

REALESTATETAXTIPS.CA



Incorporation for REALTORS®

**What is it and what can it do for you and
how you can use it to lower your tax rate to
as low as 12.5%"**

Cherry Chan, CPA, CA

ABOUT ME

- **RETIRED REALTOR**
- **MOM & WIFE**
- **REAL ESTATE ACCOUNTANT**
- **REAL ESTATE INVESTOR**
- **TOP 100 ACCOUNTANTS
WORLDWIDE 2018**
- **AMAZON BEST SELLING AUTHOR**
- **CO-FOUNDER OF BASKET BRIGADE
CHARITY**



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Coming
Oct 2020

- **Tax Fundamentals every real estate agent MUST KNOW - basic principles to our Canadian tax system.**
- **The pros and cons of incorporating as a real estate agent.**
- **The tax benefits for incorporating depending on a person's circumstances**
- **11 Common Deductions You Can Make as a Real Estate agent and the criteria for deduction**
- **How you can use incorporation to split income with lower family members, smooth out your income and use the corporate funds for retirement investment**
- **The impact of Harmonized Sales Taxes on your business**
- **How to use "Quick Method" to file HST returns quickly and accurately and the Conditions you must meet to qualify to file using the Quick method**
- **4 biggest tax mistakes I made during the first year of managing my business and how to avoid them**
- **The Other Side of Real Estate Investing Nobody Talks About**

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A4 MONDAY, APRIL 29, 2019

THE HAMILTON SPECTATOR • THESPEC.COM

Local

Basket Brigade: The charity that couldn't say no

Christmas meal delivery for the needy is doing so much more



Opinion

JEFF MAHONEY
The Hamilton Spectator

When Erwin Szeto first said "yes" — yes, to the inner call to help those in need — I don't think he realized how pregnant the word was.

Then it had babies — lots of them. Offspring yes's. And those yes's in turn reproduced, like habits.

"I couldn't say no," is how Erwin, owner of Rock Star Real Estate, describes it.

Fortunately, Erwin induces the same reaction in others.

When he asks, they can't seem to say no. Hence, the huge team of volunteers.

And so, after Erwin and Hamilton Basket Brigade co-founder Roger Auger started the charity in 2014, with a relatively modest Christmas meal delivery for 37 families, the positivity of the feeling, the yes-ness of it, wouldn't stop growing.

It wasn't supposed to be even that many.

Erwin went to the principal of a school and they came up with a list of eight families who were in need and interested in receiving. But then he started finding out about others.

"I couldn't say no." From eight it jumped to 16 and then to 37. It was a great success.

But far from being able to let the project sit until the next December, Erwin started asking himself, why not replicate the effort? For Easter.

Soon the great machinery of it started roaring into motion and, lo and behold, Easter of 2015, he and the Hamilton Basket Brigade were delivering meals to, no, not 40 or even 50 families, but double — 75.

Then they did Thanksgiving too. How many? Double again — 150 families. Soon, at their thrice-annual campaigns, the numbers were up over 200.

This Easter just past, Erwin and the Hamilton Basket Brigade were at it again, hosting a get-together on Saturday, April 26, for the beneficiary families who wanted to come out to St. Patrick Catholic Elementary School in Hamilton.

It was a great time, as are all their parties, with visits from



Dozens of Hamilton Basket Brigade volunteers put together meal packages at St. Patrick's School in Hamilton.

PHOTO COURTESY OF MATT GREEN

superheroes like Thor and, at Christmas, Santa Claus, and lots of activities.

And food.

Between those who were there and those who chose to have the packages delivered to their homes, the Basket Brigade helped 32 families.

Why just 32? A year or so ago the Basket Brigade decided to shift its emphasis. They would zero in on a smaller number of families, those with the most pressing circumstances, assign a volunteer to each of those families, get to know them and what they need and then tailor what they would provide — not just food, but clothing, toys at Christmas, and other resources and necessities.

The reason for the shift?

By its peak, Christmas 2017 the Hamilton Basket Brigade, was serving — wait for it — 350 families.

According to Basket Brigade stalwart Matt Green, the effort was enormous, involving co-ordinated teams of volunteers, dozens of them, working intensely, assembly-line fashion, to put together the meal packages.

Erwin and other brigadiers used all their contacts and managed to line up thousands of dollars of favours, free food and delivery trucks to transport it.

"It had gotten so big and successful," says Matt, "that logistically it was becoming a burden. We had to shrink it down."

If they made a movie of how the Hamilton Basket Brigade was back then it would have to com-

bine the precision synchronization of "Oceans 11" with the co-ordinated mass transport of "Dunkirk" and the runaway "Feed Me" growth of the plant in "Little Shop of Horrors."

Maria Marcuzzi, a Hamilton Basket Brigade original who works with Erwin, is a big part of the organizational genius.

Says Erwin, smiling, "I would always say yes, create the mess and Maria would somehow take care of it."

The Hamilton Basket Brigade continues to evolve. It'll be exciting to see what it does next.

But it's a safe bet it will hold on to a vocabulary that doesn't include the word no.

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Pre-order my book for \$7 + HST
All proceeds after processing fees will go to Basket Brigade Charity to fund the Thanksgiving Basket Brigade



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What is a corporation?

Investopia.com provides the following definition:

"A corporation is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities that individuals possess: they can enter contracts, loan and borrow money, sue and be sued, hire employees, own assets, and pay taxes. Some refer to it as a 'legal person'."

Why does it matter to you?

Ontario Realtors were not allowed to incorporate.

Bill 145, passed in March 2020, allows realtors to setup corporation to conduct their realtor business.

AND

Small business corporate tax rate is ONLY 12.5%!

THE ROLL OUT

TENTATIVE TIMELINE



MARCH 2020

Bill 145 passed

OCTOBER 2020

PREC draft legislation is
tentatively set to be
effective

**IN THE NEAR
FUTURE**

RECO will release rules
and administrative
practices.

Canadian Personal Income Tax System

2020 Taxable Income	2020 Marginal Tax Rates			
	Other Income	Capital Gains	Canadian Dividends	
			Eligible	Non-Eligible
first \$44,740	20.05%	10.03%	-6.86%	9.24%
over \$44,740 up to \$48,535	24.15%	12.08%	-1.20%	13.95%
over \$48,535 up to \$78,783	29.65%	14.83%	6.39%	20.28%
over \$78,783 up to \$89,482	31.48%	15.74%	8.92%	22.38%
over \$89,482 up to \$92,825	33.89%	16.95%	12.24%	25.16%
over \$92,825 up to \$97,069	37.91%	18.95%	17.79%	29.78%
over \$97,069 up to \$150,000	43.41%	21.70%	25.38%	36.10%
over \$150,000 up to \$150,473	44.97%	22.48%	27.53%	37.90%
over \$150,473 up to \$214,368	48.19%	24.09%	31.97%	41.60%
over \$214,368 up to \$220,000	51.97%	25.98%	37.19%	45.95%
over \$220,000	53.53%	26.76%	39.34%	47.74%

PROGRESSIVE TAX SYSTEM

The more you make, the more you get taxed.

Source: Taxtips.ca

Earning \$ 150,000

Tax brackets		Marginal tax rate	Tax payable
\$ -	\$ 10,783	0.00%	\$ -
\$ 10,783	\$ 13,229	5.05%	\$ 124
\$ 13,229	\$ 44,740	20.05%	\$ 6,318
\$ 44,740	\$ 48,535	24.15%	\$ 916
\$ 48,535	\$ 78,783	29.65%	\$ 8,969
\$ 78,783	\$ 89,482	31.48%	\$ 3,368
\$ 89,482	\$ 92,825	33.89%	\$ 1,133
\$ 92,825	\$ 97,069	37.91%	\$ 1,609
\$ 97,069	\$ 150,000	43.41%	\$ 22,977
\$ 150,000	\$ 150,473	44.97%	\$ -
\$ 150,473	\$ 214,368	48.19%	\$ -
\$ 214,368	\$ 220,000	51.97%	\$ -
\$ 220,000		53.53%	\$ -

\$ 45,414 Tax payable

AN EXAMPLE

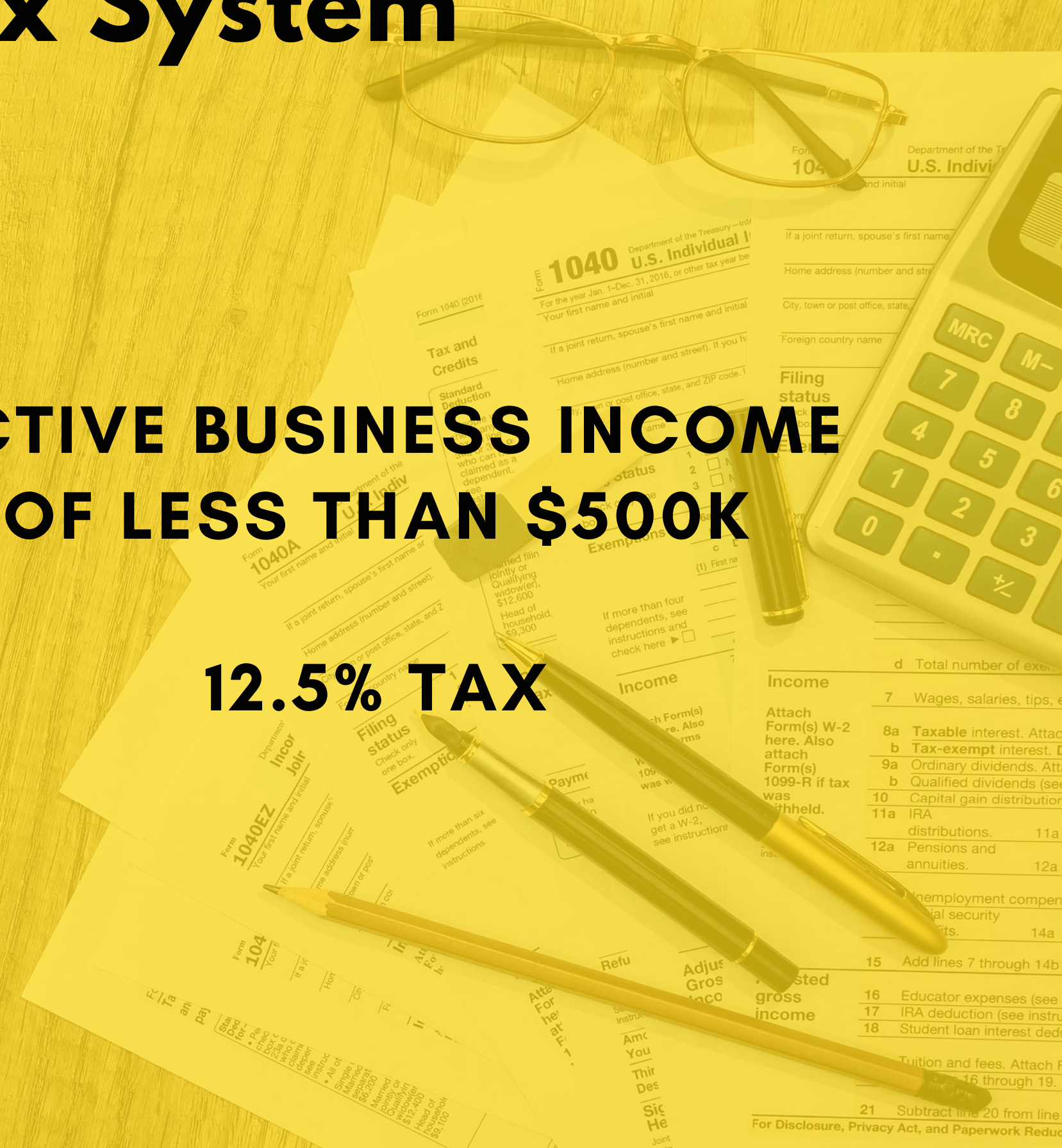
The more you
make, the more you
get taxed.

Corporation Tax System



**ACTIVE BUSINESS INCOME
OF LESS THAN \$500K**

12.5% TAX



But...

**don't you have to pay personal
income tax when you draw
money out from your
corporation?**



Tax integration

**IF YOU INCORPORATE
AND TAKE ALL CASH
OUT...**



**Personal
income tax**

=

**Corporation tax +
personal income tax**



WHAT'S THE STRATEGY?

**Take out what you need
Keep maximum amount in the
corporation**

Let's use an example to explain...

Peter earns \$220,000 gross commission income on average.

He incurs \$70,000 business expense.

He reports \$150,000 net business income.

Peter pays \$45K of income tax + \$5,500 CPP

His after tax earnings = \$99,500



What's Peter's personal need?

Home expense = \$3,000

Food = \$500

Travel = \$500

Gym = \$100

Clothes = \$100

Other misc = \$800

Total = \$5,000 per month, \$60,000 annually



What's left for retirement?



After tax earning = \$99,500

Personal expense = \$60,000

Net = \$39,500

for savings and invest for retirement

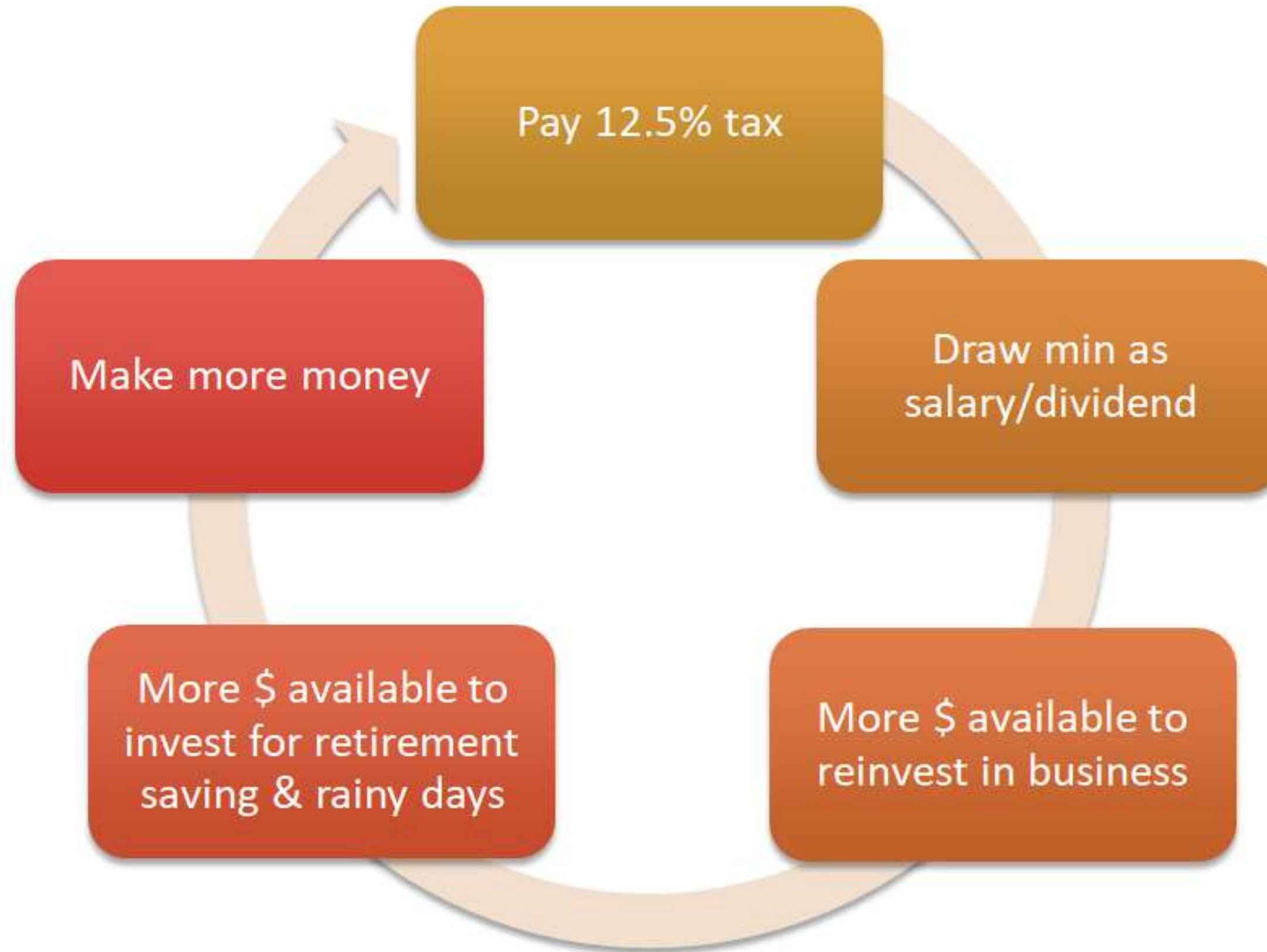
What if Peter sets up a corp?

	<u>Corporation</u>		<u>Personal</u>
Net business income	150,000	Dividend income	67,200
Corp tax 12.5%	- 18,750	Personal tax	- 7,157
Net profit after tax	<u>131,250</u>		<u>60,043</u>
Less: Dividends to shareholder	- 67,200		
Funds for reinvestment in business & retirement savings	<u>64,050</u>		



\$64K left in the corporation to invest – increase of \$24K compared to operating as sole proprietor

Pay less tax, save more, invest more...



GOING DEEPER

COMMON CORPORATION STRUCTURE

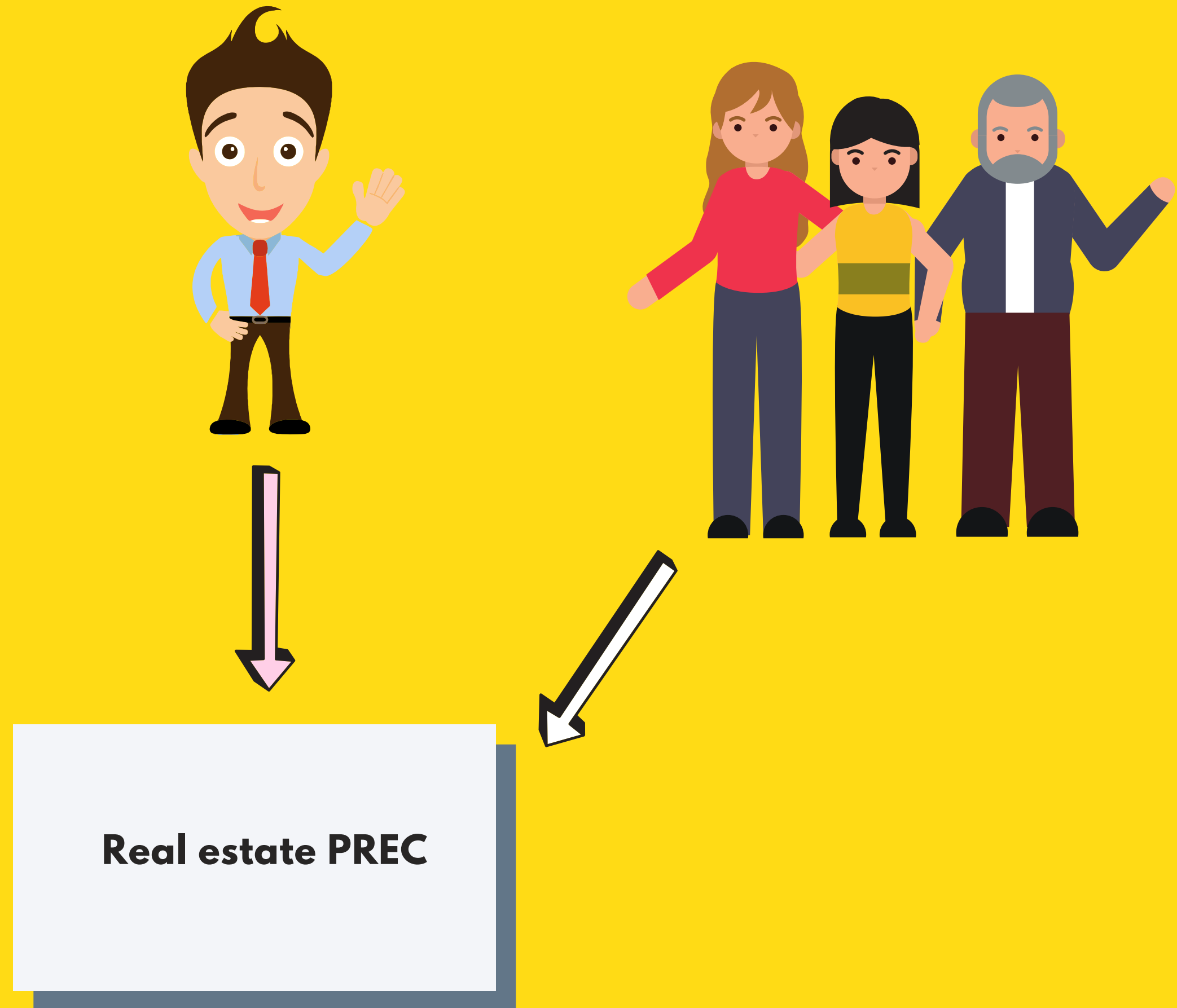


One corporation, one owner



Real estate PREC

One corporation, multiple shareholders



Two corporations, multiple shareholders



Real estate PREC



Investment corp



GOING EVEN DEEPER

COMMON TAX STRATEGIES USING CORPORATION



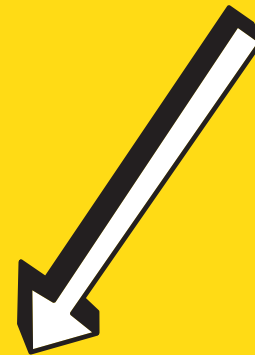
Income splitting with family members



Real estate PREC



**Spouse must be over 65
or
Family members must
work in the business for
over 20 hours weekly
or
Reasonable
remuneration**



Income splitting with family members



Real estate PREC



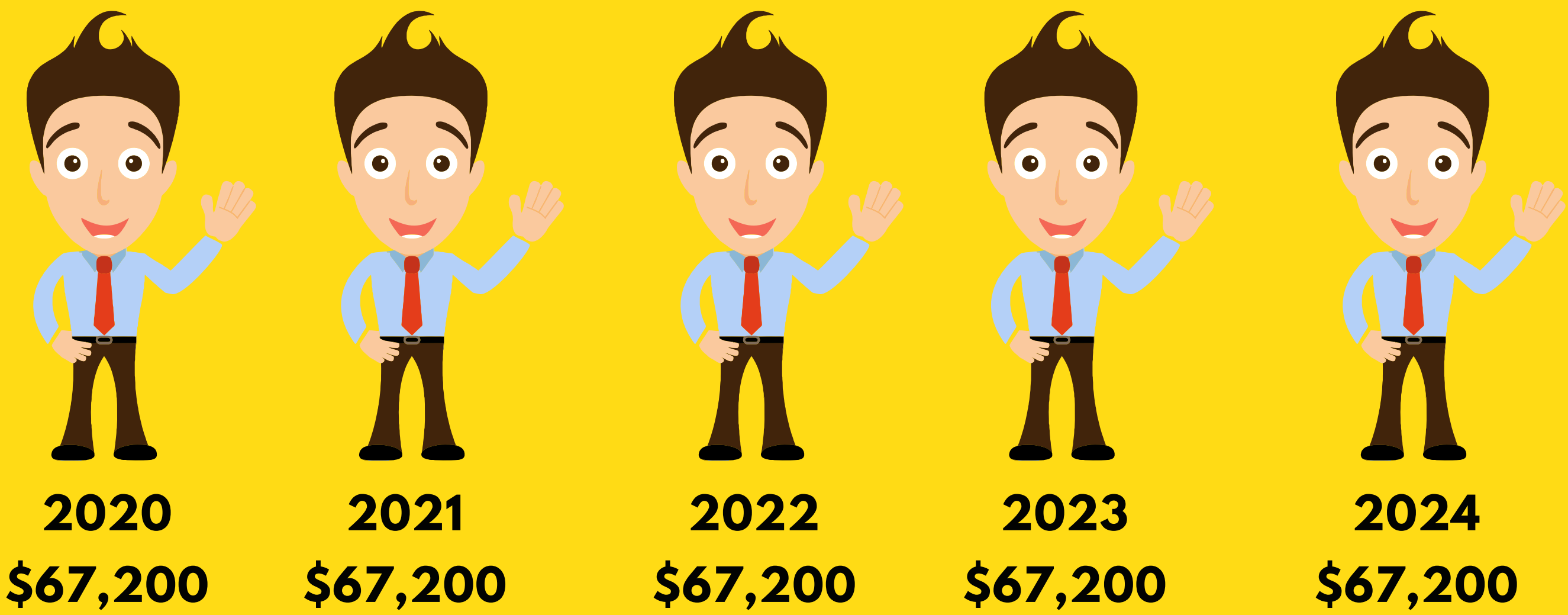
Investment corp



loan

**Earn investment income
rental income
interest income
capital gain on stock**

Income splitting with yourself multiple years



Real estate PREC

Summary

1. Do you need the cash now?
2. How much \$\$\$ do you need in your personal life?
3. Do you have a retirement strategies?
4. Do you want to use CRA's money to work hard for you?
5. Do you have someone that you can split income with?
6. Do you have any other income?
(Is your realtor business a side hustle?)





Q&A

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All proceeds from the book will go to Hamilton Basket Brigade

