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LET'S TALK ABOUT

# STARTING A BUSINESS

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# CONTENTS

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Introduction	03
Chapter I Choosing a Business Structure	04
Chapter II Registering Your Business	06
Chapter III Understanding GST and When You Need to Charge It	08
Chapter IV Understanding PST and When You Need to Charge It	10
Chapter V Setting Up Operations	12
Chapter VI Hiring Employees and Understanding Labor Laws	14
Conclusion	15

# INTRODUCTION

Starting a business in Canada can be really exciting and rewarding. Understanding the key steps involved in setting up a business is crucial for success. This guide will walk you through the essential processes and decisions you need to make to establish your business in Canada.

In this guide, you'll learn about the different types of business structures available in Canada, how to register your business name and set up your CRA Accounts, and the key steps to set up your business operations and hire employees.

So, let's dive into the first step: choosing the right business structure for your new venture.

# CHAPTER I

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## CHOOSING A BUSINESS STRUCTURE

The type of structure you choose for your business can significantly affect how you report your income. It will affect your taxes and personal liability. It also determines the kind of tax returns you file each year, and it influences many other aspects of your business. Here are the main types of business structures in Canada:

### **Sole Proprietor**

A sole proprietorship is basically just a business owned by one person. It's the simplest kind of business structure out there.

Running a sole proprietorship means you're in charge of everything. You make the decisions, pocket the profits, and deal with any losses. Just keep in mind that you're personally responsible for any risks, even when it comes to your own belongings.

The owner is personally liable for all business debts and obligations.

When it comes to taxes, you'll be paying personal income tax based on your business's net income. If you want, you can register a business name or stick with your own.

If you go with a business name, you'll need a separate bank account for any cheques made out to your business.

A sole proprietor reports their income (or loss) on a T1 income tax and benefit return.

### **Partnership**

A partnership is basically when two or more individuals, corporations, trusts, or partnerships team up to run a business together.

Each partner chips in with money, work, property, or skills and in return, they get a cut of the profits or losses. Partners share profits, losses, and responsibilities. The profits (or losses) are usually split based on the partnership agreement.

It's pretty easy to start a partnership - you could even do it with just a verbal agreement. But most partnerships have a written agreement that covers things like rules for partners joining or leaving, how the income is divided, and other important stuff.

The partnership is responsible for the actions of any of its members, as long as they're part of the usual business operations.

A partnership doesn't have to pay income tax on its operating results or file an annual income tax return. Instead, each partner includes their share of the partnership income or loss on their personal, corporate, or trust income tax return.

### Corporation

Corporations are a separate legal entity from its owners. Owners (shareholders) have limited liability and they have a more complex structure with stricter regulatory requirements.

When it comes to taxes, there are different types of corporations to consider. You'll need to choose the one that accurately describes your corporation type at the end of the tax year.

All resident corporations (except tax-exempt Crown corporations, Hutterite colonies and registered charities) have to file a corporation income tax (T2) return every tax year even if there is no tax payable.

### Legal Implications and Benefits

- **Sole Proprietorship:** Easy and inexpensive to set up, full control over business decisions, but personal liability for debts.
- **Partnership:** Shared responsibility and resources but possible conflicts between partners and joint liability.
- **Corporation:** Limited liability, potential tax benefits, but more regulations, higher costs, and complex record-keeping.

### How to Decide the Best Structure

To decide the best structure for your business, consider factors like the level of control you want, the complexity of your business, and your willingness to assume personal liability. Consulting with a business advisor or legal expert can also help you make an informed decision.

# CHAPTER II

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## REGISTERING YOUR BUSINESS

Once you've figured out the right business structure for you, the next step is to get your business registered. This means picking and registering your business name, getting the required licenses and permits, and registering your necessary CRA accounts.

### Registering Your Business Name

#### Choosing a Name

- Ensure your business name is unique and not already in use.
- Conduct a name search using resources like the NUANS (Newly Upgraded Automated Name Search) database.

#### Registering the Name

- For sole proprietorships and partnerships, register the business name with the provincial or territorial government.
- For corporations, register the name federally or provincially, depending on your scope of operation.

### Applying for Necessary Licenses and Permits

#### Determine Requirements

- Identify the specific licenses and permits required for your business type and location.
- These can vary based on industry, municipal regulations, and the nature of your business activities.

#### Application Process

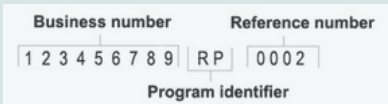
- Submit applications to the relevant federal, provincial, and municipal authorities.
- Ensure compliance with health, safety, and environmental regulations.

### Registering Your Business with the CRA

Not every business needs a business number (BN) and CRA program accounts. You'll need a BN if you incorporate or require a CRA program account. Sometimes you might need a BN to engage with other federal, provincial, and municipal governments in Canada. You will get a BN if you:

1. register using Business Registration Online (BRO)
2. register for any CRA program accounts (like GST/HST, or Payroll deductions)
3. incorporate your business federally
4. register or incorporate your business with certain provinces:

CRA program account numbers:



A CRA program account number has three parts:

1. the nine-digit BN to identify the business
2. a two-letter program identifier code to identify the program account
3. a four-digit reference number to identify an individual program account (since businesses can have more than one of the same kind)

**EXAMPLE:**

You start a sole proprietorship. You need a GST/HST program account if you need to charge GST/HST. If you have one or more employees, you will also need a payroll deductions program account.

Once registered, your business will receive a:

- BN:123456789
- GST/HST program account number: 123456789 RT 0001

- Payroll deductions program account number: 123456789 RP 0001

**Note:**

If the business ends up incorporating, you'll have to sign up for a new BN. This will set up an RC program account for corporation income tax, and you'll need to add any other CRA program accounts you need (RP, RT). After that, you can close the sole proprietor BN accounts if you don't need them for any other businesses you run.

**When You Need CRA Program Accounts**

It's important to keep in mind that each CRA program account has its own set of rules and requirements for registration.

When you register for a CRA program account, you will receive a Business Number (BN) if you don't already have one. If you already have a BN, the program account will be linked to it. Your business will always have just one BN.

The most common CRA program accounts a business may need are:

- GST/HST (RT), if your business collects GST/HST
- Payroll deductions (RP), if your business pays employees
- Corporation income tax (RC), if your business is incorporated

# CHAPTER III

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## UNDERSTANDING GST AND WHEN YOU NEED TO CHARGE IT

GST (Goods and Services Tax) is a tax levied on most goods and services sold in Canada. HST (Harmonized Sales Tax) is a combination of GST and provincial sales tax in certain provinces. You can't register for a GST/HST account if you only provide exempt supplies. However, you do need to register for a GST/HST account if you're not a small supplier and you make taxable sales, leases, or other supplies in Canada (unless your only taxable supplies are of real property sold other than in the course of a business).

Businesses with annual revenue exceeding \$30,000 must register for a GST/HST account with the Canada Revenue Agency (CRA). If you are under \$30,000 in revenue you may qualify as a small supplier.

### **British Columbia (BC)**

- GST Rate: 5%
- Applies to: Goods and services

### **Small Supplier Limit Calculation for Most Businesses**

- If you haven't exceeded the \$30,000 threshold over four consecutive calendar quarters. You're considered a small supplier and you don't have to register for GST/HST.
- If you go over the \$30,000 threshold in a single calendar quarter, you're no longer considered a small supplier and will need to charge GST/HST on the supplies that caused you to exceed \$30,000 within that quarter.
- If you've gone over \$30,000 in the last four (or fewer) consecutive calendar quarters (not in a single quarter), then you won't be considered a small supplier anymore by the end of the month following that quarter. You'll need to register for the GST/HST, and your registration should be effective no later than the beginning of the following month. Once you're registered, you'll need to start charging GST/HST on your taxable supplies.



## When Do You Need to Charge GST?

### Business Location

- If your business is located in a Canada and you are not considered a small seller, you need to register for a GST account with the CRA and charge GST on applicable sales.

### Out-of-Province Sales

- If you sell goods or services to customers in Canada, you need to charge the GST rate of the province of your customers location. If you were selling to a customer in Ontario you would charge 13% HST. But if you were selling to a customer in BC you would charge 5% GST.

### Online Sales

- If you are selling to customers in the USA or internationally, you do not need to charge any GST.

## Collecting and Remitting GST/HST

### Collecting GST:

- When you sell taxable goods or services, you must charge GST/HST at the applicable rate (5% for GST, or the combined rate for HST in participating provinces).

### Input Tax Credits (ITCs):

As a GST registered business, you can claim input tax credits for the GST/HST paid on business-related purchases and expenses.

### Calculating Net Tax:

- **GST Collected:** Total GST you collect from your customers.
- **GST Paid (ITCs):** Total GST you paid on your business purchases and expenses.
- **Net Tax Calculation:** Subtract the total GST paid (ITCs) from the total GST collected.
- **Remitting the Net Tax:** If the GST collected exceeds the GST paid, you remit the difference to the CRA. If the GST paid exceeds the GST/HST collected, you can claim a refund or credit.

### Filing GST/HST Returns:

- File periodic GST returns (monthly, quarterly, or annually, depending on your revenue) with the CRA.
- Report the total GST collected, the ITCs claimed, and remit the net tax owed.

# CHAPTER IV

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## UNDERSTANDING PST AND WHEN YOU NEED TO CHARGE IT

In addition to GST/HST, some provinces in Canada levy a Provincial Sales Tax (PST). Understanding PST and your obligations to charge it is crucial for compliance and accurate pricing.

### What is PST?

Provincial Sales Tax (PST) is a tax imposed by certain provincial governments on the sale of goods and services. It is separate from the federal GST/HST and varies in rate and application from one province to another.

### British Columbia (BC)

- PST Rate: 7%
- Applies to: Tangible goods, some services, software, and telecommunication services.

### PST Small Seller Exemption

Some provinces offer a PST Small Seller exemption, allowing certain small businesses to avoid registering for and collecting PST.

### British Columbia (BC)

- **Criteria:** You qualify as a small seller if your gross revenue from all retail sales in the past 12 months and the expected revenue in the next 12 months are both \$10,000 or less.
- **Implications:** Small sellers are not required to register for PST or charge PST on their sales. However, if you exceed the \$10,000 threshold, you must register and begin collecting PST.

### When Do You Need to Charge PST?

#### Business Location

- If your business is located in a province that charges PST, and you are not considered a small seller, you need to register for a PST

#### Out-of-Province Sales

- If you sell goods or services to customers in PST-charging provinces, you may need to charge PST depending on the province's rules. Some provinces require out-

of-province vendors to register and collect PST if they exceed specific sales thresholds. If you sell outside of BC do not charge the 7% PST rate. You would either charge no PST, or if you need to register in another province, you would charge their rate instead.

### **Online Sales**

- For online and e-commerce businesses, PST obligations depend on the customer's location. If you sell to customers in PST-charging provinces, you might need to collect and remit PST based on the provincial regulations.
- If you are selling to customers in the USA or internationally, you do not need to charge any PST.

### **Registration and Compliance**

#### **Registering for PST**

- Apply for a PST account with the Ministry of Finance. The registration process is available online.

#### **Collecting and Remitting PST**

- As a registered business, you are required to charge the appropriate PST rate on all taxable goods and services sold to customers in PST-charging provinces.
- Ensure that your sales invoices clearly indicate the PST amount being charged.

- Depending on your province, you will need to file PST returns on a monthly, quarterly, or annual basis. The frequency of your returns is typically determined by your annual revenue.
- Total PST Collected: Calculate the total amount of PST collected from all taxable sales during the reporting period.
- In BC, if you pay your remittances on time, you get a discount on your PST payable based on the amount of PST collected, up to a limit of \$198.

### **Special Cases and Exemptions**

#### **Exempt Goods and Services**

- Certain goods and services may be exempt from PST, such as basic groceries, prescription medications, and specific agricultural products. Check the provincial regulations for detailed exemption lists.

#### **Resale Certificates**

- If you purchase goods for resale, you can provide a resale certificate to suppliers to avoid paying PST on those purchases. Ensure you have the appropriate documentation and comply with provincial requirements.

# CHAPTER V

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## SETTING UP OPERATIONS

With your business registered and all the necessary licenses and permits in place, now it's time to get your operations up and running. This means setting up your business infrastructure.

### Setting Up Your Business Infrastructure

#### Technology and Equipment

- Figure out what technology and equipment you need for your business.
- Make sure to invest in reliable hardware, software, and internet services.

#### Business Systems and Processes

- Set up systems to manage inventory, sales, accounting/bookkeeping, and finances.
- POS software like Square, Shopify, Lightspeed, etc. are great for recording sales and generating reports to input into your accounting software.
- An accounting program is a great way to keep track of your income and expenses and ensure accurate recording of all business transactions. It can also expedite the process of filing government

remittances and processing payroll.

- Time tracking software comes in handy when managing a team of employees, making pay cheque processing faster.

### Separate Business Bank Accounts

#### Importance of Separation:

- Separating personal and business finances is crucial for clarity and financial health.
- It helps maintain accurate records and simplifies accounting and bookkeeping processes.

#### Benefits:

- **Legal Protection:** For corporations, separating accounts helps maintain the limited liability status by demonstrating that the business is a distinct entity.
- **Financial Management:** Easier to track business income and expenses, manage cash flow, and budget effectively.
- **Tax Compliance:** Simplifies the process of claiming business expenses and preparing financial statements for tax purposes.
- **Audit Security:** During an audit, the CRA would only be looking at your business bank accounts, not your personal income or expenses

**Setting Up:**

- Choose a bank to set up your accounts. You'll need to set up multiple accounts including a chequing account, savings account (maybe even multiple), and a credit card account. The credit card account doesn't have to be a business card; it can be a personal card in your name that you use exclusively for business purposes. You could also consider opening a business credit card, line of credit, or loan if you believe they would be helpful.
- Prepare necessary documents, such as your business registration, identification, and business number.

# CHAPTER VI

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## HIRING EMPLOYEES AND UNDERSTANDING LABOR LAWS

### Employment Standards

- Familiarize yourself with federal and provincial employment standards, including minimum wage, working hours, and overtime.
- Ensure compliance with regulations related to vacation, holidays, and employee benefits.

### Payroll and Taxes

- Register for a payroll account with the Canada Revenue Agency (CRA).
- Deduct and remit employee income tax, Employment Insurance (EI), and Canada Pension Plan (CPP) contributions.
- A Payroll Processing software, specifically one that integrates or is part of your accounting software can be extremely helpful to complete pay cheques efficiently and accurately.

### WorkSafeBC

- **Who Needs to Register:** Any business in British Columbia with workers must register with WorkSafeBC for worker's compensation insurance.

- **How to Register:** Apply online through the WorkSafeBC website or contact their office for assistance. You will need to provide information about your business, including the number of employees and nature of work.
- **Compliance:** Maintain accurate records of employee earnings and report them to WorkSafeBC. Pay the required premiums to ensure your employees are covered in case of work-related injuries or illnesses.
- **Benefits:** WorkSafeBC provides protection for workers through compensation for injuries, rehabilitation services, and return-to-work programs. It also protects employers from lawsuits related to workplace injuries.

# CONCLUSION

Starting a business in Canada involves several critical steps, like choosing the right business structure and setting up your operations. In this guide, you've learned about the different types of business structures available in Canada and how to choose the best one for your needs. You've also discovered how to register your business name, obtain necessary licenses and permits, and ensure compliance. Plus, you've picked up key steps for setting up your business operations, like setting up infrastructure, opening business bank accounts and hiring employees. By following these steps, you can lay a strong foundation for your business in Canada and set yourself up for success.