

## What is a Professional Corporation?

A Professional Corporation has a very specific definition in Alberta. It is an entity that provides professional services by regulated member(s) of a profession who is/are governed by a professional body. The member is an employee of the Professional Corporation, which carries on the business of the professional practice.

In Alberta, only some professional bodies allow members to practice through a corporation as opposed to a sole proprietorship or partnership. These include:

- Lawyers;
- Physicians;
- Dentists;
- Accountants;
- Chiropractors;
- Physiotherapists; and
- Optometrists.

The province restricts the activities that a Professional Corporation may carry on and it limits the business of the corporation to the practice of the profession or "activities ancillary to the practice". However, Alberta generally permits surplus funds earned by the practice to be left in the corporation and be invested therein, which provides a potentially significant tax-deferral advantage.

### Who can hold shares in a Professional Corporation?

Generally, the shares of a Professional Corporation can be held by the regulated member of the professional body that allows for the establishment of the Professional Corporation.

Effective March 1, 2010, non-voting shares of a Professional Corporation may be issued to the spouses, common-law partners, children or family trusts of the regulated member.

### What are the main income advantages of a Professional Corporation?

There are two main advantages to the utilization of a Professional Corporation:

#### 1. *Tax deferral*

One of the main advantages of utilizing a Professional Corporation is the ability to take advantage of the difference in tax rates between the highest personal tax rate of approximately 48% and the more favourable small business corporate tax rate of approximately 13.5%. By taking out less than the full amount of corporate earnings, you can defer the tax paid to a later date when you are in a lower tax bracket.

## 2. *Potential income splitting*

Another advantage is the ability to issue salary or dividends to family members in lower tax brackets to reduce your overall tax liability. Instead of taking out the entire amount of necessary funds in salary by yourself and paying tax at the highest personal rate, you may be able to split the amount between your spouse and children (over the age of 18) which can significantly reduce your overall tax bill.

### **How does a Professional Corporation differ from a Non-Professional (“Ordinary”) Corporation?**

The main difference between a Professional Corporation and an Ordinary Corporation is that of liability. While there are some exceptions, generally, if an individual establishes an Ordinary Corporation, and such corporation ends up getting sued and is ultimately found to be at fault under such a lawsuit, the liability that would be realized personally would be limited to whatever that individual invested in the corporation.

These general rules in regards to liability are slightly different when it comes to a Professional Corporation. If the individual is a physician and is sued for malpractice, the Professional Corporation does not protect that individual personally from the complainant in the same way that an ordinary corporation protects its shareholders from creditors. Potential personal liability under such circumstances would be governed by the terms of the individual's professional insurance. What the Professional Corporation does provide is some protection from creditors if you borrow money, perhaps for the financing of a new office or for some expensive equipment.

If you are a regulated member of a professional body and would like to incorporate a Professional Corporation to utilize some of the benefits which come with such a structure, please contact our corporate lawyers at Duncan Craig LLP and we can assist you in establishing your Professional Corporation.

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