Incorporated Advisors: The Advantages

Like many other self-managed professionals already reaping the benefits of Professional Incorporation, Financial Advisors will benefit from expanded options on a more level playing field.

Tax Savings & Financial Management

- Lower tax payable on up to $500k income per year, due to the difference in income tax rates between personal tax and corporate tax.
- Access to the $750k lifetime capital gains exemption on qualified small business corporation shares.
- Income splitting potential where other family members are shareholders.

Retirement and Legacy Planning

- The potential for placing $245k or more per year in your professional corporation’s retained earnings.
- The potential to use the retained earnings to fund your retirement lifestyle.
- The possibility to create and fund an Individual Pension Plan (IPP), and thereby potentially make far greater contributions to your tax-sheltered retirement plan.
- The corporation can continue after the retirement or death of the founder, and provide Pension and Survivor Benefits.

Operational and Structural Benefits

- The potential to enhance income splitting possibilities to include spouse and/or children.
- Some expenses would be recognized as deductible business expenses that are after-tax expenses in an employee structure.

Let’s level the playing field

The developments in the MFDA world have created an unlevel playing field. This has been a sore spot for many IIROC Advisors, who are governed by the same regulatory body (the provincial securities commissions) but are treated differently when it comes to the ability to incorporate their business.

Clearly this recent decision makes the gap even more pronounced. Our hope is that there will be a renewed push from within more IIROC member firms to remove the gap, and level the playing field. The question for you is – does your firm openly support this initiative?

Raymond James supports it 100 per cent. We believe it is a question of fairness and choice to allow Advisors operating as Principal/Agent to incorporate their business. There are many important advantages for these individuals:

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Summer 2003
Raymond James was instrumental in the approval of the Principal/Agent model in Canada which allows Advisors within the Investment Industry Regulatory Organization of Canada (IIROC) world to work as Independent Contractors rather than as employees of a firm.

2004
The Securities Commissions offered extensions to Mutual Fund Dealer Association of Canada (MFDA) member firms to permit member dealers to direct commission payments to a registered Advisor’s private corporation. As each temporary exemption term approached expiry, a further extension was granted.

2006
IIROC approved amendments to the Principal/Agent By-law 39 that would allow retail Advisors to structure their business as a personal corporation. This amendment was presented to the provincial securities commissions for approval. The regulators indicated that the matter required further study, and broad support from IIROC member firms. Little advancement has occurred since.

March 2010
On March 26th, 2010 the MFDA approved changes to their by-laws to allow approved persons of MFDA member firms to have remuneration from their firm paid directly to a corporation (with some modest restrictions regarding clients in Alberta).

For more information including a case study that depicts how Professional Incorporation can apply to a Financial Advisor, please visit our website: www.AdvisorChoice.ca
What has brought about this regulatory change?
Following the implementation of the Principal/Agent By-law 39 in May 2003, IIROC member firms – including Raymond James – asked the Association to expand the acceptable business structures now allowed between Members and their Advisors. With the IIROC approval, we moved closer to having a third business structure – Incorporated Advisors – which would work within the Principal/Agent framework.

What does this change mean?
IIROC and Securities Commission approval would serve to level the playing field with other investment professionals who currently are able to incorporate. These include insurance licensed agents, financial planners and some mutual fund advisors.

What kind of Advisor would be a good candidate for Professional Incorporation?
The choice to professionally incorporate demands experience. It’s not suitable for a novice Advisor. It’s more suited to a seasoned Advisor who has ownership and control of his or her book, with a specific risk of loss or opportunity for gain in his/her business.

Why is ownership and control important?
Ownership and control are key prerequisites for becoming incorporated; you cannot incorporate a business if you don’t own it. In today’s existing models, the Principal/Agent structure accommodates the key elements of ownership and risk of loss/opportunity for gain. The traditional employee model satisfies neither prerequisite.

Can an Advisor incorporate and remain an employee of their current firm?
No. You cannot be an employee of an IIROC member firm and take advantage of Professional Incorporation. Rather, you would have to move from employee status to Independent Contractor status and work within the Principal/Agent Model.

What are the advantages if I incorporate as an Advisor?
There are two main advantages. You would have enhanced freedom and independence to build your business and strengthen your career. Plus, you would benefit from the significant business planning and tax-saving options inherent in Professional Incorporation.

What are some of the tax advantages?
There are four principal tax benefits associated with an Independent Contractor carrying on his or her business through a private corporation.

- **Annual Tax Savings** – by flowing your commissions through a corporation and paying a portion of your taxes at a corporate rate rather than a personal rate.
- **Annual Tax Deferral Benefit** – accumulating income in the corporation’s retained earnings.
- **Potential Income Splitting Benefits** – including other family members as shareholders of the corporation.
- **$750k Lifetime Capital Gains Exemption** – creating an opportunity for future tax savings if the eventual sale of the Advisor’s book is structured as a sale of the corporation’s shares.

Will clients have to be informed about an Advisor’s decision to incorporate?
Clients may be informed of this decision. However, the decision in itself will not alter the relationship they have with their Advisor, nor will it impact the services they receive.

What is the impact of the Professional Incorporation business structure for clients?
None. They would continue to receive the same services, reporting and protection.

Does the status of the Advisor’s registration change if he/she incorporates?
No. The Advisor’s responsibilities and accountabilities to his/her clients, member firm, and the industry would remain the same.

Does incorporating change my personal risk or liability?
The Personal Corporation business structure preserves the concept of personal liability. As a result, the Incorporated Advisor and the member firm would face the same level of responsibilities and liabilities as is currently the case.

Want to learn more?
Please visit our website: www.AdvisorChoice.ca, sign-up for our confidential emails, or call us toll-free: 1-866-204-6380.

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