Four Reasons to Incorporate Your Business

1) Image

Probably the most compelling reason for a small business to incorporate is the desire to create a good first impression. First impressions count and incorporated businesses are seen as being more serious, more credible, more long lasting and more committed to business than unincorporated businesses. Just the fact that your business name ends in a corporate extension i.e. Inc., Corp., or Ltd., can makes a big difference when your customers are considering doing business with you.

Incorporated businesses will often attract more business because the customer, whether the end consumer or another business, subconsciously, and almost always, believes a corporation has more credibility. It is important to support that belief with a strong operation, reliable management team, and a sound marketing program, including an Internet presence.

2) Protection

Unlike the owner(s) of a sole proprietorship or partnership, corporation owners, called shareholders, are not personally liable to pay the debts of corporation. If you incorporate, your personal assets, such as your home, etc., are safe from business risks with few exceptions.

If your business activity carries even a minor risk of causing a catastrophic loss, such as business using dangerous machinery or chemicals, you should incorporate. It is unwise to rely on insurance to protect you from business risks because insurance policies provide limited coverage. Typically, your personal liability for business risks is limited to the personal guarantees you give to others in the course of your business dealings.

3) Tax Savings & Deferrals

Incorporated businesses pay lower taxes than sole proprietorships or partnerships. Certain kinds of corporations enjoy very low tax rates for the first $500,000 in business income, and the tax rates are dropping.

Use your corporation to average your personal income. If your personal income fluctuates between tax brackets your tax savings can be dramatic.

You can defer taking personal income by leaving money in the corporation. Since the tax rates in corporations are usually less than one-half of the personal tax rates, you have use of money which would otherwise have been paid to the government until you pay the money out of the corporation to yourself.

Use your corporation to split capital gains by giving shares in your corporation to your spouse and children. Spouses and children accrue capital gains by holding shares in your corporation and selling them in the future at a profit.

There is a $750,000 lifetime capital gains exemption available for capital gains earned from the sale of shares in a qualifying small business.

Make sure that you have an accountant, preferably one with a CMA designation (Certified Management Accountant), to guide you through the tax laws and help take full advantage of all available tax savings.

4) Attracting Investors

Every business needs money to grow and being incorporated makes it easier to attract investors. Investors are more likely to invest in corporations than sole proprietorships or partnerships. The reason an investor may want to invest in your corporation is to make money, either from income generated from the business during its life or from capital gains, once the business grows in value and the investor's holdings can be sold to another person.

You can sell portions of the corporation's stock to investors and offer solid exit strategies that protect both the corporation and the investor. All investors want to know how they can get their money back out. This is much easier to set up with a corporation compared to a sole proprietorship or partnership.