

# SABOUNJI LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

## Personal Real Estate Corporations What you need to know

### ABOUT US

Sabounji LLP is an established practice with services including corporate and personal taxation, assurance, consulting, financial and estate planning. We cater to clientele in a wide variety of industries, including real estate professionals.

### WHY WORK WITH US?

Our commitment to building strong relationships with our clients and providing quality professional services has been vital to our success and strong reputation.

### CONTACT INFORMATION

Our office is located at  
PH1 – 330 Highway 7 E  
Richmond Hill, ON, L4B 3P8

Phone: 905-709-0054  
Email: [mail@sabounjillp.com](mailto:mail@sabounjillp.com)

We encourage you to visit our website at [www.sabounjillp.com](http://www.sabounjillp.com) and see what our clients have to say about us.



For years, the Ontario Real Estate Association (OREA) and its members eagerly awaited the passage of the new legislation that will now allow them to incorporate and set up a PREC. The ability to incorporate, currently available to lawyers, accountants, doctors and several other professionals, had not been available previously to real estate salespeople.

Sabounji LLP can assist with the initial set up of the PREC as well as the ongoing corporate tax filing requirements.

### What is a Personal Real Estate Corporation (PREC)?

A PREC is similar to any other incorporated business, with the exception of certain regulations as per the Trust in Real Estate Services Act (TRESA). A PREC is a separate entity from the individual salesperson. The salesperson will simply operate their real estate business within the PREC.

- On October 1, 2020, the regulation under the Trust in Real Estate Services Act, 2020 (“TRESA”) on personal real estate corporations (“PRECs”) came into force.
- This regulation will allow Ontario real estate salespeople and brokers to finally operate their business through PRECs.
- The use of a PREC can result in significant tax savings and tax deferrals, depending on the salespersons’ personal situation.
- The transition from an unincorporated business to an incorporated one is a simple and cost-effective process

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### Is a PREC right for me?

There are several advantages of using a PREC, mainly being the potential for tax benefits. However, the potential for tax benefits depends on the personal and financial situation of the salesperson. Speak with a Sabounji LLP advisor to determine if you will benefit from a PREC.

Generally, using a PREC will benefit those who:

- Earn income in excess of their personal spending requirements
- Want to invest excess cash from their business in income-producing investments
- May be able to split income with family members

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## What are the costs associated with setting up and operating a PREC?

With the assistance of your Sabounji LLP advisor, the incorporation of a PREC is generally completed by a lawyer. The costs to incorporate will include the applicable government filing fees as well as the lawyer's fees. These fees generally range from \$1,000 - \$2,000 (including government filing fees).

Our fee for assisting with the set-up of the PREC, including the initial consultation, will range from \$1,000 - \$2,000 (plus HST).

There may be additional costs related to tax filings to transfer your business to the PREC, depending on your personal situation. This will be determined at the initial consultation.

On an annual basis, Sabounji LLP will prepare and file financial statements and corporate tax returns for the PREC. An approximate range of the fees for this service is \$2,500 - \$3,500 per year (plus HST).

## What are the first steps to setting up a PREC?

The first step is to contact us and set up an initial consultation to discuss whether or not you can benefit from using a PREC. The cost of this initial consultation will be \$350 (plus HST). If you decide to move forward and set up a PREC, the initial consultation fee will be waived and included in the set-up fee noted above.

## What are the potential tax benefits from using a PREC?

The top personal tax rate in Ontario on earnings over \$220,000 is approximately 53.5%. A corporation in Ontario pays tax at 12.5% on the first \$500,000 of net income, and 26.5% on the excess of income over \$500,000.

Additional personal tax is payable when funds are withdrawn by the owner (or shareholder) of the corporation, only to the extent of what they have withdrawn. As a result, by leaving funds behind in the corporation a tax deferral is gained as the funds left in the corporation are only taxed at 12.5% (or 26.5%) until they are withdrawn in the future. The funds left in the corporation are now available to be re-invested by the corporation in the business itself or in other income-producing assets (such as real estate investments, stocks, mutual funds etc.). An un-incorporated individual would be left with less income to re-invest as their full earnings would be taxed at their marginal tax rate each year.

While we do prefer meeting our clients in person, we are able to connect with you virtually in order to take the necessary precautions against COVID-19. Please contact us by calling **905-709-0054 ext. 228** or by sending an email to [mail@sabounjillp.com](mailto:mail@sabounjillp.com) to set up an appointment.