

# Corporation, partnership, or sole proprietorship?

[Business](#), [Company](#)



Corporation, partnership, or sole proprietorship? Now that you have decided to start your own business, you will have to determine what business structure or form of organization suits your needs. The structure of your business will depend on whether you want to run your business yourself or with a partner or associates. There are four types of business structures: sole proprietorships, partnerships, corporations and cooperatives. On this page:

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Cooperatives 1. Sole proprietorship^Top

With this type of business organization, you would be fully responsible for all debts and obligations related to your business and all profits would be yours alone to keep. As a sole owner of the business, a creditor can make a claim against your personal or business assets to pay off any debt. Advantages: \*

- Easy and inexpensive to form a sole proprietorship (you will only need to register your business name provincially, except in Newfoundland and Labrador)
- \* Relatively low cost to start your business
- \* Lowest amount of regulatory burden
- \* Direct control of decision making
- Minimal working capital required to start-up
- \* Tax advantages if your business is not doing well, for example, deducting your losses from your personal income, lower tax bracket when profits are low, and so on
- \* All profits will go to you directly

Disadvantages: \*

- Unlimited liability (if you have business debts, personal assets would be used to pay off the debt)
- \* Income would be taxable at your personal rate and, if your business is profitable, this may put you in a higher tax bracket
- \* Lack of continuity for your business, if you need to be absent
- \* Difficulty raising capital on your own

2.

Partnerships^Top A partnership would be a good business structure if you want to carry on a business with a partner and you do not wish to incorporate your business. With a partnership, you would combine your financial resources with your partner into the business. You can establish the terms of your business with your partner and protect yourself in case of a disagreement or dissolution by drawing up a specific business agreement. As a partner, you would share in the profits of your business according to the terms of your agreement. You may also be interested in a limited liability partnership in the business.

This means that you would not take part in the control or management of the business, but would be liable for debts to a specified extent only. When establishing a partnership, you should have a partnership agreement drawn up with the assistance of a lawyer, to ensure that:

- \* You are protecting your interests
- \* That you have clearly established the terms of the partnership with regards to issues like profit sharing, dissolving the partnership, and more
- \* That you meet the legal requirements for a limited partnership (if applicable)

Advantages: Easy to start-up a partnership

- \* Start-up costs would be shared equally with you and your partner
- \* Equal share in the management, profits and assets
- \* Tax advantage, if income from the partnership is low or loses money (you and your partner include your share of the partnership in your individual tax return)

Disadvantages:

- \* Similar to sole proprietorship, as there is no legal difference between you and your business
- \* Unlimited liability (if you have business debts, personal assets would be used to pay off the debt)
- \* Hard to find a suitable partner

Possible development of conflict between you and your partner

- \* You are held

financially responsible for business decisions made by your partner (for example, contracts that are broken) 3. Corporations^Top Another business structure is to incorporate your business. This can be done at the federal or provincial level. When you incorporate your business, it is considered to be a legal entity that is separate from the owners and shareholders. As a shareholder of a corporation, you will not be personally liable for the debts, obligations or acts of the corporation.

When making such decisions, it is always wise to seek legal advice before incorporating. Advantages: \* Limited liability \* Ownership is transferable \* Continuous existence \* Separate legal entity \* Easier to raise capital \* Possible tax advantage as taxes may be lower for an incorporated business Disadvantages: \* A corporation is closely regulated \* More expensive to incorporate than a partnership or sole proprietorship \* Extensive corporate records required, including shareholder and director meetings, and documentation filed annually with the government \* Possible conflict between shareholders and directors Possible problem with residency of directors More information: To learn more about incorporation, please consult the following information: \* Guide to Federal Incorporation Step by step guidelines to help you incorporate your business and set up an appropriate structure. Provincial or territorial incorporation Alberta \* Corporate Registry To conduct business in Alberta, register your cooperative, corporation, extra-provincial company, non-profit company, society, trade name and/or partnership. Manitoba \* Companies Office - Business name registration and provincial incorporation (Manitoba) How do you register your business, and what do you need to know about provincial incorporation? New

Brunswick \* Incorporation / Registration of a business Find out about the rules, procedures and fees for registering a provincial corporation in New Brunswick. \* Incorporation of non-profit companies (New Brunswick) Find out about the rules, procedures and fees for incorporating a not-for-profit company in New Brunswick. Newfoundland and Labrador \* Registry of Companies (Newfoundland and Labrador)

In Newfoundland and Labrador, you must register with the Registry of Companies if you decide to incorporate provincially. Northwest Territories \* Corporate Registry — Co-operative Associations Are you looking to establish and incorporate a co-operative within the Northwest Territories? Find out the rules pertaining to starting your venture and what is needed to remain compliant with the law. \* Corporate Registry — Business Corporations Are you looking to incorporate your business? Find out how you can register to do business in the Northwest Territories. Corporate Registry — Societies Are you interested in starting a society or non-profit organization? Find out the benefits of incorporation and what you are required to do at the territorial and federal levels. Nova Scotia \* Business incorporation and registration (Nova Scotia) Incorporate your business provincially through the Nova Scotia Registry of Joint Stock Companies. Nunavut \* Business corporations — Territorial corporations - (Nunavut) Find out how to incorporate as a territorial business in Nunavut. Ontario \* Ontario Business Incorporation

Incorporate your Ontario business online, in person, or by mail. \* Professional corporations Find out how you can incorporate your practice in Ontario for specific regulated professions. \* Correcting errors on your Ontario corporation documents You can ask to have errors corrected in documents

you have filed for your Ontario corporation. \* Making changes to your corporate information Find out how to make changes to the information about your Ontario corporation, including its name, address and number of directors. \* How to merge Ontario corporations

Do you have two or more active Ontario business corporations that you would like to merge? \* Involuntary dissolution of Ontario business corporations Your corporation can be dissolved or cancelled if it has failed to comply with specific rules and regulations. \* Reviving your corporation You may be able to revive your Ontario corporation if it was involuntarily dissolved within the past 20 years. \* Incorporation (Not-for-Profit Corporations) You can incorporate your not-for-profit organization provincially with the Government of Ontario. Making Changes to Your Ontario Not-for-Profit Corporation Find out how to make changes to the information about your Ontario not-for-profit corporation. \* Reviving your Ontario not-for-profit corporation You can restart your previously cancelled Ontario not-for-profit corporation by filing an Application for Revival. Quebec \* Incorporate a business (Quebec) Learn the steps to incorporate your business in Quebec, especially the forms to be filled out and the application process. Saskatchewan \* Incorporating Your Business in Saskatchewan

Find out how to incorporate your business in Saskatchewan, including the fees, the forms required and the turn-around time. \* Forming a Non-Profit Corporation in Saskatchewan Find out how to register your non-profit corporation in Saskatchewan, including the fees, the forms required and the turn-around time. 4. Cooperatives^Top The last business structure you could create is a cooperative. With a cooperative, you would have a business that

would be owned by an association of members. This is the least common form of business, but can be appropriate in situations where a group of persons or businesses decide to pool their resources to provide access to common needs, such as the delivery of products or services, the sale of products or services, employment, and more. Advantages: \* Owned and controlled by members \* Democratic control (one member, one vote) \* Limited liability \* Profit distribution Disadvantages: \* Possible conflict between members \* Longer decision-making process \* Participation of members needed for success \* Extensive record keeping \* Less incentive to invest additional capital