# Session 1: Business Structure

Is your new business going to be a *Sole Proprietorship*, a *Partnership*, or an *Incorporated Company*? The Structure you choose will affect how you setup and operate your business

1. **Sole Proprietorship**

You are the sole owner, and fully responsible for all debts and obligations related to your business. All profits are yours to keep. Because you are personally liable, a creditor can make a claim against your personal and business assets in order to satisfy any debts.

**Advantages:**

* + Easy to create
  + Generally inexpensive to register
  + You have direct control of all business decision making
  + Minimal cash is needed for start-up
  + Tax advantages if your business generates a loss (E.g. the loss can be applied to your personal income and may reduce any taxes owing)
  + All profits go to you directly

**Disadvantages:**

* + Unlimited liability (E.g. if your business has debts, claims can be made against your personal and business assets. This could include things like your car and house as well)
  + Tax disadvantages if your business is doing well (E.g. if your business is profitable, this could put you into a higher tax bracket)
* If you are unavailable (E.g. illness, injury, death, etc.) your business will stop
* Raising capital on your own may be difficult

1. **Partnership**

You create the business with other individuals. Your financial resources are combined with the partner(s) and put into the business. Any profits earned are shared between the partners according to any legal agreements. The share doesn’t have to be the same and could reflect a higher share for the partner(s) who do more work and invest more capital.

There are three kinds of partnerships available: General Partnership, *Limited Partnership*, and *Limited Liability Partnership*. In a **general partnership**, each partner is jointly liable for debts of the partnership. In a **limited partnership**, partners can contribute to the business without being involved in the operations (E.g. invest in the business but not become involved in the operations). A **limited liability partnership** is reserved for professionals (E.g. lawyers, accountants, doctors).

When starting a partnership, it is very important to have all partners sign a partnership agreement. This agreement will establish the terms of the partnership and can help avoid future disputes

**Advantages:**

* + Fairly easy and inexpensive
  + Start-up costs are shared equally between partners
  + Equal share in the management, profits, and assets
  + Tax advantages if your business generates a loss (E.g. partners include the shares of the partnership to their personal taxable income)

**Disadvantages:**

* You and your business are the same legally
  + Unlimited liability (E.g. if your business has debts, claims can be made against the partner’s personal and business assets. This could include things like your car and house as well)
  + It can be difficult to find a suitable business partner
  + Conflict can develop between the partners
  + You will be held financially responsible for business decisions made by your partner(s) (E.g. violated contracts or damage)

1. **Corporation**

When you incorporate a business, it becomes a separate legal entity from the shareholders (I.e. you will not be personally liable for the debts or obligations of the business).

**Advantages:**

* Limited liability
* Ownership of the business can be transferred
* Separate legal entity from the owners
* Corporate tax is usually lower than personal tax (E.g. 10-15% net tax for Canadian private corporations)

**Disadvantages:**

* Corporations are strongly regulated in Canada
* More expensive to setup that other businesses
* Extensive corporate records need to be kept and filed with the government annually

**What business structure did you choose?**

**Sole Proprietorship**

**Partnership**

**Corporation**

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