



Personal Real Estate Corporations in Ontario

October 26, 2020

 **VINE and PARTNERS LLP**
Chartered Professional Accountants

What is a PREC?

Effective October 1, 2020 regulations have been brought into force allowing individuals who are brokers or salespersons to incorporate a Personal Real Estate Corporation ("PREC") in compliance with the requirements of the Real Estate and Business Brokers Act, 2002 ("the Act").

Why would I want to operate a PREC?

1. A personal real estate corporation can be used to defer tax on the portion of income earned by a broker or salesperson that they don't need for immediate personal use. The corporate tax rate on active income eligible for the small business deduction (12%) is much lower than the highest personal tax rates (53%).
2. There is also potential for income splitting with family members; each situation is different and must be analysed thoroughly.

Incorporation Specifics

- A PREC must be incorporated under the Ontario Business Corporations Act.
- All of the voting shares of the PREC must be legally and beneficially owned, directly or indirectly, by the salesperson, who must also be the sole director and officer.
- Any non-voting shares of the PREC may only be owned by the salesperson or a member of their family.
- The PREC must adhere to strict operating conditions. See Appendix A.

Other Considerations

As with all good things, there are also costs. After the initial cost of incorporating, the PREC will need to keep separate accounting records and will have to file corporate income tax returns and relevant T4 and T5 returns. There will also be legal costs to maintain required corporate minutes and prepare other government filings.

Is incorporation right for you?

We at Vine and Partners are ready to help you assess the best way forward in your specific circumstances. To book a complimentary consult please call **Blair Randall at 905-549-8463 ext 241** or **Mark Oresti 905-549-8463 ext 245** or email us at realtycorp@vine.ca.

Appendix A – Corporate Operating Conditions

1. The PREC's controlling shareholder is employed by a brokerage to trade in real estate.
2. The PREC does not carry on the business of trading in real estate other than providing the services of its controlling shareholder to the brokerage.
3. The PREC, its controlling shareholder, its non-equity shareholders, its employees or its agents do not represent to the public in any manner, directly or indirectly, that the corporation carries on the business of trading in real estate.
4. The PREC does not carry on business as a brokerage.
5. The PREC does not receive, directly or indirectly, remuneration for trading in real estate from any person or entity other than the brokerage.
6. The controlling shareholder does not receive, directly or indirectly, remuneration for trading in real estate from any person or entity other than the PREC or the brokerage.
7. The PREC does not, on behalf of the brokerage, directly or indirectly hold any money or other property of a client, customer or other person in connection with trading in real estate.
8. There is a written agreement between the PREC, the controlling shareholder and the brokerage governing the relationship between the brokerage and the corporation and its controlling shareholder. The PREC must agree that it will not hinder the duties of the brokerage or the shareholder under the Act.
9. Before any payments of remuneration can be made to the PREC by the brokerage, the broker or salesperson who is the controlling shareholder must provide written notice to the Registrar of the legal name and the address for service of the PREC.