

DO I NEED TO INCORPORATE MY BUSINESS AND WHY?

Have you been working solo in your business a while and want to take it to the next level and incorporate? Alternatively, maybe you want to start as a corporation right from the beginning. Are you wondering if you should even consider incorporating? There are a few reasons you may want to consider incorporating. Let's take a look at a few.

- **PERSONAL ASSET PROTECTION**

When you work as a sole proprietor, everything is on the line. You risk losing everything if something goes wrong. And that is not just your business. A creditor cannot only get your business assets; they can go after your car, your home, even the clothes on your back in order to settle an outstanding debt.

By incorporating, you lessen this risk. A veil goes up between the business and your personal life. If something goes wrong and you can't pay a bill or someone sues the business, the creditor or plaintiff cannot touch your personal assets to settle the claim. They would only be able to be compensated based on what is available from the corporate assets. Your house, car, and clothes are safe where they are.

- **CORPORATE TAX BENEFITS**

One of the drawbacks to being a sole proprietor is that you cannot take tax deductions to which a corporation is entitled. A corporation can take a deduction for employee salaries (including the owner's), as well as payments made for employee health benefits and contributions to qualified retirement and pension plans. In addition, you can take a deduction for setting up a tax deferred retirement trust as a fringe benefit and contributing to that plan.

- **LOSSES CAN BE CARRIED FORWARD**

When you start a business, you don't usually make a lot of money right away. If you have incorporated, you can carry those losses forward to years when you start making some income. This means that not only will you not owe taxes in the year of the loss, but can offset any income in a future year, reducing your tax burden for that year, freeing up capital to continue to grow your business.

- **EASE OF RAISING CAPITAL**

When you are on your own, the only ways to raise money to finance growth are either to do more work or to get a loan, which puts your personal assets like your home at risk. By incorporating, you open up new ways to raise operating capital, such as selling stock. Not only does this bring in more cash, but also you end up recruiting more champions for your business, who have a stake in seeing your business succeed.

- **PERPETUAL EXISTENCE**

Did you start your business hoping to create a lasting legacy to be passed down to your children? By incorporating, your business will survive even after you are gone, and can provide your heirs with a source of income, be it dividends or appreciation in the value of their stock in your company.

- **INCREASED CREDIBILITY**

While sole proprietors do great work and provide great products and services to their customers, there is something about having “Inc.” after your business’s name that seems to take people’s esteem of your company to a much higher level. It looks more professional, and garners more respect. In addition, banks are usually more confident providing financing to a business that have taken the extra step to incorporate.

- **LEASING ASSETS YOU OWN TO THE CORPORATION**

You already own a car, you can do what many business owners do and lease it back to the corporation. You will owe for the lease income on your personal return, but you will also be able to deduct the cost of maintenance and repairs on your return. Be sure to set up a formal lease agreement between you and the company that you would set up if you were setting up an agreement with a regular customer (maybe have an attorney look it over. In addition, make sure the lease amount is in line for what a similar vehicle would pay for a lease.

- **YOU ONLY PAY FOR DISTRIBUTIONS ON YOUR PERSONAL TAX RETURN.**

If you are self-employed, you are taxed on the entire income you earn from your business. If you incorporate, you only pay taxes on the salary the corporation pays you, and any distributions made to you.

In addition, these distributions are taxed at your individual tax rate, and the corporation pays lower rates than a self-employed person does. In addition, corporations are not subject to self-employment taxes, which can really add to your tax burden as a sole proprietor.

Deciding your company's structure is not something to be taken lightly. We advise that you think through your options carefully. We are available to walk you through, and aid with, the setup of your business, or the change in business structure. We enjoy helping our clients build their businesses, and would love to help you with yours.

[Need More Help Making This Decision?](#)

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