

Sole Proprietor vs Corporation

Which one are you? An honest comparison for Canadian freelancers.

“Choosing a business structure is like choosing shoes: what fits at the start of the hike may not fit at the summit.”

Side-by-Side Comparison

	Sole Proprietor	Corporation
Setup cost	Provincial name registration (~\$60-\$80 in Ontario); operating under your own name costs \$0	Federal ~\$300 or Ontario ~\$360, plus legal/accounting fees
Liability	Unlimited. You and the business are legally the same person — creditors can reach personal assets	Limited. The corporation is a separate legal person; your risk is generally limited to what you invested
Taxes	Business profit taxed as personal income at your marginal rate	Eligible for the small business rate — 9% federal + provincial (e.g. ~12.2% combined in Ontario) on the first \$500K of active business income
Paperwork	Minimal: track income/expenses, file a T2125 with your personal return	Articles of incorporation, minute book, annual filings, separate T2 corporate return
Getting paid	Profit is yours directly (and fully taxed that year)	Salary, dividends, or a mix — with planning flexibility (and complexity)
Shutting down	Stop operating; cancel registrations	Formal dissolution; tax filings to wind up

When Should You Incorporate?

There is no magic number, but accountants commonly use these rules of thumb:

- ☐ You consistently profit ~\$80,000-\$100,000+ per year. Above this, the small business tax rate and income-retention flexibility often outweigh the extra costs.
- ☐ You face real liability exposure. Clients on-site, employees, contracts with risk — a corporation puts a wall between business debts and your house.
- ☐ You want to reinvest, not withdraw. Leaving profits inside a corporation taxed at ~12% beats paying 40%+ personal tax on money you do not need yet.

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- ☐ You plan to bring in partners or sell one day. Shares make ownership transfer clean; sole proprietorships cannot be 'sold' the same way.

Honest note: Incorporating too early just buys you expensive paperwork. Many successful freelancers stay sole proprietors for years — and that is a perfectly respectable business decision, not a failure to launch.

Still Deciding?

Take our free 2-minute quiz — “Should you be a sole proprietor or a corporation?” — at jacobookkeepingfirm.com. Answer a few questions about your income, risk, and goals, and get a clear recommendation. Free, no email hostage-taking required.