

PRECS & WHAT THEY MEAN FOR ONTARIO REALTORS®

ONTARIO REAL ESTATE ASSOCIATION



OREA'S 3 GUIDING PRINCIPLES FOR PRECS

1

Offer strong protection to consumers.

2

Minimize the administrative burden to REALTORS®.

3

Maximize the financial benefit to Members.



PERSONAL CORPORATIONS ACROSS ONTARIO

- Many professionals, including doctors, lawyers and mortgage brokers are permitted to form personal corporations.
- What do you need to consider before deciding if forming a PREC is right for you?



REACHING OUT TO YOUR BUSINESS EXPERTS

- We are here to help you understand the new PREC model.
- OREA cannot provide advice on how to structure your business.
- For more information, please reach out to your financial advisor, lawyer and tax advisor to determine if incorporation is right for you and how you can structure your PREC.

A photograph of a middle-aged man with grey hair, a beard, and glasses, wearing a dark blue button-down shirt. He is looking down at a smartphone in his hands with a slight smile. The photo is framed by a white border.

**OREA
IS HERE
FOR
YOU!**



OVERVIEW OF NEW REGULATIONS

- Under TRESA, PRECs can receive compensation from a trade in real estate.
- PRECs must be incorporated under the *Business Corporations Act*.
- The PREC can only be controlled by one registrant – the controlling shareholder.

**PRECs
DO NOT
NEED TO
REGISTER
WITH RECO**



CONTROL OF THE PREC

- “Controlling registrant” holds all the important roles in the corporation.
- Must be a registrant with RECO – a salesperson or broker.
- Control of the PREC cannot be delegated.



**ONE PREC
CONTROLLED
BY ONE
REGISTRANT**



YOUR PRECS & YOUR FAMILY

- Your family members can hold non-voting/non-equity shares of your PREC.
- Ontario has defined family members, including “children”, “spouse”, and “parent” more broadly in the regulations to reflect today’s modern family.
- Allows you to provide non-equity/non-voting shares to all of those who are important to you.



In order to receive compensation and remain exempt under TRESA, a PREC must meet the following criteria:

PREC CRITERIA

1. The controlling registrant **must be employed by a brokerage.**
2. The PREC **does not carry on ancillary activities** other than providing the services of the controlling registrant to be employed by a brokerage.
3. The PREC is **not** a brokerage.
4. There is a **written agreement between the controlling registrant, PREC and brokerage** outlining the relationship between parties so that they meet the above requirements.



REGISTRATION@RECO.ON.CA

- RECO must be informed of your PREC before it is permitted to receive compensation for your trades in real estate.
- You, the controlling registrant, must provide written notice of your name, your PREC's name, and the address of your PREC to RECO.

**YOUR MUST
INFORM RECO
OF YOUR PREC**



FLEXIBILITY WITHIN YOUR PREC

Holding corporations can be used to:

- Control registrant's equity shares.
- Allow flexibility in allocating funds where needed.
- Establish trusts for minor children's shares.

PREC's can also be used for:

- Passive investments.
- Other active business unrelated to trading in real estate.
- Real estate for income generation.



IS FORMING A PREC RIGHT FOR YOU?

- Are you making significantly more than you need to meet your daily living expenses?
- Do you want to be able to save more money for retirement?
- Could you benefit from distributing business income to your family members?
- Where are you in your professional journey?



**YOUR LAWYER,
ACCOUNTANT
AND TAX
PROFESSIONAL
CAN HELP YOU
MAKE THE
RIGHT DECISION
FOR YOUR
BUSINESS.**



WHAT IS A PREC?

- When you form a PREC, you are creating a legal corporation.
- The PREC is a separate “person” or entity in the eyes of the law.
- As a REALTOR®, you are the controlling registrant of the corporation.
- Your PREC will independently earn income and pay tax at different rates than you would personally pay on that income.
- The brokerage that you work with will pay you through your PREC.



YOUR PERSONAL REAL ESTATE CORPORATION

- Your Personal Real Estate Corporation is a legal entity separate from you as a REALTOR®.
- It will receive income, pay expenses, owe taxes, pay taxes and file its own tax return.



THE RESPONSIBILITY OF THE REALTOR®

- As a REALTOR® you are the controlling registrant and make all decisions regarding the corporation.
- You also make decisions about how much money that the PREC will pay you, as well as any non-voting shareholders (like family members).



SIGNIFICANT BENEFITS OF PRECS

1. Tax deferral due to the difference in personal income rates and corporation income tax rates.
2. The possibility of taking advantage of the Lifetime Capital Gains Exemption for qualified small businesses.



TAX RATES IN ONTARIO

- In Ontario, the corporate tax rate is 12.5% on the first \$500,000 of business income.
- Any income above \$500,000 is taxed at the general corporate rate of 26.5%.
- The highest personal tax rate in Ontario is 53.3% on income over \$220,000.
- If you are a high-income earning individual, forming a PREC can be financially beneficial to you.



CASE STUDY ONE

Self-employed Sole Proprietor

Personal

Annual self-employment income	\$ 200,000
Operating expenses	\$ (46,000)
RRSP deduction	\$ (27,230)
Net income	<u>\$ 126,770</u>
Personal tax payable	\$ (36,000)
After-tax personal cash	<u>\$ 90,770</u>
Living expenses	\$ (90,000)
After-tax cash available for reinvestment	<u><u>\$ 770</u></u>

PREC

Corporate

Annual PREC income	\$ 200,000
Operating expenses	\$ (46,000)
Salesperson's salary	\$ (152,000)
PREC's taxable income	<u>\$ 2,000</u>
Corporate tax rate in Ontario at 12.5%	\$ (250)
After-tax corporate cash available for investment	<u><u>\$ 1,750</u></u>

Personal

Salesperson's salary	152,000
RRSP contribution	\$ (27,230)
Net income	<u>\$ 124,770</u>
Personal tax payable	\$ (34,770)
After-tax personal cash	<u>\$ 90,000</u>
Living Expenses	\$ (90,000)
After-tax cash available for reinvestments	<u><u>\$ -</u></u>



CASE STUDY TWO

Self-employed Sole Proprietor

Personal

Annual self-employment income	\$ 250,000
Operating expenses	\$ (52,000)
RRSP deduction	\$ (27,230)
Net income	<u>\$ 170,770</u>
Personal tax payable	\$ (56,000)
After-tax personal cash	<u>\$ 114,770</u>
Living expenses	\$ (90,000)
After-tax cash available for reinvestment	<u><u>\$ 24,770</u></u>

PREC

Corporate

Annual PREC income	\$ 250,000
Operating expenses	\$ (52,000)
Salesperson's salary	\$ (152,000)
PREC's taxable income	<u>\$ 46,000</u>
Corporate tax rate in Ontario at 12.5%	\$ (5,750)
After-tax corporate cash available for investment	<u><u>\$ 40,250</u></u>

Personal

Salesperson's salary	152,000
RRSP contribution	\$ (27,230)
Net income	\$ 124,770
Personal tax payable	\$ (34,770)
After-tax personal cash	<u>\$ 90,000</u>
Living Expenses	\$ (90,000)
After-tax cash available for reinvestments	<u><u>\$ -</u></u>



TAX SAVINGS OPPORTUNITIES

- When you dispose of your shares of your PREC, you may be able to do so on any increased value without paying any tax on that capital gain, due to the Lifetime Capital Gains Exemption.
- Your accountant and lawyer will be able to help identify any extra tax savings opportunities within your PREC.

**ASK YOUR
ACCOUNTANT
ABOUT EXTRA
OPPORTUNITIES
FOR TAX
SAVINGS AND
PLANNING.**



INCOME SPLITTING

- Ontario's PREC rules allow business income to be distributed amongst family members.
- A PREC can pay dividends to family members who are given ownership of non-voting shares.
- A tool that is specific for use by REALTORS®, with many other professions not having this same advantage.



WHO CAN BENEFIT FROM INCOME SPLITTING?

The controlling registrant can give shares to three categories of family members:

- Children, including stepchildren, adopted children and children of a common law relationship.
- Your spouse, including legal marriages and common law partners.
- Parents, or anyone who demonstrated an intention to treat the controlling registrant as a child.



THE COSTS – PRECS

- Dual registration is not required for you and your PREC.
- You, as the controlling registrant, must be registered with RECO.
- Provided your PREC meets all the rules and regulations, your PREC is exempt from registration under TRESA.
- There is no separate application or registration process.
- There is **no ongoing licensing fees** to be paid annually by your PREC.
- Less red tape on REALTORS®!



THE COSTS

- Forming a PREC will require additional costs for hiring an accountant, lawyer, and/or tax advisor.
- Will require additional administration costs for your real estate business.
- You and your PREC will be separate entities – you will be required to file separate income tax returns and additional tax filings such as HST.



NAMING YOUR PREC

- There is no mandatory form of name you must use for your PREC.
- The name of your PREC is a business decision made by the controlling registrant.
- You must provide the name and address of your PREC to RECO in order for it to begin receiving remuneration for your real estate activities.
- Email registration@reco.on.ca



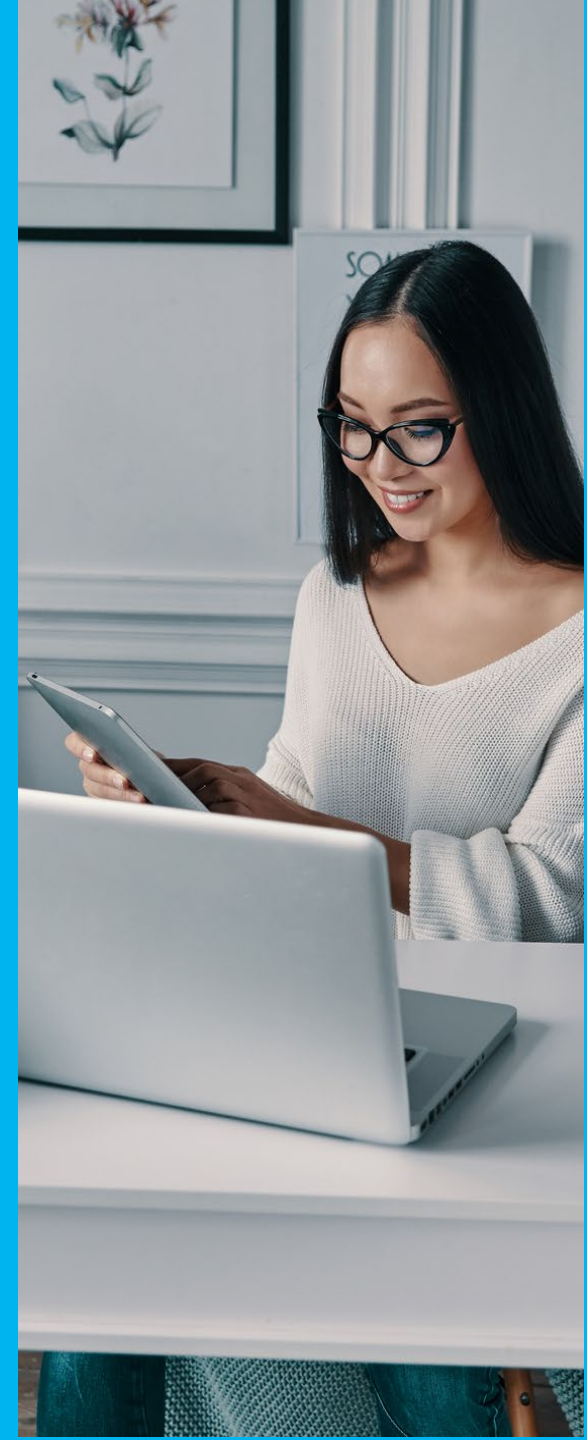
PRECS & PROFESSIONAL LIABILITY

- You will remain liable for the services you provide to Ontario's consumers.
- You will continue to be held accountable for any misconduct by RECO.
- [Reco.on.ca/precs-ads/](https://reco.on.ca/precs-ads/)
- Consult with your insurance broker about your insurance needs.



OREA.COM/PRECS

- Guide to Personal Real Estate Corporations for Ontario REALTORS®
- Frequently Asked Questions
- Informational Videos (Coming soon)
- PREC Webinar Recording
- And more!



NEW ADVERTISING RULES

- Amendments to the TRESA *Code of Ethics* to permit the use of new terms to describe salespersons and brokers.
- New terms permitted under the Code of Ethics may be used in your public-facing advertisements to Ontario consumers.

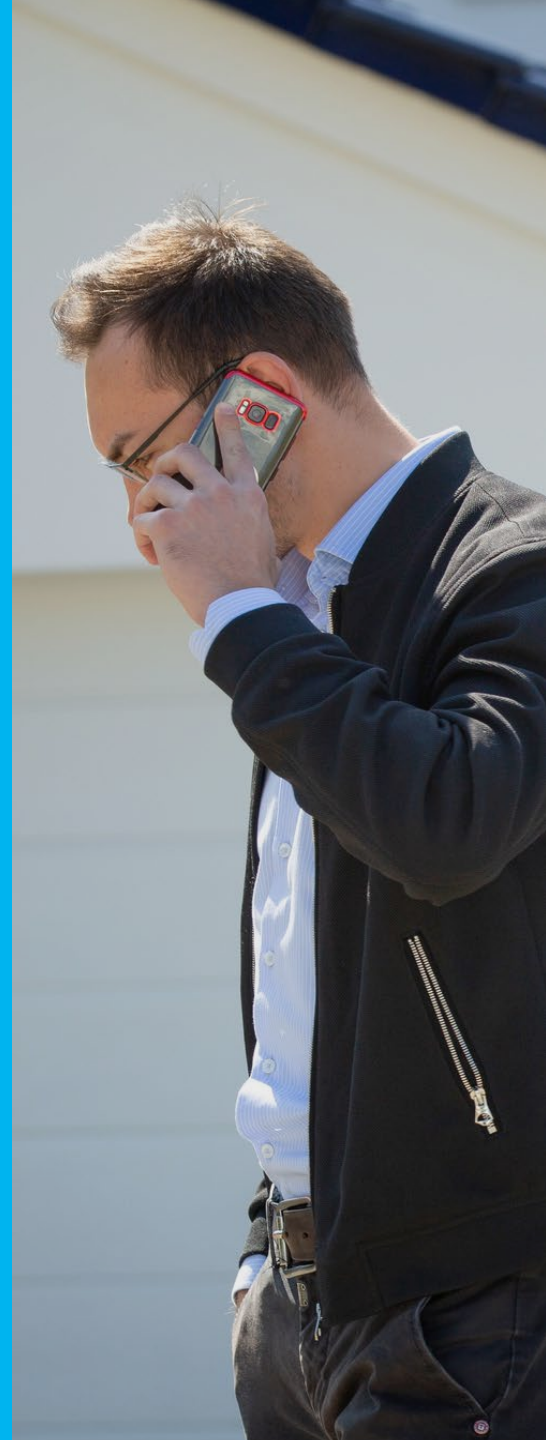


NEW TERMS FOR BROKERS

Brokers:

- Real estate agent
- Broker real estate agent
- REALTOR®
- REALTOR® Broker

REALTOR® and REALTOR® Broker are limited to those who are in good standing with the **Canadian Real Estate Association.**



NEW TERMS FOR SALESPEOPLE

Salespersons:

- Real estate agent
- REALTOR®
- REALTOR® Salesperson

REALTOR® and REALTOR® Salesperson is limited to those who are in good standing with the **Canadian Real Estate Association**.

