

Personal Real Estate Corporations



SUMMARY

1. What is a Personal Real Estate Corporation?
2. Advantages
3. Disadvantages
4. Other Considerations

Personal Real Estate Corporations allow for significant tax savings, income smoothing, and tax deferral opportunities.

What is a Personal Real Estate Corporation?

Similar to lawyers, doctors and accountants, real estate Personals will now be allowed to incorporate and receive commission income through a corporation known as a “**Personal Real Estate Corporation**”

Advantages

Lower Corporate Tax Rates

- The personal tax rate for individuals in the highest tax bracket is 53.53%
- Corporations pay 12.2% tax on the first \$500,000 of income, and 26.5% on amounts in excess of that
- **Substantial tax savings** and deferral opportunities

More Flexibility for Personal Tax Planning

- Ability to designate a set amount of personal income each year. This allows real estate professionals to receive a stable salary each year and eliminates the issue of fluctuating income year over year. This is known as “**Income Smoothing**”

Tax Deferral Opportunities

- Real estate professionals will be able to **defer significant taxes** by leaving income in the corporation which can be used to invest in their business or other ventures if structured correctly

Disadvantages

Administrative and Compliance Requirements

- Personal Real Estate Corporations **and** real estate agents must be registered and hold a license to act as an agent in real estate transactions
- Additional filing requirements (corporate tax returns, issuing T4s, making payroll remittances)

Legal and Accounting Costs

- There will be associated legal costs to set up the initial structuring. This will vary depending on the desired structuring
- Annual accounting fees to prepare financial statements and file corporate tax return

Other Considerations

Investment Opportunities

- Structuring opportunities available to allow real estate professionals to reinvest earnings without paying any personal tax

Succession Planning and Estate Planning Opportunities

- There are various possible structures that can be set up, some include the utilization of holding companies and family trusts which are powerful vehicles to transfer wealth to the next generation in a tax efficient manner

Income vs. Lifestyle Needs

- Individuals are taxed only on income they **take out** of the corporation. If real estate professionals require all of their income for personal expenses, then the tax planning opportunities and tax savings are significantly reduced

A Personal Real Estate Corporation opens the door to significant tax planning and investment planning opportunities

