e-mail **dcpaley@deanpaley.com**.