

PERSONAL REAL ESTATE CORPORATION (PREC): TO KNOW

A PRESENTATION BY
ACCOUNTING PLUS FINANCIAL SERVICES

OCTOBER 29, 2020



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Please consult with an accountant or professional advisor for more details regarding your situation.

A black and white photograph showing a close-up of a hand holding a pen, pointing at a document. The document has the words "Terms and Conditions" printed on it in a large, bold, sans-serif font. The hand is positioned on the right side of the frame, with the pen tip pointing towards the text on the left. The background is slightly blurred, showing other parts of the document and the hand.

Terms and
Conditions

TODAY'S AGENDA

- WHAT IS A PREC?
- CONDITIONS TO OPERATE A PREC
- SHOULD I INCORPORATE?
- ADVANTAGES/DISADVANTAGES TO INCORPORATING
- THE INCORPORATION PROCESS
- POST-INCORPORATION CONSIDERATIONS

AN **FAQ SESSION WILL BE CONDUCTED AFTER THE
PRESENTATION.**

WHAT IS A PREC?

- As of **October 1, 2020, Ontario** is permitting Real Estate Agents to incorporate as a Personal Real Estate Corporation (PREC).
- By law, a corporation is deemed a separate “**person**” or entity.
- A corporation earns income and pays tax separately from you, but you maintain control over the corporation.
- Your brokerage will pay the PREC, which, in turn, the corporation will pay you either a salary or dividend.

WHAT CONDITIONS ARE REQUIRED FOR OPERATING A PREC?

- Only services that can be provided are to the brokerage that the RECO member is employed by.
- To be a PREC, the controlling shareholder must be **employed by a real estate brokerage.**
- The PREC must not perform business as a brokerage.

A grayscale photograph showing a close-up of a hand holding a pen, poised to sign a document. The document has the words "Terms and Conditions" printed on it in a large, bold, sans-serif font. The background is slightly blurred, focusing attention on the hand and the document.

Terms and
Conditions

SHOULD I INCORPORATE?

- Does your real estate business place you in a high personal tax bracket?
- Does your business earn more money than you need for your day-to-day requirements?
- Do you want options to defer income payments to yourself?



A PREC IS NOT FOR EVERYBODY

| GROSS REAL ESTATE INCOME | REAL ESTATE EXPENSES | PERSONAL LIVING EXPENSES | NET RESULT | SHOULD I INCORPORATE? |
|--------------------------|----------------------|--------------------------|------------|-----------------------|
| \$150,000 | \$75,000 | \$70,000 | \$5,000 | NO |
| \$250,000 | \$100,000 | \$130,000 | \$20,000 | MAYBE |
| \$300,000 | \$100,000 | \$120,000 | \$80,000 | YES |
| \$330,000 | \$120,000 | \$210,000 | NIL | NO |

WHAT ARE THE ADVANTAGES TO INCORPORATING?



1
Take advantage of preferential tax rates on income earned by a corporation.

2
Family members can be non-voting shareholders for income splitting or be placed on payroll (note that income splitting is limited based on Tax on Split Income rules).

3
Can set up a holding company as controlling shareholder, if the holding company is controlled by the RECO member.


4
Corporations can be transferred or sold – can take advantage of the Lifetime Capital Gains Exemption.

TAX ADVANTAGES
& COMPARATIVES

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SCENARIO 1
\$300,000 Gross Income
\$100,000 Real Estate Expenses
\$46,000 for Living Expenses


| Operate as Sole Proprietorship | |
|--------------------------------|------------------|
| Gross Income | \$300,000 |
| Real Estate Expenses | \$100,000 |
| Net Income | \$200,000 |
| Personal Tax and CPP | -\$74,000 |
| Living Expenses | -\$46,000 |
| <u>Remaining Cash</u> | \$80,000 |

| Operate as a PREC ("CCPC")  | |
|--|-----------------------------|
| \$300,000 | Gross Income |
| \$100,000 | Real Estate Expenses |
| \$200,000 | Net Income |
| -\$63,000 | Salary and CPP Paid (Gross) |
| -\$17,000 | Corporate Taxes |
| \$120,000 | <u>Remaining Cash</u> |

Numbers are rounded to the nearest thousand.

TAX ADVANTAGES
& COMPARATIVES

SCENARIO 2
\$150,000 Gross Income
\$75,000 Real Estate Expenses
\$50,000 for Living Expenses

| Operate as Sole Proprietorship  | |
|--|-----------------|
| Gross Income | \$150,000 |
| Real Estate Expenses | \$75,000 |
| Net Income | \$75,000 |
| Personal Tax and CPP | -\$20,000 |
| Living Expenses | -\$50,000 |
| <u>Remaining Cash</u> | \$5,000 |

| Operate as a PREC ("CCPC") | |
|----------------------------|-----------------------------|
| \$150,000 | Gross Income |
| \$75,000 | Real Estate Expenses |
| \$75,000 | Net Income |
| -\$69,000 | Salary and CPP Paid (Gross) |
| -\$1,000 | Corporate Taxes |
| \$5,000 | <u>Remaining Cash</u> |

Numbers are rounded to the nearest thousand.

TAX ADVANTAGES
& COMPARATIVES

SCENARIO 3
\$250,000 Gross Income
\$100,000 Real Estate Expenses
\$80,000 for Living Expenses

| ? Operate as Sole Proprietorship | |
|----------------------------------|------------------|
| Gross Income | \$250,000 |
| Real Estate Expenses | \$100,000 |
| Net Income | \$150,000 |
| Personal Tax and CPP | -\$50,000 |
| Living Expenses | -\$80,000 |
| <u>Remaining Cash</u> | \$20,000 |

| ? Operate as a PREC ("CCPC") | |
|------------------------------|-----------------------------|
| \$250,000 | Gross Income |
| \$100,000 | Real Estate Expenses |
| \$150,000 | Net Income |
| -\$118,000 | Salary and CPP Paid (Gross) |
| -\$4,000 | Corporate Taxes |
| \$28,000 | <u>Remaining Cash</u> |

Numbers are rounded to the nearest thousand.

WHAT ARE THE DISADVANTAGES TO INCORPORATING?



1

PREC's can only have one controlling owner (i.e. partners in real estate must have separate corporations).

2

Additional costs to incorporate and maintain a corporation.

3

Cannot advertise the PREC itself.

4

Persons outside of the family cannot have an interest in the corporation.

INCORPORATION PROCESS



NAME OR NUMBERED CORPORATION

- You can either register your corporation as a basic numbered corporation (i.e. 1234567 Ontario Inc.) or select a custom name.

REGISTER YOUR CORPORATION WITH ONTARIO

- This includes registering the owners and setting up the types of shares your corporation can issue.
- Once approved, you are issued the Articles and Certificate of Incorporation.
- Accounting Plus has years of experience in incorporating businesses and can incorporate your PREC hassle-free.

INCORPORATION PROCESS

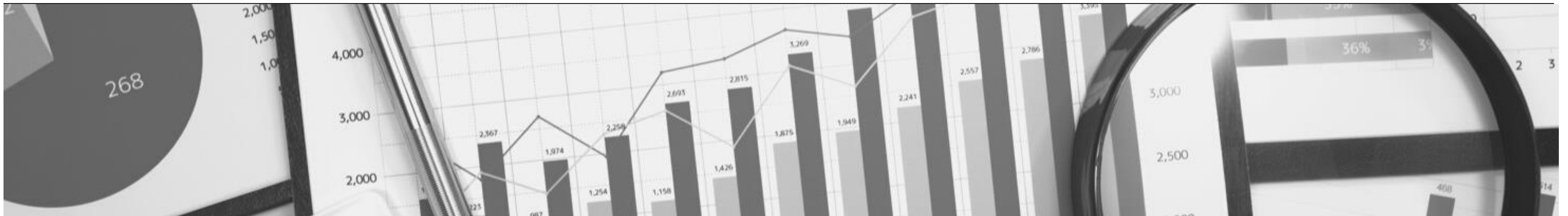


ADDITIONAL ITEMS FOR SET UP

- Set up a Minutes Book outlining directors and shareholders.
 - There are many aspects to account for in the Minutes Book, and our services help save time and ensure the book is filled out correctly.
- Register HST and payroll accounts with the CRA.
 - The CRA will send you a letter approximately 2 weeks after incorporation with your business number. This number is required to register for CRA accounts.

POST-INCORPORATION

ACCOUNTING



- Since the accounting process is different for a corporation in comparison to a personal business, it is recommended you take on the services of an accountant to handle the corporation bookkeeping and taxation work.
- Using a cloud-based accounting software like Xero can keep you up-to-date on the status and maintenance of your corporation.
- Accounting Plus has many years of proven experience handling corporate and real estate accounting and tax.

POST-INCORPORATION

BANK ACCOUNTS



- Business bank accounts (chequing and credit) will need to be set-up for the new corporation.
- These accounts should strictly be used for business purposes only.

INFORMING BROKERAGE & RECO



- You will need to inform your **brokerage and RECO** of the registration of your PREC. They will provide further instructions for the switch-over.

POST-INCORPORATION

VEHICLE EXPENSES



- A vehicle owned by the PREC can claim any vehicular expense associated with earning income for the corporation.
- It is recommended that a travel car log is kept.
- For a vehicle owned by the shareholder, the shareholder pays all vehicular expenses and is reimbursed at the end of the year based on the number of kilometers driven for business purposes (based on a per km rate).
- A travel car log is required for shareholder-owned vehicles.

POST-INCORPORATION

SALARY VS. DIVIDEND PLANNING



- In order to take money out of the corporation, the funds must be paid out either as a salary or a dividend.
- Proper tax planning is required to ensure that the salary/dividends taken out meet both your needs and lower the tax burden for both the corporation and yourself.
- Our payroll business Ayali Pay also provides full payroll services, including payment of payroll, remittances to the CRA, tax slip preparations and more.

POST-INCORPORATION

SUCCESSION & ESTATE PLANNING



- We recommend revising your will or making a will after incorporating your business.
- It's also recommended to have a separate will for the corporation.
- Life insurance can be paid through the corporation but cannot be expensed.
- You should consult with an estate lawyer for succession, will and estate planning for your corporation.

HOW ACCOUNTING PLUS CAN HELP YOU!

ACCOUNTING PLUS HAS BEEN OPERATING FOR OVER 30 YEARS!

- We have years of experience in the incorporation process and have successfully incorporated many corporations.
- Our services are not limited to just the incorporation itself, but the full process.
- Once your corporation is registered, we can discuss with you about our accounting services and tax planning, including a quote.
- We use Xero as our cloud-based accounting software, allowing for real-time bookkeeping and easy access for you to see the status of your corporation.



THANK YOU FOR ATTENDING OUR WEBINAR!



ABOUT US: OPERATING FOR OVER 30 YEARS, ACCOUNTING PLUS IS HERE TO HELP YOU SET UP YOUR PREC.



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