

Transitioning From a Sole-Proprietorship to A Corporation

This process has quite a few important steps and can take a full year to complete! Luckily this handout will keep you on track.

Step 1: Determine Goodwill and Fair Market Values	Complete?
CRA deems you to have sold a business to yourself and charges you tax on the implied goodwill. Transfers must occur at fair market value unless a Section 85 election is used. Seek an official valuation or use auction sites/online research to determine fair market values/goodwill. Keep documentation. Professional CPA advice is recommended.	
Step 2: Incorporate	
Check out our incorporation handout for recommendations. Share structure sets the foundations for tax planning and a few key decisions can save you thousands.	
Step 3: Set Up Your Corporate Bank Account	
Bring your Incorporation Certificate, Incorporation Application, Notice of Articles, Register of Directors, Central Securities Register, and Articles of Incorporation to your banker to set up a savings account, corporate credit card, and chequing account.	
Step 4: Set Up New Tax Numbers	
Apply for a new GST/HST and Payroll number with the Canada Revenue Agency. Reach out to your provincial government about PST and WorkSafe numbers.	
Step 5: Move Your Sales, Contracts, Expenses, and Bookkeeping to Your Corporation	
Move your revenue streams, official contracts, and operating expenses into your corporate bank accounts. Entirely new bookkeeping records must be created.	
Step 6: Don't Forget Payroll	
Issue Records of Employment (ROEs) from your sole proprietorship and prepare T4s. Begin submitting payroll remittances under the new corporate payroll number.	
Step 7: Transfer Your Assets	
Transfer all assets out of your sole proprietorship at their fair market value. Issue an invoice to yourself/your corporation from your sole proprietorship identifying the items. Record assets in your corporation at their fair market value. Offset against shareholder loan. Review our motor vehicle resources before deciding to transfer a vehicle then change the registration with your provincial government.	
Step 8: Don't Forget the Sales Tax	
GST/HST or PST may apply to transferred assets. Use GST44 form to avoid GST. Timing is crucial! The form must be filed before the deadline of the GST remittance the transaction occurs in. File two forms: one under your sole proprietorship and one under your corporation. Live in British Columbia? Check out the PST Bulletin 210 to avoid PST.	
Step 9: File Your Taxes & Close Your Accounts	
File your income tax returns taking into consideration the above changes. Don't forget GST/HST, PST, and WorkSafe returns. Regular deadlines apply. Once all filings are complete and outstanding balances paid or refunds received, close your tax accounts.	

We hope this handout has been helpful during your incorporation process.