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Sole Proprietorship to Corporation in Quebec: s. 85 Rollover

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What actually happens when you incorporate a sole proprietorship

Incorporating creates a new legal person; your business then has to move into it. Revenu Québec treats an individual who incorporates as having [sold their business, or part of it, to the new corporation at fair market value](#).

That sale can produce tax right away: a capital gain on assets that have gone up in value, recapture of capital cost allowance (CCA) on depreciated equipment, and business income on inventory. Revenu Québec names the way to avoid them: a [rollover](#).

If you are still deciding whether to incorporate at all, start with our [worksheet on when a Quebec freelancer should incorporate](#); for the incorporation fees themselves, see [what it costs to incorporate in Quebec in 2026](#).

The values you choose in a section 85 transfer have consequences for years.

The section 85 rollover in plain language

Subsection 85(1) of the federal *Income Tax Act* lets you and the corporation agree on the price at which each asset is transferred for tax purposes, instead of using fair market value. Under [paragraph 85\(1\)\(a\)](#), the amount the two of you agree on in the election becomes your proceeds of disposition and the corporation's cost of the property.

If you pick an agreed amount equal to your own tax cost of the asset, you report no gain and no recapture now. The tax is not cancelled: it is deferred into the shares you receive and into the corporation's (lower) cost of the assets. When the shares or assets are sold later, the deferred gain shows up then.

Three ideas carry the whole mechanism:

- **Eligible property.** Only certain property qualifies. Under [subsection 85\(1.1\)](#), eligible property includes capital property (real property qualifies unless it is owned by a non-resident, with a separate rule for non-residents' real property used in a business in Canada), Canadian and foreign resource property, and inventory other than real property. Real estate held as inventory, such as lots a developer holds for sale, is not eligible.
- **Shares as part of the price.** You must [receive consideration that includes at least one share](#) of the corporation. You can also take "boot" (cash, a promissory note, the corporation assuming a debt), but boot limits how low the agreed amount can go.
- **A joint election.** You and the corporation file the election together with the Canada Revenue Agency (CRA) on [form T2057](#), and Quebec requires its own companion form.

Conditions for the rollover

Revenu Québec summarizes the federal conditions in three points. The individual must:

1. [dispose of eligible property to a taxable Canadian corporation](#);
2. receive consideration that includes a share of the corporation's capital stock;
3. make the joint election with the corporation to the CRA.

In practice this means the corporation must exist before the transfer (you incorporate first, then transfer), and you need the identifiers the forms ask for. The T2057 says that [to file the election you must have a valid CRA account number](#), and the form asks for the corporation's business number (BN).

A partnership that incorporates follows the same logic with different forms: Revenu Québec points partnerships to [form TP-529](#) instead of TP-518. The rest of this article assumes a single owner.

The agreed amount: what you can and cannot choose

The agreed amount is not free. Section 85 sets floors and ceilings, and the T2057 schedule shows them as "elected amount limits" for each asset category.

Rule (s. 85(1))	What it says	Practical effect
Para. (b)	If the agreed amount is less than the fair market value of the boot (non-share consideration), it is deemed equal to the boot	Taking cash or a note above your tax cost triggers tax on the excess
Para. (c)	If the agreed amount exceeds the property's fair market value, it is deemed equal to fair market value	You cannot elect above market value
Para. (c.1)	For inventory and non-depreciable capital property, an agreed amount below the lesser of fair market value and cost amount is deemed to be that lesser amount	Floor for non-depreciable assets
Para. (e)	For depreciable property, the floor is the least of the class's undepreciated capital cost (UCC), the property's cost and its fair market value	Electing at UCC avoids recapture

Two details from the form itself matter. The T2057 schedule says the **agreed amount "cannot be 0"**, which matters for self-generated goodwill with no tax cost. And for depreciable property, an endnote warns that **part of any amount you report may be a capital gain and part may be income** (recapture).

The lowest amount is not always the best one: an owner with losses to use may elect higher on purpose, up to fair market value.

Illustrative example

The numbers below are invented to show the mechanics; they are not a tax calculation.

Mélanie runs a graphic design business as a sole proprietor in Montreal. In 2026 she incorporates and transfers the business to her new company. Her accountant values the assets as follows:

Asset	Tax cost	Fair market value
Computers and furniture (one CCA class)	Cost \$20,000, UCC \$8,000	\$12,000
Client list and goodwill (self-generated)	Nil	\$60,000
Supplies inventory	\$3,000	\$3,000
Total		\$75,000

Without an election, the transfer happens at \$75,000. The equipment sold at \$12,000 against a UCC of \$8,000 produces \$4,000 of recapture, which is income. The goodwill sold at \$60,000 against no cost produces a taxable amount on the whole \$60,000. All of it lands on her personal return for 2026.

With a section 85 election at the floor amounts, she elects \$8,000 on the equipment (the UCC), a nominal non-zero amount on the goodwill, and \$3,000 on the inventory, and receives shares worth \$75,000. Nothing is taxed now. The corporation inherits low tax values, and her shares have a low cost, so the deferred amounts surface when she or the company eventually sells.

With boot: if she also wants the company to owe her \$10,000 (a promissory note) for the equipment, paragraph 85(1)(b) means the agreed amount on the equipment cannot be below \$10,000. Electing \$10,000 against a UCC of \$8,000 produces \$2,000 of recapture now. Boot is not forbidden; it simply has a price above your tax cost.

Federal form T2057 and the Quebec form TP-518

T2057 (CRA)

- **Who files**: the transferor (you) and the corporation, jointly. The form is the T2057 Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation.
- **How**: electronically through the CRA's special elections service, or by mail to the transferor's tax centre, separately from any other return.
- **When**: on or before the earliest date on which any party to the election has to file an income tax return for the tax year in which the transaction occurred.

- **What:** Schedule A lists each property, its fair market value, the agreed amount and the consideration received. The form says supporting material (adjusted cost base calculations, valuation method, the order in which depreciable property is disposed of) **does not need to be filed but must be kept** in case the CRA asks.

TP-518 (Revenu Québec)

After a federal rollover, Revenu Québec requires form TP-518, *Transfert de biens par un contribuable à une société canadienne imposable*. The **current version is 2025-12** and Revenu Québec accepts an electronic signature on it.

Points from the form's own instructions:

- It must be sent **separately from any income tax return**, with a copy of the T2057 and any other document sent to the CRA.
- By default the Quebec agreed amount matches the federal one. The parties can, **under conditions listed in the form**, agree on a different Quebec amount.
- **Deadline:** the form must be filed by the later of the **earliest filing due date of the returns concerned and the last day of the second month after the later of the two parties' tax year-ends**.

Timing: which date is "the earliest"?

The T2057 deadline is driven by whichever party files first. For a self-employed individual, the CRA's **filing due date is June 15** of the following year, while any balance owing is due April 30. A corporation must file its T2 **within six months of the end of its tax year**.

Illustrative example. The transfer happens on March 1, 2026. Mélanie's 2026 personal return is due June 15, 2027. The company chooses a first year-end of February 28, 2027, so its T2 is due August 31, 2027. The earliest of the two is June 15, 2027, which is the T2057 due date. A short first corporate year can pull the deadline earlier, so check both dates when you choose the year-end.

Late filing costs money

Both governments accept late elections with a penalty:

	Federal (T2057)	Quebec (TP-518)
Late filing allowed	Within three years after the due date if an estimate of the penalty is paid with the form; after that, at the minister's discretion with a written explanation	Penalty applies if the form is sent after the deadline
Penalty formula	Lesser of (FMV minus agreed amounts) x 1/4 x 1% x months late, and \$100 x months late; the \$100 calculation cannot exceed \$8,000	Lesser of (FMV minus agreed amount) x 0.25% x months late, \$100 x months late, or \$5,000

Using the illustrative figures (FMV \$75,000, agreed amounts about \$11,000), a federal election filed four months late would cost the lesser of $\$64,000 \times 0.25\% \times 4 = \$640$ and $\$100 \times 4 = \$400$, so \$400 (formula as published on the 2025 edition of the form, in use as of October 2026). The CRA also notes that **daily**

compound interest applies to unpaid penalties.

Receivables: a separate election

Accounts receivable can be rolled under section 85, but owners often use a different federal election for them. [Form T2022](#) lets the vendor and purchaser of a business elect under subsection 22(1) when all or substantially all the property used in the business is sold, the sale includes all the business's debts receivable, and the purchaser proposes to continue the business. Under the election, the vendor deducts and the purchaser includes the difference between the face value of the receivables and the price paid, so bad debts are deducted by whoever ends up bearing them; with a section 85 rollover the corporation never included those receivables in its income, so it cannot deduct uncollectible ones as bad debts. The [T2022 form page](#) is current as of October 2026.

Quebec has no separate form for it. Section 184 of the Taxation Act applies the same treatment for Quebec purposes when the parties make a valid federal subsection 22(1) election, and makes it a "binding election" under Chapter V.2. The parties must notify Revenu Québec in writing and attach a copy of everything sent to the CRA (the T2022) by the later of the 30th day after the election and the filing due date of the return for the year (Taxation Act, s. 184; s. 21.4.6). Missing that notice costs \$25 per day, up to \$2,500 (s. 21.4.7).

GST/QST on the transfer: form FP-2044 (or GST44)

The income tax election says nothing about sales taxes. Transferring equipment, inventory and goodwill to a corporation is a taxable supply unless you make a separate joint election that [GST/HST and QST do not apply](#). Revenu Québec's form, covering both GST/HST and QST, is [FP-2044](#) (FP-2044-V in English, version 2023-04); the CRA's equivalent for businesses it administers is [GST44](#).

Conditions, from Revenu Québec's [sale of a business page](#):

- you are selling a business, or part of one, that you established or operated;
- you and the buyer are both registrants, or you are not registered and the buyer is, or neither of you is registered;
- the buyer acquires all or substantially all (90% or more) of the property reasonably needed to operate the business.

Three traps:

1. **Register the new corporation first.** The FP-2044 instructions say the election cannot be made if the seller is a registrant and the buyer is not. If your sole proprietorship charges GST/QST, the company must be registered before the transfer. Our [GST/QST registration guide](#) covers the steps.
2. **A few assets are not a business.** Revenu Québec states that selling one or more assets is generally not a sale of a business, even when the assets are valuable and essential. If you keep key assets personally and lease them to the company, the 90% test may fail.
3. **Some supplies stay taxable.** Even with the election, tax still applies to services the seller renders to the buyer, property supplied by lease or licence, and real property sold to a non-registrant.

Filing: a registrant buyer must send FP-2044 no later than the due date of its GST/HST and QST return for the reporting period in which the acquisition was made. If both parties are non-registrants and no road vehicle is transferred, the form is not sent; the buyer keeps it in case of audit.

Employees: succession of employers

If you have staff, they move to the corporation. Revenu Québec treats this as a succession of employers. When there is no interruption in the employees' work, the successor employer takes into account the Quebec Pension Plan (QPP) and Québec Parental Insurance Plan (QPIP) amounts the previous employer already withheld since the start of the year, so annual maximums are not deducted twice. Each employer still pays its own Health Services Fund contribution, labour standards contribution and, where applicable, workforce skills contribution for its part of the year.

The corporation needs its own payroll accounts. Our first-employee guide lists the registrations a new Quebec employer has to make; ask the CNESST how your workplace safety file should move from the proprietorship to the company.

Numbers, contracts, bank account and insurance

- **CRA business number.** The CRA states that a sole proprietorship is legally tied to one individual; if you sell or stop operating it you must close all its CRA program accounts, and a new owner cannot keep using the old BN. The corporation gets its own BN.
- **Registraire des entreprises.** A person who ceases to operate a business, sells it or wishes to continue under another legal form must file a *déclaration de radiation* for the sole proprietorship. It is filed online and is free unless you ask for priority processing; the annual registration fee is still owed for the year in which you file.
- **Contracts and leases.** Client contracts, supplier accounts and any office lease are in your personal name. Each needs to be assigned to the corporation or re-signed, and many contracts require the other party's consent to an assignment.
- **Bank, permits and insurance.** Open a corporate bank account, and ask each permit issuer and your insurer to reissue in the company's name; permits issued to you personally may not transfer automatically.

Checklist

Before the transfer date

- ☐ Incorporate the company and obtain its NEQ and BN.
- ☐ Register the company for GST/QST if the proprietorship is registered.
- ☐ Inventory every asset with its tax cost (adjusted cost base, UCC by class, inventory cost).
- ☐ Get fair market values, with the valuation method documented.
- ☐ Decide share structure and any boot (cash, note, assumed debts).
- ☐ Sign a written transfer agreement dated on the transfer date.

After the transfer

- ☐ File T2057 by the earliest return due date of the parties.
- ☐ File TP-518 with a copy of the T2057, separately from any return.
- ☐ File FP-2044 (or GST44) with the corporation's first sales tax return for the period.
- ☐ Decide how receivables are transferred (section 85 or T2022); if T2022, send Revenu Québec a written notice with a copy of it.
- ☐ Move payroll, notify employees, open the company's employer accounts.
- ☐ Assign or re-sign contracts, lease, licences, insurance and bank accounts.
- ☐ File the *déclaration de radiation* and close the proprietorship's program accounts.

Once the company exists, it also needs a registered address on file with the Registraire; if you want that address to be a staffed office rather than your home, 2727 Coworking provides business addresses and private offices on the Lachine Canal in Griffintown.

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- Form TP-518, version 2025-12, PDF (Revenu Québec, in French)
- Vente d'une entreprise (Revenu Québec, in French)
- FP-2044 Choix visant l'acquisition d'une entreprise ou d'une partie d'entreprise (Revenu Québec, in French)
- Form FP-2044, version 2023-04, PDF (Revenu Québec, in French)
- GST44 GST/HST Election Concerning the Acquisition of a Business or Part of a Business (Canada Revenue Agency)
- T2022 Election in Respect of the Sale of Debts Receivable (Canada Revenue Agency)
- Form T2022, PDF (Canada Revenue Agency)
- Taxation Act (Quebec), ss. 21.4.6, 21.4.7 and 184 (LégisQuébec)
- Employeur qui succède à un autre employeur (Revenu Québec, in French)
- Change of owners, partners, or directors (Canada Revenue Agency)
- Apply for the cancellation of an enterprise's registration (Québec.ca)
- Due dates and payment dates, personal income tax (Canada Revenue Agency)
- When to file your corporation income tax return (Canada Revenue Agency)

Source links

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Website: <https://2727coworking.com>

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