





WatStart
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Tax planning for entrepreneurs

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Agenda

- Structuring a start-up business
- High Technology Life Cycle
- Ontario Interactive Digital Media Tax Credit (OIDMTC)
- Ontario Tax Exemption for commercialization (OTEC)
- Scientific Research and Experimental Development (SR&ED)
- Question & Answer

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Structuring a Start-Up Business

Structuring a Start-Up Business

- Need to decide which structure is best
 - Given your situation
 - Given your needs both now and in the future

- Basic choices
 - Carry on business in unincorporated form
 - Sole proprietorship or partnership
 - Carry on business as incorporated

Structuring a Start-Up Business

- There are both tax issues and non-tax issues which should be evaluated in deciding which structure is best
 - Non-tax issues
 - Legal liability
 - Incorporated vs. unincorporated
 - Costs to set up and maintain

Structuring a Start-Up Business

- Incorporation costs
 - Both legal fees and accounting fees
 - Yearly requirement to file corporate tax returns

- Sole proprietorship and Partnership costs
 - Should consider a partnership agreement if considering a partnership – legal costs associated with this
 - Yearly accounting and requirement to file an additional business form on personal tax return

Structuring a Start-Up Business

Should the business not succeed

- Incorporation
 - Allowable business investment loss
 - Can claim 50% of your loss against other sources of income

- Sole Proprietorship/Partnership
 - Non-capital loss
 - Can claim 100% of your loss against other sources of income

Structuring a Start-Up Business

Tax considerations to consider when deciding on structure

- Short-term outlook of business
 - Usually not highly profitable in first couple of years
 - Losses incurred in as a sole proprietor or partner is able to offset income from other sources (including income earned from other employment)
- Financing
 - Bank
 - Friends or family
- Deduction of Scientific Research expenses and credits available through an incorporated entity

Tax Integration

Resulting combined personal/corporate effective tax rates

(top rates on corp income distributed as dividends - Ontario - post 2008 Federal Budget)

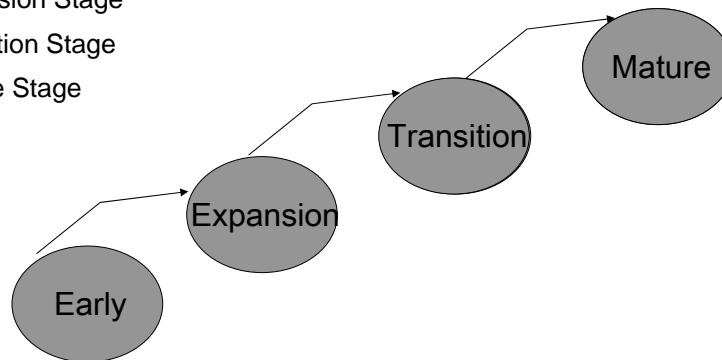
	General	M&P	Small Business	Investment
2005	56.1%	54.7%	44.1%	47.2% - 48.3%
2006-2007	51.8%	50.3%		
2008	49.4%	47.9%	42.7%	46.4% - 47.1%
2009	48.5%	46.9%		
2010	48.7%	47.2%		

Top Ontario personal tax rate: 46.4% + EHT

High Technology Life Cycle

High Technology Life Cycle

1. Early Stage
2. Expansion Stage
3. Transition Stage
4. Mature Stage



High Tech Life Cycle

Early Stage

- Focus in early stage is usually product development
- Financing is usually required to fund capital to see the company through the product development stage and into the expansion phase

Tax Considerations

- Business structure
 - Incorporation or sole proprietorship/partnership
 - Use of SR&ED tax credits

High Technology Life Cycle

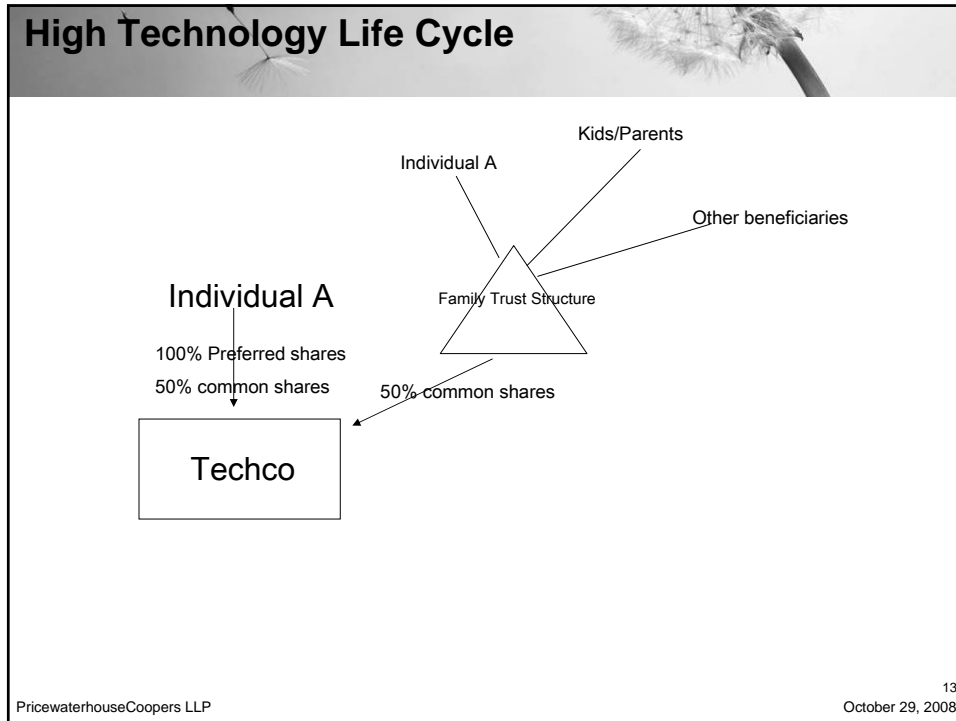
Canadian Controlled Private Corporation (CCPC)

- Controlled by Canadian residents
- Ability to utilize the lifetime capital gains exemption
 - Needs to be CCPC
 - Needs to meet the definition of a small business corporation (SBC)
 - There are tests to ensure a corporation qualifies but essentially, the corporation must be engaged in active business in Canada
 - \$750,000 is the lifetime capital gains exemption available on shares of a Qualified small business corporation

High Technology Life Cycle

Trust Structure

- Putting in place a family trust now would be useful down the road
 - Multiply CGE
 - Ability to split income
- The cost of implementing a trust are more than incorporation alone but certainly less expensive to do now rather than to change your structure in the future
- Essentially a trust is a vehicle to split income with other family members at your discretion.
- Beneficiaries would be set up in order to split income with some or all of those beneficiaries
- Trust allows founder to retain control of the corporation



High Technology Life Cycle

Expansion Stage

- The transition from an early stage company to an expanding company is marked by an increased emphasis on sales and marketing
- Your product is ready for market
- Typically when capital requirements are largely required
 - Venture Capital financing
 - Usually as a form of equity
 - Often VC's want a significant role in the management of the company's affairs
- Some investors may be non-residents – if so, consider CCPC status

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High Technology Life Cycle

Transition Stage

- Typically marked by a change in ownership or the current owners focused on “going at it alone”
- Usually described as a crossroads for the founders
- Venture Capital shareholders may be looking to liquidate at this stage or industry leaders are looking to acquire companies
- Founders may decide to go public
 - Not available for the capital gains exemption since no longer a CCPC
 - Key tax consideration is to take advantage of capital gains exemption on initial public offering
 - Tax savings can be significant

High Technology Life Cycle

Mature Stage

- Has a proven and established technology
- Typical concern is on tax compliance and financial reporting functions
- Usually looking at streaming revenues to lower tax jurisdictions
- SR&ED credits are just as important but not necessary to maintain cash flow

High Technology Life Cycle

Summary

- In all four stages of the high technology life cycle there are some key tax considerations
- Good idea to continuously review company structure to ensure you are maximizing all credits available and benefiting from sound tax planning
- Tax planning is maximized in the early stages to ensure the company is structured to meet your individual needs

Questions / Comments?