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Company Growth and Business Structures

LEARNING OBJECTIVES

- Identify the most commonly used business structures
- Explain the importance of liability being matched to the business endeavour
- Discuss how to set up different business structures
- Recognize the tax implications of various business structures

Case Study: Is Cone Crazy a Sole Proprietorship?



Willa knows that if a lawsuit exceeds her insurance policy, her private assets (car, personal savings account, furniture and more) could be used to cover the shortfall.

It's time to learn about sole proprietorships vs. other forms of business structures.

Business Structures: Options for Entrepreneurs

Sole proprietorship

- An informal business structure
- Easy to start
- Taxes are filed on personal tax return (T1)
- No liability protection

 Canada Revenue Agency Agence du revenu du Canada

Protected B when completed

Statement of Business or Professional Activities

• Use this form to calculate your self-employment business and professional income.
• For each business or profession, fill in a **separate** Form T2125.
• Fill in this form and send it with your income tax and benefit return.
• For more information on how to fill in this form, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Part 1 – Identification

Your name			Your social insurance number		
Business name			Business number		
Business address			City	Prov./Terr.	Postal code
Fiscal period	From	Date (YYYYMMDD)	to	Date (YYYYMMDD)	Was this your last year of business? ☐ Yes ☐ No
Main product or service			Industry code (see Chapter 2 in Guide T4002)		
Accounting method (commission only)	☐ Cash	☐ Accrual	Tax shelter identification number	Partnership business number	Your percentage of the partnership %
Name and address of the person or firm preparing this form					

Part 2 – Internet business activities

If your web pages or websites generate business or professional income, fill in this part of the form.

From how many Internet web pages and websites (including third-party platform websites) does your business earn income?
Enter "0" if none.

Provide up to five main web page or website addresses:

http://

http://

http://

http://

http://

Percentage of your gross income generated from the web pages and websites
(if no gross income was generated from the Internet, enter "0") %

Business Structures: Options for Entrepreneurs (cont.)

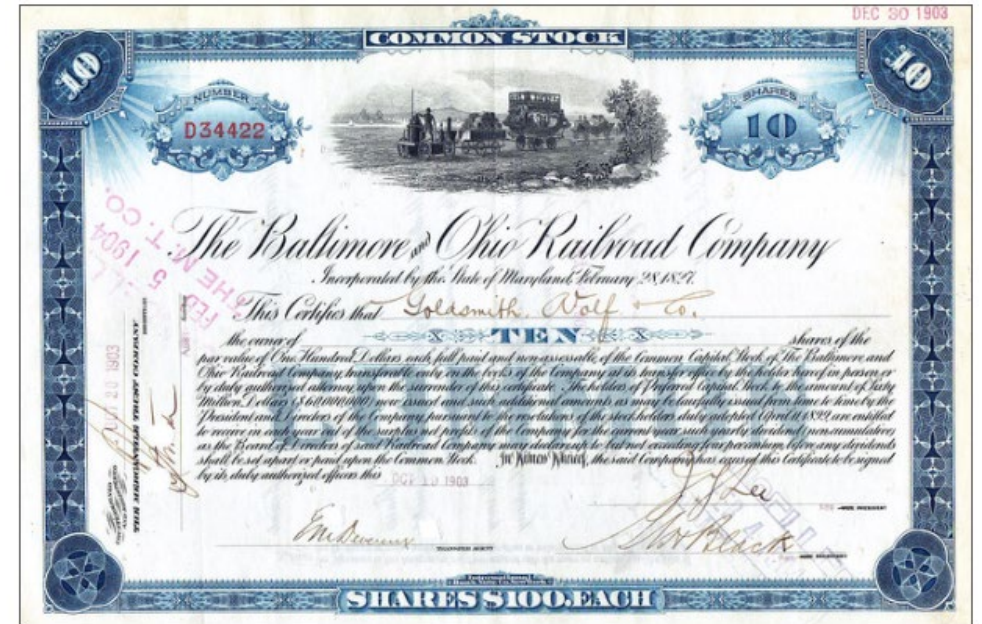
Partnership

- Sometimes considered an informal business structure
- Startup is similar to that for sole proprietorship
- Profits filed on a personal tax return (T1) for individual partners and a corporate tax return (T2) if the partner is a corporation (a T5013 may be required)
- Profits and liability are split per partnership terms
- Three kinds of partnerships: GP, LP and LLP

Business Structures: Options for Entrepreneurs (cont.)

Corporation

- Formal business structure
- Limits liability to company assets
- Taxed on corporate earnings and dividends paid on those earnings
- Can raise capital via sale of pieces of ownership called *stock*
- Run by shareholders who elect board members



Managing Liability Through the Business Structure

- Liabilities are related to:
 - Suppliers
 - Credit payments
 - Wages
 - Taxes
 - Asset management
- How to deal with liability depends on the business's structure.

Types of liability

Current Liabilities

- Must be paid within the year

Noncurrent Liabilities

- Can be paid after one year or one operating cycle

Contingent Liabilities

- Depend on the outcome of an event

Business Assets

- Company holdings required for normal operations

Business Structures Based on Business Needs

BUSINESS STRUCTURES BASED ON BUSINESS NEEDS			
	Ownership	Liability	Taxes
Sole Proprietorship	1 owner	Personal and business assets	On the owner's personal tax return
Partnership	2+ owners	Personal and business assets (unless a limited partnership)	On each owner's personal tax return
Corporation	1+ stockholders	Business assets only	On the corporation's tax return
Cooperative	Members	Generally business assets only	Amounts distributed to members are classified as business expenses and deducted from income prior to the calculation of taxes
Non-profit	None, as the business belongs to the organization itself and is governed by a Board of Directors or trustees	Members generally not liable for the organization's debts but may be liable for mismanagement, unpaid government remittances or negligence	Generally do not pay income tax if they meet certain conditions
Charity	None, as the business belongs to the organization itself and is governed by a Board of Directors or trustees	Generally not liable for the organization's debts but may be liable for mismanagement, unpaid government remittances or negligence	Tax-exempt but must file a T3010 annual return

Setting Up a Sole Proprietorship, Partnership or Corporation

Sole proprietorship

- Select a name and register it.
- Determine if you will need a CRA business number (BN) for employee payroll tax filings, GST/HST and a provincial sales-tax account.
- Do you need municipal licences or permits?
- Are there other licensing requirements your business may need?

Setting Up a Sole Proprietorship, Partnership or Corporation (cont.)

Partnership

- Decide on the type of partnership (GP, LP or LLP).
- Select a name and register it.
- Have a partnership agreement in place.
- Determine if you will need a CRA business number (BN) for employee payroll tax filings, GST/HST and a provincial sales-tax account.
- Do you need municipal licences or permits?
- Are there other licensing requirements your business may need?

Setting Up a Sole Proprietorship, Partnership or Corporation (cont.)

Corporation

- Select a name.
- Decide whether to register federally or in a specific province/territory.
- Prepare articles of incorporation.
- A CRA business number (BN) may be set up for corporate taxes when you register your business, but determine if you will need a BN for employee payroll tax filings, GST/HST and a provincial sales-tax account.
- Do you need municipal licences or permits or to meet other licensing requirements?
- Prepare corporate bylaws, a minute book and resolutions.
- File an annual return each year.

For questions or more information to complete this form, please refer to the instruction page.

Fields marked with an asterisk (*) are mandatory.

1. Contact Information

Please provide the following information for the person we should contact regarding this filing. This person will receive official documents or notices and correspondence related to this filing. By proceeding with this filing, you are confirming that you have been duly authorized to do so.

First Name *	Middle Name	Last Name *
Telephone Country Code	Telephone Number *	Extension
Email Address *		

2. Corporation Name

Every corporation must have a name. You can either propose a name for the corporation or request a number name. If you propose a name for the corporation, you need a Nuans report for the proposed name.

Will this corporation have a number name? * ☐ Yes ☐ No

3. General Details

Requested Date for Incorporation	Primary Activity Code *
Official Email Address *	

An official email address is required for administrative purposes and must be kept current. All official documents or notices and correspondence to the corporation will be sent to this email address.

Business Taxes: File on Personal or Business Return?

Tax Implications

- CPP:
 - As a proprietorship or partnership, you will pay 100% of the CPP yourself.
 - As a corporation, the business pays 50% and the employee pays 50%.
- Tax reporting:
 - As a proprietorship or partnership, profits are reported on the owners' tax returns.
 - As a corporation, profits are reported on a Corporate Income Tax Return (T2).
- Corporate payments to shareholders:
 - As a shareholder, profits may be paid to you in the form of dividends (after tax profits) reported on a T5.
 - As an employee of your corporation, you may also receive a salary or wages that are reported on a T4.

CHAPTER SUMMARY

- The most commonly used business structures are proprietorships, partnerships and corporations.
- Considering risk and liability is critical when choosing a business structure.
- Considering tax compliance is critical when choosing a business structure.
- The processes for setting up proprietorships and partnerships are somewhat similar, but setting up a corporation has different requirements.